



# HONDURAS

## PRSP Update

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## **1. Introduction**

This report is one of a series of updates on public development policies and donor activities in Honduras and Nicaragua in the context of the HIPC II initiative and the Poverty Reduction Strategy Paper (PRSP) framework. Previous updates can be found at [www.eurodad.org](http://www.eurodad.org) or at:

<http://www.trocaire.org/policyandadvocacy/policyandadvocacyhome.htm>

The document covers recent developments in Honduras relating to debt cancellation processes, the PRSP and the impending elections.

- This first section serves as an introduction and overview.
- The second section describes in brief key external trends that are determining the context for development in Honduras. These include approval of the Central American Free Trade Agreement (CAFTA) by the United States (US) Congress; the new declaration by the G-8 governments on debt cancellation for HIPC countries and oil price increases.
- The third section looks at how some of these external trends have interacted with the campaigns for the November 2005 elections. Donors' activities around the transition are described including a summary of the follow-up meeting of the Consultative Council for Honduras that took place in May 2005.
- The fourth section looks specifically at political and economic factors around the financing and implementation of the PRS implementation process and how these processes interrelate with the external and political contexts described in the previous sections.
- The fifth section looks at civil society participation and activities in this changing context. An examination of institutionalisation of the PRS in Honduras to date is given and some conclusions on the role of civil society and key challenges for the future.

## 2. *External Trends*

Previous updates in this series have described a variety of development strategies for Honduras offered by different actors in the map of donors and other external influences. The combined effect of development illustrate that the PRSP has not become the driving force of national and development policy in Honduras either for the government or official donors. In particular, the CAFTA has been declared as the engine for growth for the economy, and the framework for complementary strategies.

After its rapid approval in Honduras, the agreement was approved by the US Senate on 30 June 2005; by a simple majority of 54 versus 45. President Bush worked hard to assure the support of the entire Republican majority in the senate in favour of the treaty, in spite of the strong criticisms it had received within the US and beyond. New concessions were offered, including a US\$40 million annual fund designed to protect *maquila* factory workers' rights; and assistance to small agro-fishery workers recognised to be among the sectors that will lose out in the region as a result of the treaty. Further protection was also offered to US sugar producers, with quota limits on Central American imports and further subsidisation of the domestic industry. No concession was offered on the issue of migration from Central America to the US in this context. The treaty then went to Congress where months of campaigning had generated intense debate, last minute concessions and party political pressures were used. These actions were successful and the treaty was approved by Congress by a majority of only two on 27 July 2005. For El Salvador, Guatemala and Honduras, where the treaty had been approved by parliament before this, CAFTA is now a reality. The projected impacts and pressures that this agreement will apply to the productive economy and the human development situation in Honduras have been dealt with in previous updates; some of the fiscal implications will be dealt with in the next sections of this report.

At the same time as this trade agreement was being finalised, the international context on debt and aid was changing rapidly. As has been well documented elsewhere<sup>1</sup> this included not only African countries but all countries in the HIPC II initiative including Honduras and Nicaragua. It is still not clear what the impact of this deal will be for Honduras. The Inter-American Development Bank (IADB), one of Honduras' main donors, is not participating in the initiative. At international level the key donors involved have not laid out a clear framework for the classification and valuation of the debt to be cancelled, over what time frame, on what conditions and there is no explicit reference to existing PRSP frameworks in these countries. Moreover, there is no clarity about whether there will be new money to finance development in these countries.

Meanwhile, the war in Iraq, the situation of the global economy and an extraordinarily active Hurricane Season in the Atlantic have amplified the upward trend of the price of oil on international markets. This has a particular impact on small developing countries like

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<sup>1</sup> For example see EUROADAD Debt Watch Briefing dated 16 June 2005

Honduras and Nicaragua who import the majority of their economies' fuel needs. The experience of privatisation, liberalisation of markets and the lack of diversification of fuel sources contribute to the difficulties since most electricity is oil generated and over 70% of their energy needs are oil-dependent. Therefore the cost of living is extremely sensitive to any fluctuation in the price of oil; in particular, the cost of the “canasta basica” (basic goods and services) is extremely sensitive, thus all sectors of the population are affected both directly and indirectly. On top of this, monopolies, corruption and the political use of petrol prices have contributed to the instability of the region as a result. Given that the price of oil is only expected to rise in the near future, and the lack of sustainable strategies to deal with the issue, further political, social and economic crises can be expected as a result over the coming year. This will be dealt with in more detail in the next section.

