



HONDURAS UPDATE

April 2004

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1. Introduction

This document gives an overview of recent events relating to the HIPC II initiative and the PRSP process in Honduras. This is a continuation of a series of updates on Honduras developed by Trócaire, all of which are available on www.eurodad.org. The latest update was completed in August 2003. This report builds on the information and analysis contained in the previous updates.

The content is organised into the following sections.

- This first section serves as an introduction and overview
- The second section looks at the political context within Honduras. In particular it analyses the impact of current political and economic issues and trends such as gang violence, the National Dialogue held with civil society in 2003 and premature electioneering on economic and political issues relevant to the PRSP.
- The third section deals with external negotiations that have a bearing on Honduras' position in the world economy in general and in particular relationships with the IMF and the World Bank in the context of the HIPC process. The details of the CAFTA negotiations and other trade issues will be explored, the recent Letter of Intent presented by the government to the IMF will be described and the content of the new PRGF (Poverty Reduction Growth Facility) granted in February 2004 will be dealt with. In this context, prospects for achieving HIPC completion point by early 2005 will be discussed.
- The fourth section looks at the implementation process for the PRSP. The First Progress Report, a precursor for the PRGF agreement, is summarised, including the status of financing and the PRSP target indicators. The emerging institutional framework for the implementation of the PRSPs will be described and how civil society is participating and monitoring the introduction of the Sector-Wide Approach (SWAPs) methodology and the System of Indicators for the PRSP (SIERP). Finally the context for the Consultative Group meeting in the beginning of June will be examined.
- The fifth section deals with ongoing and future field activities.

2. National Level Events

The Maduro government came to power at the beginning of 2002, and although they recognised the PRSP that had been drawn up and approved by the previous government, they distanced themselves somewhat from the document. 2002 and 2003 are now referred to in Honduras as two “lost years” in terms of the PRSP process. The period has been marked by difficult negotiations with the IMF. The delay in securing an agreement for the PRGF directly led to the suspension of financing under the HIPC programme and indirectly to the suspension of financing from other important donors coordinating their efforts around the PRSP framework. The other key focus of the Maduro government has been security issues, specifically tackling gang violence.

During the second half of 2003 while the negotiations were taking place with the IMF relating to the PRGF, the government, in conjunction with the IMF and the World Bank, was completing the Progress Report on the Honduras Poverty Reduction Strategy. Negotiations were centred on fiscal issues. This provoked massive protests by the teachers and medical unions in October, since the negotiations focussed on directly reducing the salaries of these two groups as a means of decreasing the public wage bill.

In mid-2003 President Maduro organised the “Gran Diálogo Nacional” (National Dialogue) as a consultative process between the President and the country. The Dialogue took place from July onwards and involved regional forums. Ultimately, the aim of the dialogue was to design a vision for the country towards the year 2021, when Honduras will celebrate two hundred years of independence. As such, the process was not directly related to the PRSP and was viewed rather cynically by some as a platform for Maduro and his party, and has been described as a “monologue” in this sense. In particular, FOSDEH criticised the Dialogue because it did not allow for the proposal of alternatives, and only a series of recommendations came out of the process. A closer link between the President and the people was not achieved, and it serves as an example of how routine these spaces for participation opened by the state have become.

The other highly visible issue in Honduras relates to the street gangs, known as *maras*. Many of these gangs have links to bigger street gangs based in the United States. The laws introduced by the government are an attempt to crackdown on street violence and the alarmingly high rates of homicide and have in general been welcomed by the public. The employment of one thousand extra police was a complementary measure to these laws. However some concerns have been voiced about the human rights dimensions of these laws, in particular relating to the number of assassinations of gang members believed to have been authorised by the national police and to the violent treatment of prisoners in some prisons. In a general sense, the focus on security is often viewed as distracting the national media from other issues and policies that potentially have a deep impact on Honduran society yet little is known about them, and little public discussion takes place. For example the free trade negotiations at the end of 2003 and the plans for the implementation of the PRSP taking place currently are obscured by the focus

on street crime. Moreover, there is some evidence that only a small part of the high rates of violent crime, in the region of fifteen percent, are directly attributable to the *maras*.

Honduran current affairs, both political and economic, have since the start of 2004 been overshadowed by premature campaigning for the elections in 2005. These campaigns have distracted attention from the economic policies of the government relating to the PRSP and the trade agreements. The election cycle in Honduras is long, and since a President may not hold office for two consecutive terms, the politicking involved in selecting new candidates is protracted. Under President Maduro, laws have been introduced to improve transparency in the election process and to attempt to limit election campaigns. Despite these, there are some fears that government resources for the implementation of the PRSP will be used in fact to fund overtly or otherwise electoral campaigns in favour of the current administration and their proposed candidate. The election campaigns obscure the general policy debates and reduce the debates to future promises instead of focussing on current actions.

3. External Developments

3.1 Trade Issues

Since the last update in August 2003, the most important economic policies introduced have in fact been beyond the ambit of the PRSP. The signing of the Central American Free Trade Agreement (CAFTA) will have a significant impact on the measures outlined within the PRSP, and it secures the liberalisation agenda inherent in the original document. Honduras signed the agreement at the end of a fast-track process in December 2003. CAFTA was designed to facilitate the rapid entry of the Central American countries into a free trade agreement with the United States. This is seen as a precursor to an eventual Free Trade Area of the Americas, discussions about which have been delayed by protracted negotiations with Brazil and Argentina. The agreement has been presented as an opportunity for Honduras to develop using its comparative advantages, to invest in diversification of exports, to assist in sorting out the illegal immigration into the United States and to consolidate democracy within the country. The agreement is not seen to conflict with the PRSP – on the contrary it complies with the liberalisation of trade and investment promoted in the document as elements of the growth strategy.