### **3. *Electoral Transition***

#### **3.1 External trends in the transition context**

The general election in Honduras takes place at the end of November, where voters will decide on the future President, deputies for Congress and local mayors for the next four-year period. As described in the previous update in this series, the quality of debate is very low and the human rights agenda is still to the forefront. The campaign proper began mid-September and to date is generally recognised to be low-key in relation to other election years. Neither Presidential candidate has emerged with any new strategy or agenda for the debate. Until recently, the analysis and polls were still talking about a near-tie and it has been very difficult to predict a clear outcome, although it seems that Pepe Lobo, the National Party candidate has the lead. In the final weeks, the campaign has degenerated into personal attacks on the two leading Presidential candidates and mud-slinging between the two camps has dominated the media.

The edge the National party has is in part due to political manoeuvring around the petrol price issue. Unlike in some neighbouring countries like El Salvador, the Honduran government has a direct role in controlling the domestic price of fuel, and it has been consistently used for political means. The price of petrol has increased 52 times under President Maduro who took office in 2001. In addition, there were allegations of senior government officials' involvement in the illegal smuggling of petrol over the border in 2004. On top of this, overcharging and malpractice at certain petrol station franchises, and ever increasing extra tariff on electricity bills to compensate the state for fuel price increases have been linked to the financing of some of the leading political candidates for the Presidential and Congressional elections.

In advance of the expected impact of Hurricane Katrina in early September, the Honduran government took advantage and increased the price of petrol by 19.7% overnight. This was over and above the actual increase, the new, more expensive oil had yet to be bought by Honduras, and it was another in the series. The prices of basic goods and services are estimated to have a sensitivity of to the degree of eleven for any given change in the price of oil in Honduras. In neighbouring Nicaragua, the situation is more pronounced and there have been recurring protests, disruptions and violence around the issue throughout 2005. The situation in Honduras reached a crisis when on the 6 September 2005 a spontaneous general strike took place when taxi drivers and transport workers in the two major cities, Tegucigalpa and San Pedro Sula stopped working and built roadblocks to prevent traffic circulating. This provoked a political crisis, capitalised upon by the National Party candidate Pepe Lobo, who led a general call for urgent action by the President Maduro, who is the leader of the same political party. A commission was established to work on the petrol price issue and by 7 September the price had been reduced once more to the price it was at before

the dramatic increase. This, however, is only a stop-gap, politicised solution, and the underlying problem in the economy has not been tackled. This will be a big issue for the incoming administration in 2006.

However, the situation with petrol prices is only one aspect of the fiscal crises that is looming in Honduras. The agreement reached with teachers' unions and the civil servants over salaries in the public sector in 2004, in order to comply with the conditions of the IMF, were only short term solutions and the longer term resolution of these issues will have to be renegotiated by the next administration. Without a strong resolution, Honduras is at risk of once more going "off-track" with its agreement with the IMF and putting much of the debt cancellation and new financing at risk in the process. Finally, all of the HIPC and extra debt cancellation will have to be financed by internal revenue. None of the promises of the deal can be achieved unless the government can generate the necessary internal revenue. As detailed in previous update, the essentially regressive nature of the tax system and virtual absence of a social safety net mean that the burden of this will fall on the shrinking middle classes and small domestic producers. On top of this, CAFTA is expected to put additional pressure on revenue, with the loss of tariff payments. Neither of the candidates has put forward concrete proposals to deal with any aspects of the economic situation.

In the meantime more direct effects of the record-breaking hurricane season in the region are being felt. New Orleans is a destination for many Honduran migrants and as a result Hurricane Katrina has implied reductions in the amount of remittances received by families in Honduras from their relatives there. Hurricane Stan caused extensive damage in neighbouring Guatemala and El Salvador; in Honduras the effects were less devastating, but added to the heavy rainfall this season. In this context, the spin off rains from Hurricanes Wilma and Beta have caused extensive flooding including destroying thousands of homes and harvests along the North coast. The formation of Tropical Storm Gamma in mid-November has caused major structural damage to infrastructure reconstructed after Hurricane Mitch in 1998, and has added to the toll of severe damage caused by Hurricane Beta along the entire Atlantic coast regions. In particular bridges on principal roads have collapsed. This situation has highlighted the weakness persisting in the emergency response framework in Honduras, and the lack of clarity over who is responsible for emergency funds, and how these responses are integrated into longer-term risk management and rehabilitation strategies incorporated into the PRSP.

### 3.2 Donors and transition

The last Consultative Group meeting for Honduras took place in June 2004, and a previous update details what took place at that event. Immediately following that event an eighteen-month plan of action was drawn up. As a follow-up to this and in the context of electoral transition a Consultative Group workshop was held on 30 May 2005 in Tegucigalpa. Meanwhile, in 2005, and in the absence of the full approval of the civil service reforms required by IMF and World Bank conditionalities, the technical units of the Honduran government drew up a six month work plan for the 6 months from July until December 05. This plan was designed to demonstrate the current government's commitment to continuity and consolidation and to guarantee that promises would not be renege upon in an electoral climate where traditionally fiscal discipline has been lax and used for political means. The workshop was designed to evaluate the progress to date and look for the key elements for continuity.

The workshop dealt with six key areas:

- (i) Consolidation of the economic programme
- (ii) PRSP and sector plans
- (iii) The legislative reform agenda
- (iv) Modernisation of the Judiciary
- (v) Transparency
- (vi) Harmonisation, alignment and results-based management

The first workgroup dealt with the economic programme and the PRSP. The second dealt with the judiciary, the legislative agenda and transparency. The final group dealt with harmonisation and alignment. The general discourse at the event was very much in the spirit of the Paris declaration, with emphasis on donor advances in harmonisation, especially the World Bank and the IADB; the two largest donors to the country. On the government side, institutional reform to facilitate harmonization was highlighted, including the standardisation of information and the alignment of projects around sector budget plans. The future move towards direct budget support was stated as the aim, although the possibility of various modalities for different donors was mentioned. The 0.7% target was also brought up in the context of the sustainability of the PRSP during the election transition.

The quality of debate in the group discussions on each of six themes in the three key areas was relatively weak. Partly this was due to the fact that event was boycotted by most civil society actors, including, significantly, all of the civil society representatives in the Consultative Council. This was a protest in the ongoing negotiation of a technical unit for civil society that has since been resolved. Ultimately, as was the case in the full Consultative Group meeting in June 2004, the PRS was an element for discussion but is not the driving framework for all of the issues, notably including the economic programme and harmonisation. While the other areas were repeatedly described as necessary to ensure the effective implementation of the PRS and the sector plans, there is no pro-poor vision does underpinning them in any explicit way. In effect, any donor intervention is described as supporting poverty reduction, while the political elements of evaluating the true pro-poor

content of this package were not raised. In this sense, the workshop was also similar to the highly technical discussion of harmonisation and alignment that took place at the regional workshop in preparation for the Paris summit in Tegucigalpa in November 2004.

In the first group, the discussion was extremely broad, covering a multitude of issue areas, and ultimately there were no decisions to be made, given the few months left for real progress in any of the areas before the elections. The first group highlighted a broad range of issues including: the need for continuity in the next administration; the relevance of fiscal discipline and the need for a social pact in this area; the need to prepare adequately to reap the benefits of CAFTA; issues around involving the poor as protagonists in the growth model; inequality and redistribution; stimulation of the financial sector; how to secure immediate financing of the PRSP; the role of impact indicators in poverty reduction; sector plans in the future administration and the roles of local government. The principal challenges identified related to all of these issues, but little proposals were put forward, in the context of transition.