Negotiations for CAFTA began in January 2003, shortly after the U.S. Congress approved a bill to confer Trade Promotion Authority (or “Fast Track”) to the White House. The Bush Administration has aggressively pursued the CAFTA negotiations on a very short timeline. Whereas the North American Free Trade Agreement (NAFTA) took more than seven years to negotiate and the Free Trade Area of the Americas (FTAA) has been under negotiation for almost a decade, CAFTA negotiations were scheduled to be completed in one calendar year (WOLA 2003). The agreement was signed by Honduras, Guatemala, El Salvador and Nicaragua in December 2003, with Costa Rica delaying agreement until early 2004. The rapid

timeline meant it was difficult for civil society to elaborate their position on the agreement, and this was further hindered by restricted access to the texts and limited civil society participation in the negotiations. Public outreach was minimal, with the government and only a close set of business representatives participating.

In a recent study carried out on behalf of ACI (Association of International NGOs in Honduras) this negotiation process was criticised. The study surveyed opposition voices concerned about the consequences for the agricultural sector and rural development in general. Higher unemployment is anticipated as a spin-off from the changes in the export economy. There is fear that the entry of cheap imports from the United States may distort local prices and the functioning of internal markets. FOSDEH raise the fact that the abolition of import tariffs indicates lost revenue for the state and this impacts negatively on the fiscal balance. In a context where the tax increases or “paquetazos” have been politically unpopular, but necessary as a result of IMF demands, this lost revenue exacerbates the position of the government, and will ultimately be costly for Honduran citizens. In effect, CAFTA represents a fourth “paquetazo” conducted by stealth, that in addition perpetuates the regressive nature of a tax system where low earners bear proportionately higher tax burdens than high earners.

At a national level for Honduras, what CAFTA entails is that the external framework for the PRSP has been pre-determined, just as the PRGF pre-determines the macroeconomic context. Thus poverty reduction policies are limited to working within this model. In addition, social impact assessments have not been carried out on vulnerable sectors such as the rural poor and the sub-groupings surveyed in the ACI report. Ex-post assessments will produce policies only to alleviate the effects, and will not question the logic of the model. The ACI study concluded that CAFTA would exacerbate the trends produced by fifteen previous years in which policies favoured trade liberalisation, but that it would be a couple of years before these effects would be felt:

Finally, there is little coordination between governments within the region, where different tariff regimes govern entry of products into each country from the United States and then between each other. More generally, in relation to trade issues, FOSDEH highlight that there should be three dialogues – one at national level to balance trade needs with internal policies such as the PRSP; another at regional level to ensure that trade between the Central American countries is harmonised, and finally as a region the countries should engage with the issues of trade with the United States and NAFTA, other Latin American groupings, and beyond to the European Union and other regions. In effect, in the CAFTA negotiations there was only one discourse, with the United States, and the prior phase of regional negotiation did not take place.

Further negotiations in the context of the Free Trade Association of the Americas must be monitored in this respect. The EU-Latin America Summit to be held in Guadalajara, Mexico, at the end of May 2004, will deepen the relationship between the two regions, and will have important consequences for the future relationship between the European Union the sub-region of Central America, particularly with respect to trade, aid and social cohesion issues.

3.2 Letter of Intent and new PRGF February 2004

The IMF summarises the key components of this letter as the following:

- (i) Medium-term macroeconomic framework, including sustained growth and targets in the revised PRSP
- (ii) Strong fiscal adjustment, involving efforts to strengthen revenue collection and contain the public wage bill while allowing a steady increase in poverty spending
- (iii) Reform of the financial system
- (iv) Governance and transparency measures

The IMF believes that the government has supplemented adjustment with reforms which respond to national concerns raised in consultative processes held in 2003. The economic background included an increased fiscal deficit and a deterioration of the quality of public spending, in particular the public wage bill increased. The social framework for this programme is based in the review of the PRSP that was undertaken in November 2003. Civil society participated and contributed to discussions about these issues via the National Dialogue.

Commenting on the medium term economic programme under the framework of the IMF's PRGF Anoop Singh praised President Maduro for the careful and comprehensive discussions with civil society that were held. The three pillars of the programme are outlined as:

- a) Fiscal strengthening to reduce the public debt, release more resources for investment and set a firm foundation for growth
- b) Reform of the financial system so that the resources for private investment and growth can be provided in an equitable way
- c) Institution building

In Singh's estimation, these three pillars, supported by other structural reforms aimed at increasing trade integration and competitiveness provide for a high potential for success. In addition, the World Bank and the Inter-American Development Bank (IADB) are supporting the programme. With their approval of the medium-term economic programme, the PRGF was formally approved on 18 February 2004. This entails a loan of approximately US\$107 million over three years. Further funds are released immediately as a result. The PRGF targets are as follows:

- The combined public sector deficit is targeted to decline from an estimated 4½ percent of GDP in 2003 to 1¾ percent of GDP in 2006
- Monetary and exchange rate policies will aim at gradually reducing inflation to the level of Honduras' main trading partners
- Financial reform as urgent to address the fragilities of the banking system, and see governance reforms as a vital element in responding to current social concerns and uncertainties about the future

Civil society have highlighted that consultation with civil society was limited and that consensus was not reached. In addition this PRGF has been criticised on the basis that it means that all government policies are circumscribed with conditionalities, since a PRGF is required for agreements with the World Bank, IADB and the BCIE (Bank for Central American Integration) among others. As such, rather than a letter of intent the content represents a monitored programme with six-month targets that tend to deepen structural adjustment measures. Some of the targets are seen as highly ambitious and accompanied with significant risk. In particular the fiscal targets are seen as austere and difficult to achieve and if there is no flexibility on this issue there is a risk that HIPC completion point will be indefinitely suspended. If the government is only able or willing to implement some of the measures, it is highly likely that the population will suffer, while economic sovereignty will have been lost and nothing gained if completion point is not reached after all of that.

FOSDEH agree with the IMF that the programme is ambitious and faces big challenges in terms of the election cycle, capacity to undertake the reforms and vulnerability to external shocks. The reforms implemented to limit the electoral cycle have already been broken and, as described above, campaigning has begun already. Limited capacity is reflected by poor political will to see through certain reforms, especially the Civil Service Reform Law governing all public employees. A long process is necessary to counter the weak nature of contract law. Also, given the upcoming changes in government, significant personnel changes in the state bureaucracy and relevant Ministries is to be expected, and this implies delays in execution and limits to capacity for implementing reforms. Issues relating to remittances from Honduran migrants working in the United States and other countries of the region are not dealt with in the programme, although remittances totalled at least one billion dollars in Honduras in 2003. Neither is there any reference to CAFTA and the negative effects the reduction of tariffs will have on fiscal balance, and indirectly the burden this places on Honduran society.

Civil society has other concerns relating to the underlying orientation of policies governed by the PRGF conditionalities:

- There are fears that complementary programmes in the area of health and education are circumscribed with a privatisation agenda. There is some concern that management of local health facilities will revert to local bodies whose only criteria are efficiency and cost effectiveness, rather than a broader, integrated social mandate that belongs in national government.
- Another concern relates to the broadening of public services such as telecommunications and water, and the means by which to secure the resources to maintain increased coverage.
- No mention is made of CAFTA, or of the significant conditions implied in the agreement in terms of standards and the lack of social impact assessments is underlined. In particular national level food security could be at risk, since reliance on imports would compromise sovereignty in trade and other external discussions.

- To allow the creation of a new Civil Society Law, governing all public sector employees, all existing collective agreements and pacts will be abolished. This could imply significant social discontent and implies the realignment of state-society relations.
- Finally the perceived orientation towards the denationalisation of the banking system is questioned. In particular, the difficulty of securing loans for small and medium sized enterprises from international banks is raised, and the dangers of ending up in crisis such as that experienced in Argentina have been emphasized.

3.3 HIPC Completion Point?

In the absence of a PRGF Honduras has been off-track in the HIPC process for two years now. Although interim debt relief was received in 2002 and 2003, totalling US\$201.9million, in the same two years debt service totalled US\$247.9million. In effect the resources available for the implementation of the PRSP have been limited and progress has been delayed, which will be explained in more detail in the next section. With the signing of the PRGF in February, it is hoped that compliance with the PRGF targets will mean that Honduras reaches completion point in February 2005, thus freeing up resources from HIPC and other sources for implementation of the PRSP. The problems as outlined above, are that if the targets are too rigid, then a significant opportunity for Honduras to receive resources for the implementation of the PRSP will be lost and the initiative will fall by the wayside.

High-level advocacy has been taking place. Key figures in civil society have engaged in lobbying activities in the Paris Club meetings in April 2004, seeking to influence bilateral donors. In addition, Honduran civil society travelled to Washington in advance of the Spring Meetings in order to raise awareness of Honduras' situation, and to make the case for flexibility in order to allow completion point to be reached. Some of these efforts have been supported by Oxfam Great Britain and Trócaire. In particular the following recommendations were made:

- Completion point should be moved forward to facilitate PRSP implementation. There are no technical reasons why Honduras should not be granted access to completion point after the first review of the PRGF.
- Honduras' debt relief should be topped up to accelerate the implementation of the PRSP before reformulation becomes necessary
- After the first review the IMF should reassess fiscal targets and ensure they are flexible and realistic, to secure that Honduras does not go off-track
- The IMF should reassess the conditionalities relating to civil service reform and examine how to make the tax system less regressive
- Bilateral donors should ensure that their financing commitments are available

The following table outlines the key targets the Honduran government faces in complying with the IMF agreement and in reaching HIPC completion point.

Table 3.3 Aims for 2004 in the context of the Agreement with the IMF

| <i>Measure</i> | <i>Date</i> |
|---|---------------------|
| Approval of a law limiting public salaries | March 2004 |
| Complete tabulation of the revised definition of spending for the PRSP consistent with the specifications of the World Bank and the IMF | March 2004 |
| Approval of a new law governing the Financial System Institutions and reforms to the banking system laws | June 2004 |
| Reform of the Penal Code with the aim to penalize financial crimes | June 2004 |
| Finalize a plan of action for public administration reform, consistent with the recommendations of the World Bank | April 2004 |
| Establish two chambers in the Revenue Courts | December 2004 |
| Approval of a law to promote competition | June 2004 |
| Modifications to the Law governing the Telecommunications Sector | June 2004 |
| New law governing the Transport Sector – concession for Puerto Cortés | End of 2004 |
| Law governing the Electricity sector | Not defined |
| Implementation of the Law for Administrative Simplification enacted in 2002 | During 2004 |
| Fusion of the Land and Property Registries into one entity | June 2004 |
| Reorganization of INFOP | Not defined |
| End of the agreement for the selected freezing of prices of basic foodstuffs | June 2004 |
| Strengthening the regulatory capacity of the Ministry of Health in conjunction with the World Bank and the IADB | During 2004 |
| Rescheduling of debt service with the Paris Club due in 2004 and 2005, and the delayed payments from 2002 and 2003 | First semester 2004 |
| Readjustment of fuel prices to raise tax collection | 2004 |
| Increase the cost of local calls to rebalance the cost of international calls | From 2004 |
| Redefinition of the legal framework to support the liquidity of the financial sector | June 2004 |
| Full operation of the new legal framework for the Honduran Central Bank | September 2004 |
| Legal reforms to Non-Governmental Organisations | June 2004 |
| Introduce reforms in the Penal Code to classify financial crimes | June 2004 |
| Adopt a Code for Civil Proceedings | December 2004 |
| Reduce the electoral cycle to the last year of government | 2004 |
| Reforms to the election of deputies | 2004 |