The second group focussed on the legislative agenda, and how advances in this area had secured the framework for advances in the economic programme and the PRSP. In relation to judicial reform the sector was described as problematic, but that progress had been achieved; however there was a need for greater awareness about the changes since the public perception of the judiciary continued to be extremely negative. Transparency and accountability were described as urgent issues that required more openness on the part of civil society, support to the state Ombudsman, and a myriad of reforms and support to the national accounting system (SIAFI), public institutions and local government management. The challenges in this group were focussed around six fundamental laws that had not yet been passed by the legislature, and two further laws for modifying the judicial system. These laws, including the reform of the civil service are also trigger conditions for the IMF and World Bank loans in Honduras. Securing these reforms in the next administration was described as necessary preconditions for the decentralised implementation of the PRSP. The need to resurrect the national anti-corruption commission was highlighted also.

The third group concluded that Honduras had a model process for harmonisation and that the sector plans remain the priority of donors. The importance of tripartite involvement was emphasised and that future progress was needed on alignment of systems and donors. The key challenge here was ownership on the part of the responsible ministries and institutions of their sectors, and in addition, the coordination among sectors to ensure coherence. On the donor side, joint reports, missions, visions and evaluations were recommended as well as looking for procedural mechanisms for coordination around national priorities.

The workshop underlined the advances made from June 2004 to the end of May 2005 and outlines a blueprint for future actions to ensure the aims set out in the matrix are achieved. Beyond discussion of the technical document and general agreements on the desirability of continuity the one-day workshop did not produce any significant new agreement or decision. In this context the G-16 donor group in Honduras drew up their transition plan, which draws together elements of the Stockholm principles, sector-wide plans, and the goals

of the PRSP. This document incorporates the G-16 declaration made at the Consultative Group workshop where the commitment to the Millennium Development Goals (MDGs), the PRS and the Stockholm principles are reiterated. In the cross-references throughout the document there is an effort to unify these three sets of principles, and in particular in the matrix annexed which traces the trajectory of the G-16 statements from 2001 to 2004. The tangible reduction of poverty is identified as the key challenge; however, as per the discourse at the workshop in May 2005 to a certain extent everything that donors do is described as “for poverty reduction” but no explicit evaluation of the “nationally owned principles” in terms of their pro-poor content has been produced.

Despite this political failing, these are important advances in the harmonisation and alignment process in Honduras, and also in terms of the institutionalisation of the PRS. The donors have adopted the PRS process and all of the elements associated directly or indirectly with it and are using it as a signalling mechanism for the respective electoral campaigns. In this way donors are seeing how to improve ownership of the PRS in the electoral transition and maintain continuity. This can be interpreted as a genuine effort to preserve a poverty focus in public policies, while falling short of a pro-poor, equitable vision. The ultimate test for this influence will of course be visible in the first months of 2006 when the newly elected administration takes office. It is important to note however, that all of these actions predated the G-8 announcements around the new debt cancellations, and the implications of a new international framework for debt and financing for development, or even a loose set arrangements, are not clear, as these have yet to be defined, and little action has been taken in Honduras given the electoral transition.

At a political level, and in the context of the human rights agenda, the G-16 undertook an extensive dialogue process with the Presidential candidates and their respective technical and campaign teams to emphasise the PRS process and to look for electoral commitments around the issue. There has been no pact among the five candidates but the donors are satisfied that their advocacy has created awareness around some national commitments which the incoming government will be expected to honour. The human rights agenda has remained a concern, particularly among European donors. The National Party campaign has toned down the language around the death penalty, however there is no doubt that it remains the focus of the campaign.

#### **4. *PRS Implementation and the election transition***

##### **4.1 Political Factors: the new debt framework and participation**

When Honduras reached HIPC II completion point, there was much fanfare on the part of the government about what they had achieved for the Honduran people. The Presidential candidates also took up the issue and there was increased interest among civil society and other local actors around the PRS. Among those civil society groups who have been active around the PRS for four years now, expectations were raised and in particular from the regions that have constructed alternative, participatory regional poverty reduction strategies. The work of the CCERP intensified along with intensive discussions around how to integrate the sectoral focus of the CCERP with the territorial focus of the regional strategies, and indeed the government decentralisation plans.

Then in June when the new G-8 declaration was made, Honduras was included as one of the HIPC II countries that had reached completion point. At this juncture, both of the principal Presidential candidates claimed the debt and began to publicise how they envisaged this money would be spent to finance their various, populist, campaign promises around land and productive policies for poverty reduction. In particular, Pepe Lobo promised the titling of land as the completion of a populist vote-winning strategy that had resulted in thousands of poor rural and urban dwellers convening on Tegucigalpa in late mid-May 2004 to present their requests to Pepe Lobo in person, circumventing all of the legal and procedural processes in place. With the new debt cancellation, he pledged to see the deal through – by paying off the wealthy landowners, and financing the granting of titles to the de facto squatters, including in large areas of Tegucigalpa where thousands of families have settled. This discourse defied the entire legal and institutional framework that has been built up around the PRS, and indeed the very dialogue that the G-16 donors in Honduras had been having with the candidates.

In this context, and undoubtedly to raise the profile of the outgoing Presidency, President Maduro launched a new consultative process called “decidamos juntas” (we’ll decide together) to work out how to spend the windfall. In various aspects this process was problematic. For a start, the details of the debt deal had not been worked and it was not clear what debt was being cancelled, for what amounts, over what period of time and under what conditions debt payments would be authorised for other uses. Furthermore, the PRS as is supposedly embodies a consultative process that maps out the national priorities for poverty reduction spending related to debt cancellation. While the various weaknesses of the PRS document have been mapped out elsewhere, since its approval in Washington in 2000, a process has been established around the PRS, with important qualitative elements, not to mention a legal and institutional framework for assigning and prioritising funds.

The Consultative Council for the PRS Fund, by law has the power of decision and oversight over the HIPC portion of PRS financing. In the first half of 2005 three thousand proposals for funding were received for consideration by the CCERP coming from municipal development plans, civil society regional strategies and other actors: posing significant questions around how to ensure coherence and integration with sectoral plans, the PRS and meeting multiple criteria and goals. In spite of all of the established goals, priorities and processes this new consultative process was explicitly designed to collect demands at local level. Faced with this situation, the CCERP took a decision to participate with this plan, on the basis that to challenge the President would involve relatively high stakes around the future role of the CCERP and continuity in the PRS process. A statement was made calling for the recognition of the law protecting the CCERP. Regional civil society actors made a pronouncement calling for the recognition of their proposals, as well as those of the already elaborated Municipal Development Plans; along with the recognition of the law in place.

This new consultation process went to every department in Honduras, as well as holding sectoral consultations. Key ministers and civil servants involved in the planning and PRS processes were involved, along with members of the CCERP took part in the exhausting road show. Civil society actors, especially in the regions already organised around regional strategies, undertook intensive preparatory processes, at times without knowing the methodology that the government were going to use to extract the priorities. In each department after an informative process, people were organised according to groups of municipalities and asked to list the needs of those areas, with five priorities. A similar process was employed to obtain the sectoral demands. A total of over 25,000 demands were received in this process.

Both government and some of the civil society actors involved were surprised by the extent of organisation in the regions, especially those that had been organised in the construction of the regional poverty reduction strategies. They had not anticipated meeting a public that were prepared with proposals and demands, as well as strong critiques for the government of the handling of the PRS process in general and in particular the processes for accessing financing from the PRS. At the same time there were other areas of the country, unorganised to date where the quality of demands was low in terms of strategic importance for poverty reduction, reflecting the absence of the state and democratic processes to cope with meeting the basic necessities. This low quality content was piecemeal and short term in its outlook, looking for immediate responses instead of strategic investment.