4. *PRSP Developments*

4.1 PRSP Progress Report published 5 February 2004

The PRSP Progress report was produced in November 2003, and made available to the public in February 2004. The report updates some aspects of the strategy encompassing changes validated by the PRSP Consultative Council and the Social Cabinet in December 2003. The report was subjected to a consultative process involving Sector Commissions and consultative workshops with civil society sectors. Civil society concerns are laid out in the report, including issues around HIPC completion point and debt sustainability, financing issues and how to integrate the PRSP with the national budget, the quality and nature of the indicators for the PRSP and the need for participatory methodology in implementation. The projected rate of growth underpinning the strategy was questioned by civil society, and held to be somewhat unrealistic. High taxes, the importance of CAFTA, the need for a coherent rural development policy were also highlighted.

The report has revised the growth rate underpinning the strategy, from 5.1% to 4.6%, in response to the consultations to make it more realistic. The budgetary framework for the PRSP has been broadened to include government resources towards reducing national poverty, in this respect the government is being pressured to commit resources to the revised strategy in coherence with the external funds. Emphasis is placed on de-centralised and participatory planning. At the end of these points however, it is envisaged that the introduction of Sector-Wide Approach methodology (SWAPs) for the accelerated implementation phase will solve these problems. The SWAPs methodology is now popular among development agencies in all regions. Furthermore, the methodology will allow PRSP interventions and goals to be aligned with sector programmes, which are the preferred method of the World Bank, the IADB, and the donor community. Later in the report, poor planning on the part of the government and incoherence between projects profiled are identified as factors contributing to the poor implementation record for 2001 and 2002. Again, SWAPs are heralded as the means by which these problems can be solved, and as a means of attracting donor funds.

Ultimately, this report singles out the importance of growth for reducing poverty and advocates strengthening the macro economic framework and implementing structural reforms to improve competitiveness and complement this with investment in human capital. In this general respect the report adheres to the neo-liberal economic model underpinning the original strategy and leaves the strategy highly dependent on the macro-economic framework. This means that as before, the PRGF conditions drive the PRSP and not vice versa.

Referring to the macroeconomic framework, the report defers to the difficulties between the IMF and Honduras in relation to the previous PRGF, signed in late 2001. Honduras failed to meet the benchmark criteria, and remained off-track for over two years and the signing of a new agreement was delayed until February 2004. Since the budgetary measures included in the

original PRSP document were conditioned on a PRGF being in place, a systematic review of this macroeconomic framework was undertaken to produce this Progress Report. Thus, it is clear that the PRGF drives the PRSP in terms of implementation and so also progress, both through the direct financing implications and as a result of the macroeconomic assumptions underpinning the goals of the strategy.

Reviewing the poverty situation and the progress made in meeting the framework targets laid out within the strategy, the report concludes that poverty has neither reduced nor have the PRSP targets been successfully met. The report points to international recession and a fiscal crisis within Honduras in 2001 as factors causing much lower growth than anticipated. In addition, delayed implementation meant that poverty levels have reduced only by 1% from 2001 to 2002, whereas a relative reduction of 3% is necessary to reduce poverty to the targeted levels in 2015. As a result, the report mentions the need to accelerate implementation, within a strengthened framework of macroeconomic and fiscal stability, but no direct reference is made to the PRGF and its link with financing for the PRSP.

The report describes the six priority areas of the original strategy and the breakdown of proposed spending between them:

| Table 4.1a Programmatic Areas of the Honduran PRSP | % Investment Funds |
|---|-------------------------------|
| Investments in Human Capital | 40 |
| Reduction of Rural Poverty | 21 |
| Reduction of Urban Poverty | 17 |
| Social Protection | 10 |
| Social and Environmental Sustainability | 8 |
| Promotion of Economic Growth | 1 |

In fact, only 54% of the amount originally programmed for 2001 was implemented, and only 42.5% in 2002. The following table illustrates the financing gaps, from loans and donations and HIPC debt relief that were not forthcoming due to the PRGF problems.

| Table 4.1b PRSP Financing 2001-2002 (US\$ millions) | | | | | | |
|---|----------------------|--------------|--------------------|--------------|---|-------------|
| <i>[Government of Honduras (2004) Honduras – Poverty Reduction Strategy Paper Progress Report; page 18]</i> | | | | | | |
| Source | Original PRSP | | Implemented | | Implementation as % of programming | |
| | <i>2001</i> | <i>2002</i> | <i>2001</i> | <i>2002</i> | <i>2001</i> | <i>2002</i> |
| 1 National Funds | 5.1 | 12.4 | 28.9 | 24.4 | 378.4 | 196.7 |
| 2 Loans and Donations | 295.5 | 284.5 | 131.3 | 112.1 | 44.4 | 39.4 |
| 3 HIPC Debt Relief | 46.3 | 91.0 | 27.1 | 28.2 | 58.5 | 34 |
| | 346.9 | 387.9 | 187.3 | 164.7 | 54.0 | 42.5 |

The following table, taken from the Progress Report breaks down the fourteen goals by indicators, and illustrates that the targets for only four indicators were reached in both 2001 and 2002: social spending and three education targets.

| Goal | Indicator (Base Year) | Base Year Value | PRSP Goal | | Results | | Goal Met in 2002? |
|---|---|-----------------|-----------|-------|---------|-------|-------------------|
| | | | 2001 | 2002 | 2001 | 2002 | |
| Economic Growth | Real GDP growth (2000) | 5.7 | 3.5 | 4 | 2.6 | 2.7 | No |
| Per Capita GDP growth | Per capita GDP growth (2000) | 2.6 | 1.5 | 1.6 | 0.2 | 0.3 | No |
| Social spending | % total spending (2000) | 44 | 45 | 46 | 47 | 49 | Yes |
| Reduce poverty by 24 percentage points | Poverty rate (1999) | 66 | 63 | 61.5 | 64.4 | 63.9 | No |
| | Extreme poverty rate (1999) | 49 | 47 | 45 | 47.4 | 45 | Yes |
| Double net pre-basic education coverage (through 5 years) | Pre-basic school coverage rate (1999) | 32.9 | 33.5 | 36 | 31.9 | 32.5 | No |
| 95% net coverage in the first two cycles of basic education | Net enrolment 1st and 2nd cycle (2000) | 89.8 | 87 | 88 | 91.7 | 88.9 | Yes |
| 70% net coverage in the third cycle of basic education | Net enrolment (except over-age) in 3 rd basic cycle (1999) | 24.2 | 26 | 27.9 | 31 | 30.9 | Yes |
| 50% of emerging population completes secondary education | Net enrolment (except over-age) in Diversified Cycle (10th through 12th grade) (1999) | 12.4 | 13.6 | 14.9 | 12 | 17.5 | Yes |
| Reduce infant mortality and under 5 mortality rates by half | Infant mortality rate /1,000 live births (1996) | 36 | 32 | 31 | 34.0 | n.a. | No (2001) |
| | Under 5 mortality rate (per 1,000 live births) (1996) | 48 | 44 | 43 | 45.0 | n.a. | No (2001) |
| Reduce malnutrition in children under 5 by half | Child malnutrition rate (1996) | 37.8 | 38 | 36 | 32.9 | n.a. | Yes (2001) |
| Reduce maternal mortality by half | Maternal mortality rate per 100,000 live births (1996) | 147 | 143 | 138 | 108.0 | n.a. | Yes (2001) |
| 95% access to potable water and sanitation | % of population with access to potable water (1999) | 81 | 82 | 84 | n.a. | 81.3 | No |
| | % of population with access to excreta elimination systems (1999) | 70.2 | 71 | 72 | 69.4 | 67.6 | No |
| Raise the human development index of women by 20% | HDI relative to gender (1999) | 0.64 | 0.65 | 0.65 | 0.62 | 0.63 | No |
| | Gender empowerment index (1999) | 0.45 | 0.46 | 0.47 | 0.45 | 0.45 | No |
| Implement sustainable development strategy | % of area with forest coverage (1996) | 50.7 | 54 | 55 | n.a. | 53.0 | No |
| | % prioritized protected areas with management plans (2000) | 13 | 30 | 40 | 21 | 31 | No |
| | Air pollution in urban centers (ug/m3 of PTS) (2000) | 620 | 618.8 | 583.9 | n.a. | 653.7 | No |

The financing gap is partly attributed to the fact that the strategy did not have a coherent sectoral approach. The report describes how extending the SWAPs approach to all sectors of the strategy will remedy the lack of linkage between programmes and projects in the original and allow for the creation of a budgetary system that includes both domestic funds in these sectors and external resources. This will be discussed in greater detail below. Civil society's response to the content of the report has focussed on the PRGF, since both this progress report along with the passing of a wages bill in Congress were pre-conditions for the PRGF agreement.

4.2 Institutions for Implementing the Honduran PRSP

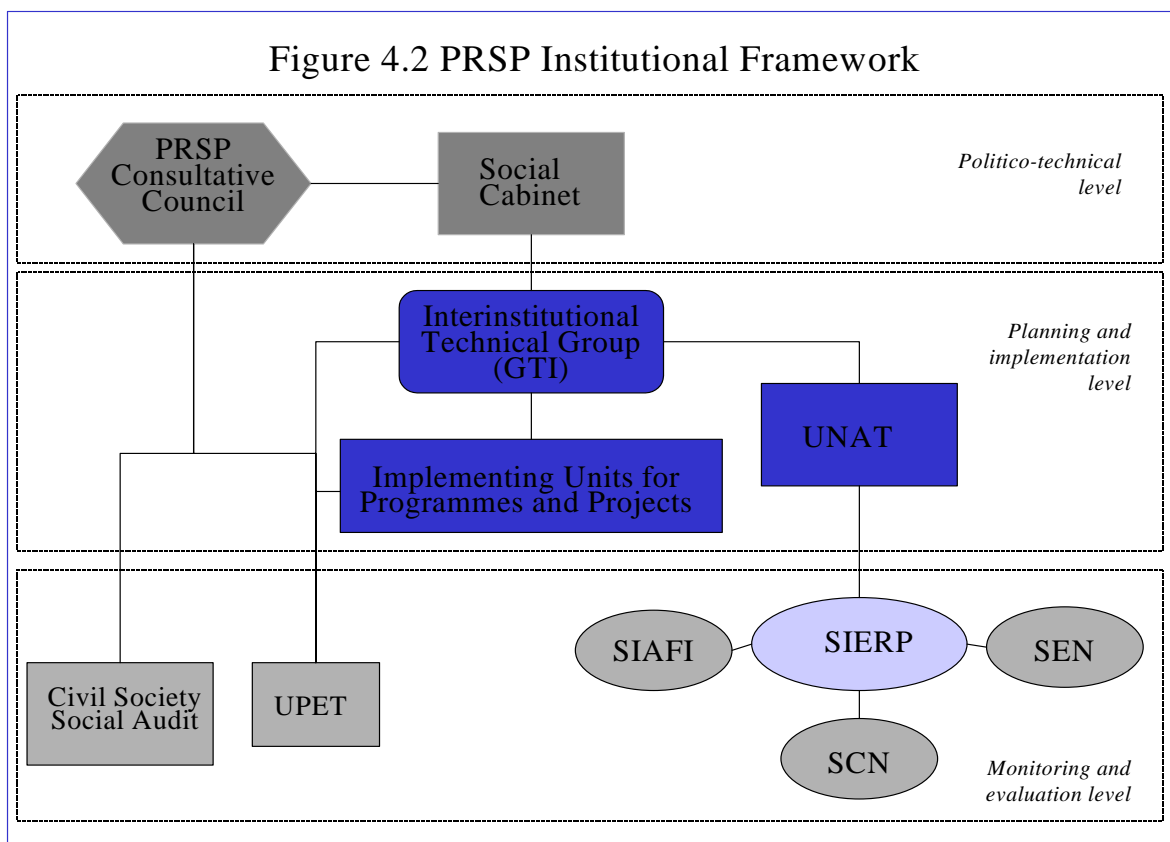
The report recognises the progress in developing structures for the implementation of the strategy: the Law creating the Consultative Council and the Poverty Reduction Fund were implemented at the end of 2003. The System of Indicators for the PRSP (SIERP) began to be developed in 2002 and will begin to operate in 2004. The Inter-Institutional Technical Group (GTI) supports the Social Cabinet and is a key body for coordinating the introduction of the SWAPs methodology.

The government introduced proposals in January 2004 to reform the law relating to the Consultative Council Fund for Poverty Reduction. The reforms entail broadening the membership of civil society in the Consultative Council, including Congressmen in the Council with three representatives participating. The proposals also include incorporating a new institution, the Secretary of Agriculture (SAG), with executive power. For purposes of implementation of the PRSP, the Finance Secretary would reduce an annual report on spending within the PRSP, and these will be brought to the Consultative Council via the Ministry of the Presidency or the Technical Unit for the PRSP (UNAT). The System for Implementation of the PRSP (SIERP) will produce a system of indicators for monitoring and evaluation. Importantly, all clauses in the existing law relating to the protection of HIPC funds for PRSP purposes have been abolished.

The sectors represented in the Consultative Council are being expanded so that now there will be the following twelve sectors represented, an increase from five:

| | |
|--|---|
| 1. <i>Workers</i> | 7. <i>Young people and Children's organizations</i> |
| 2. <i>Women's organizations</i> | 8. <i>Senior Citizens</i> |
| 3. <i>COHEP, ANDI and FEDCAMARA (Chambers of commerce and business groups)</i> | 9. <i>Micro, small and medium sized enterprises</i> |
| 4. <i>Community based organizations</i> | 10. <i>Social sector of the economy</i> |
| 5. <i>NGOs</i> | 11. <i>Disabled people's organizations</i> |
| 6. <i>Peasants groups</i> | 12. <i>Ethnic groups</i> |

FOSDEH welcomed the broadened participation of civil society to include a wider sample of sectors. However they felt that the involvement of Congress was extremely important and should in fact have five representatives. They also demanded that HIPC funds should be ring-fenced for PRSP purposes only. In addition they believe that the clauses in the law that provide for a proportion of the fund to be used for preventative audits, and another for monitoring an evaluation, 2.5% and 2% respectively, should be reinstated.



| | |
|----------------------|--|
| Social Cabinet | <i>Coordinated by the President, involves the Ministries of education, health, employment and social security, agriculture, arts and sports, the director of the Honduran Fund for Social Investment (FHIS), the National Land Institute (INA), Secretary for International Aid, Family Assistance Programme (PRAF), the National Statistics Institute (INE), and the Minister of Finance and the Central Bank</i> |
| Consultative Council | <i><u>Government:</u> Social Cabinet coordinator, Ministries of Finance, Education, Health, Natural Resources and Environment, Government and Justice <u>Civil society:</u> 5 representatives – now to become 12 in 2004 1 representative of the municipalities association, 2 representatives of bilateral and multilateral donors</i> |
| UNAT | <i>Technical support for aspects related to the implementation, monitoring and evaluation of the PRSP</i> |
| SIERP | <i>A financial control system and a system for developing global and intermediate indicators, for measuring the impact of programmes and projects on poverty and for providing general information on the PRSP. SIERP (System of Indicators for the PRSP) has been designed to secure transparency and quality in the implementation and evaluation of the PRSP</i> |
| Other | <i>UPET: State Procurement Unit for Transparency and Anti-Corruption; SIAFI: Integrated System for Finance and Administration; SCN: national accounts system; SEN: national statistics system</i> |

4.3 SWAPs and the Implementation of the PRSP

The Sectoral Commissions or *Mesas Sectoriales* originally emerged from the activities of international donors in the aftermath of Hurricane Mitch. They were formed to provide a framework in which the agreements made around reconstruction and transformation could be implemented. They were tripartite bodies comprising the involvement of the relevant government bodies, civil society groups and international donors. There were originally twelve sectoral commissions that were later rationalized into seven. The sectoral commissions operated with varying degrees of success and as of 2003 only five were really functioning. They were also used for consultations between civil society, government and donors during the review of the PRSP undertaken in 2003 and in the context of negotiating the recent PRGF agreement.

What the government proposed in early 2004 was an overhaul of the structure of the sectoral commissions, for the purposes of implementing the PRSP, creating six sectoral commissions with six cross cutting themes. The six commissions proposed were:

1. Education
2. Health
3. Water
4. Agro-forestry
5. Security and Justice
6. Productive Sectors of the Economy

The six cross-cutting themes are:

1. Macroeconomic policy
2. Gender equality
3. Decentralisation
4. Transparency
5. Environment and Risks
6. Human Rights

Some of these cross-cutting themes used to be groups, for example macroeconomic policy and transparency. The proposal includes that each of these cross-cutting themes be represented within each group. The impetus for this methodology also came from international aid, where SWAPs are being advocated worldwide. In particular, IADB and the World Bank are heavily involved in developing the methodology with the relevant government ministries. Civil society participation is assumed and the government needs this participation to legitimize the system in advance of the Consultative Group meeting.

The Sector Commissions were formally created on 12 March 2004 under the title of “Long-term sectoral planning in the context of SWAPs”. The work of these commissions will be to revise the long-term matrix of the vision of the PRSP for each sector, to establish the targets

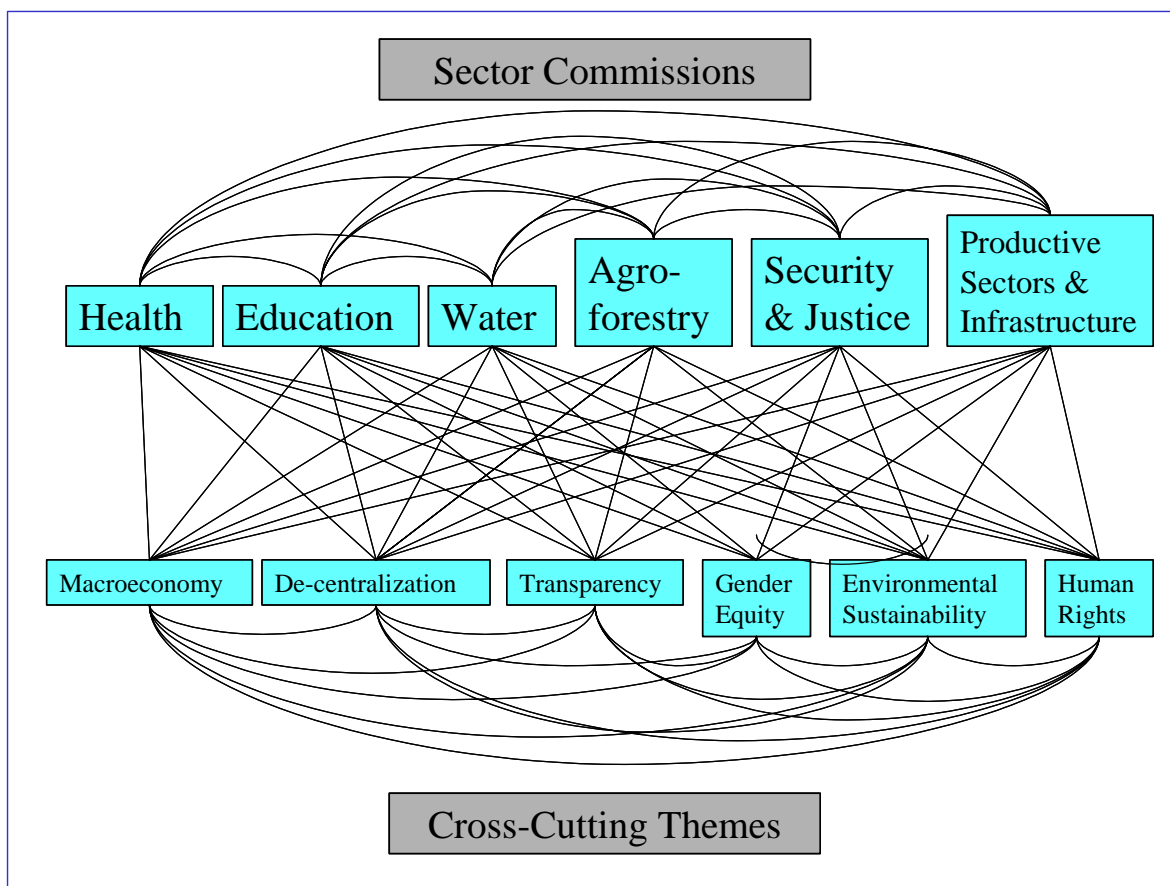
and indicators for each sector and to determine the resources necessary to reach them so that these amounts can be included in the multi-annual national budgets for Honduras.

In particular, in the run up to the Consultative Group meeting in June 2004 the government has prioritised the first three sectors and is seeking to link them closely to the accelerated implementation of the PRSP. The idea is to begin with assessments of the situation in these three sectors, develop strategies for them, and then devise budgets based on this strategy. In effect this took place at a meeting held in Zamorano, an agricultural institute located outside Tegucigalpa, in the last week of March 2004. The IADB, World Bank, relevant government ministries, bilateral donors and other bodies attended the meeting to draw up the basic documents for each sector. Significant civil society groups and international NGOs involved in these issues were not invited to participate and the results have not been circulated publicly. This first phase of the SWAPs approach will be presented at the Consultative Group.

The problem with the new structure is that it is new. Originally, the official PRSP encompassed fourteen goals, six areas in which the strategy would concentrate, and seventy-seven projects were defined within these areas and budgeted within the strategy. By introducing a new sectoral structure the government is implying that the seventy-seven projects originally defined do not guarantee the achievement of the targets of the strategy. In addition, taking the six areas and reorienting them around the sectoral commissions means that some issues have disappeared, for example land, culture and the focus on rural poverty.

Creating the Sectoral Commissions involves yet another assessment of each sector, the development of another strategy for each and the further definition of projects and budgets. This will involve resources and poses the question whether the SWAPs methodology in the Honduran case is truly related to the strategy embodied in the PRSP. In effect it may be another planning process that does not take on board the planning that took place for the formulation of the original PRSP. Furthermore, although there are six sectors, there is a fear that there is no single strategy that brings together all the sectors. The initiation of a new process also creates problems for funds, both because resources will be diverted into a new planning process and because the structure of the PRSP is being replaced by these SWAPs. In reality, the six by six matrix has an infinite number of ramifications since there are links between sectors and between the cross-cutting themes. This presents difficulties both for the personnel in government institutions who are new to the methodology as well as for civil society participation. The following diagram illustrates the complexity of the system.

Figure 4.3 SWAPs Methodology for the Honduran PRSP



Despite these difficulties, civil society is attempting to participate where possible in the SWAPs structure and in an effort to influence the development of policy and to ensure that previous work around the PRSP, especially the regional PRSPs that have been developed, is recognized and included in the process. There have also been discussions through the Consultative Council around a civil society proposal to include a seventh sectoral commission entitled “the Commission for Tripartite Technical Integration with a Regional Focus”. This has not been finalized to date, but will represent an important achievement for civil society once it is installed.

To complement these proposals with respect to the SWAPs frameworks, civil society, in a workshop held on 22 and 23 March, with the participation of relevant Ministries, multilateral and bilateral donors and international NGOs, have proposed a participatory monitoring system for the PRSP within the SIERP framework. The proposal revolves around the monitoring of the policies, projects and budgets of the PRSP. They propose to start with the projects, and to monitor them at three levels: the supposed beneficiaries, the population in

general, and those charged with the implementation. The participatory mechanism will comprise three tools:

- A survey questionnaire per project to compare the design of the project with the actual implementation, filled in by the beneficiaries;
- A community scorecard evaluation undertaken by both the implementing institution and the community itself;
- A more general rating system – this has yet to be defined in more detail.

A phased project to be implemented throughout the months of May to December 2004 with the participation of the relevant public institutions has been proposed and is under discussion. The results of such monitoring would feed into the SIERP mechanism.

The other major point emerging from the same workshop was the shared desire to present a common vision of civil society and government to the international community at the Consultative Group 10 and 11 June 2004. Time is short, and the reality may in fact be that there is not enough time for the relevant communication and coordination take place in order to produce such a shared vision. Given these constraints, and political realities, tensions between civil society and government may impede such a process.

5. Ongoing Field Activities

5.1 Regional Poverty Reduction Strategies

FOSDEH and ASONOG are continuing to implement their projects to produce regional strategies in four areas of Honduras.

- The Valle de Sula region has completed a regional PRSP and currently the process of selecting project profiles is being finalized. In parallel, the social forum of Valle de Sula that elaborated the strategy is in a process of change and self-definition as this project draws to a close. A general assembly of the social forum will be held at the end of May 2004 to determine future steps.
- In the Occidente (Western) region, ASONOG are using a different methodology and are completing the strategies for twelve groupings of municipalities, and have almost completed two of three departmental documents. Once the remaining strategies have been developed a regional document will be produced.
- In the Central region the process is in an intermediate phase. The poverty assessment document is being written up, and once completed will be presented to the municipalities and a PRSP for the region will be formulated.
- In the Southern region the process is in the initial phase and the municipal and sector consultations will be taking place throughout April, May and June 2004. In July it is anticipated that the regional assessment will be produced.

5.2 Participatory Poverty Assessments

As described in the previous update, Trócaire has been supporting a comprehensive PPA in the municipality of El Triunfo in the Southern department of Choluteca. The base line data has now been gathered and the systematisation of the results is in the final stages. The results will be presented to the communities in May 2004.

The preliminary phase of a PPA in the Aguan Valley region, undertaken by a local umbrella NGO, Popol Nah Tun, has been completed. Popol Nah Tun presented their regional poverty assessment document on the 12 March in the town of Tocoa in the Northern department of Colón. This poverty assessment is based on a consultation with twenty-two communities in the region that took place in 2003. From these consultations the regional poverty assessment was constructed and approved in the municipalities that make up the region. Building on this, a series of municipal fora have been held to elaborate a poverty reduction strategy for the region based on the assessment and the inputs from the fora. This is expected to be completed before the Consultative Group meeting in June.

5.3 Future Field Activities

ACI are involved in a process to create a multi-donor fund to support civil society in the context of the implementation of the PRSP. Parallel to government support bilateral donors are seeking to strengthen civil society capacity for the implementation process. ACI, the alliance of international NGOs working in Honduras, carried out a consultancy which identified the weak capacity and coverage of civil society organisations as the central problem hindering their participation in the implementation of the PRSP in Honduras. The strategy proposed by ACI is focussed on strengthening Honduran civil society in this context. The main focus is to make policies work for the people, especially for the poor, and for policy processes to be opened up and made more transparent, democratic, participatory and accountable. The main components are:

- The engagement and empowerment via a communications strategy of a broad base of Honduran civil society in the processes involved in implementation of the PRSP
- The development of the internal capacity and advocacy skills of Honduran civil society organisations, and the promotion of alliances to deepen participation in and ownership of the PRSP by civil society
- The active participation of civil society organisations in coordination with the government in the implementation, monitoring and evaluation of the PRSP at all levels
- The formalisation of mechanisms to exchange experiences, to share learning and to enhance coordination among all relevant actors
- The establishment of the fund and of the bodies that are to manage it

The priorities of the strategy are the increased participation of civil society in government structures for the implementation of the PRSP and in particular the inclusion of regional and sectoral groups excluded from the process to date, including the rural poor, women, children, young people, the disabled and indigenous groups.

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