**Table 4.1.1 Total demands collected**

	PRSP “Pillar”	Total Demand	
		# Projects	%
1	Equitable economic growth	1,398	5.5
2	Reducing rural poverty	11,332	45
3	Reducing urban poverty	1,601	6.29
4	Investing in human capital	7,006	28
5	Protecting specific vulnerable social groups	803	3.15
6	Guaranteeing sustainability of the PRS	3,291	13
		<b>25,431</b>	<b>100</b>

Source: Presentation by Rocío Tabora, Vice-Minister for PRSP, August 2005

The amount of proposals collected created a massive workload for the planning unit of the Presidency (UNAT) and the ad-hoc commission formed by the CCERP to participate in this process. Important criteria had to be defined, such as the distribution among municipalities and the time-scale. In the following box the final distribution agreed upon is given:

Figure 4.1.1 Distribution Criteria – territorial

General percentage	=	<u>30% amount available (previously 35%)</u> 298 (municipalities)
Poverty percentage	=	<u>62% amount available (previously 55%)</u> Municipal poverty level
Population percentage	=	<u>8% amount available (previously 10%)</u> Poor population

Source: Presentation by Rocío Tabora, Vice-Minister for PRSP, August 2005; FOSDEH, *Comunicado Sept 2005*

As well as the territorial distribution, funds were distributed according to sector plans and the sector work-plans created for implementing the PRSP – these sector plans do not correspond with the PRSP pillars described above, but are matched with the fourteen PRS goals, which correspond to the MDGs. The prioritisation procedure covered not only the 25,000 demands collected, but also the pre-existing civil society regional poverty reduction strategies; the Municipal Development Plans and line ministry projects, incorporated in the sectoral work plans. As well as the territorial distribution, 55% of the resources were dedicated to projects for productive reactivation; 35% to social projects (health, education and culture) and 10% for institutional development and governance. Confusion still reigns over what the actual total of the budget for the PRS is, what part of it is available for the CCERP to look at; and what proportion was made available for considering the 25,000 demands. The government has identified the financing gap for each of these plans:

Table 4.1.2 Financing gap per sector

<b>MEDIUM TERM PLANNING FRAMEWORK: FINANCE</b>		
<b>Financing Gap 2006-2015 (US\$ millions approx)</b>		
<b>Sector</b>	<b>Cost</b>	<b>Gap</b>
Education	5,341	916
Health	5,223	1,204
Agroforestry	349	184
Water and sanitation	1,358	748
Productive Infrastructure	885	275

*Source: Presentation by Rocío Tabora, Vice-Minister for PRSP, August 2005*

The CCERP announced in October the results of the participatory prioritisation process. The results of the distribution were made available on a new website created by the Finance Ministry as part of the transparency drive and to comply with the Law on the Access to Public Information. This website is called: <http://transparenciahonduras.gob.hn>. While this page displays the budget per department, sector, and government budget line. However there is room to improve the links between this general budget and the indicators for the PRSP. The PRS indicators are on a separate webpage, run by a different Ministry, the Presidency (<http://sierp.hn>). Following pressure from the civil society members of the CCERP around the lack of technical support to deal with the heavy work agenda and the weak technical capacity of some representatives, the government agreed to provide funding from the World Bank PRSC (Poverty Reduction Support Credit) loan, to enable a short term civil society technical secretariat of three full time staff to be established. The secretariat was set up on 15 August and has funding until end of December 2005.

#### 4.2 Economic Factors, PRS and participation

This process has raised considerable expectations in the population in general about financing for demands. The process has been an important one for the CCERP and other civil society actors to be involved in and has greatly created awareness and understanding of these types of process. However, it has also consumed great amounts of time and energy from civil society, and there is an opportunity cost in terms of dedication to other issues such as the election campaigns. After four years of investment in PRS process, gains have been made in procedural terms, including recognition of the regional strategies and intensive constructive debate around the articulation and coherence of centralised, government sectoral plans and decentralised, territorial demands from local government and the regions. After all of this activity, securing funding for some civil society demands is necessary to maintain momentum and to consolidate the participatory processes. However, a major challenge is to be expected in the next administration relating to the political agenda of the PRS. Much as the donor harmonisation around PRS is centred on the organisation of existing programmes and plans within the sectors and goals of the PRS, civil society activity

has been subsumed in procedural activities around prioritisation and assigning resources. From 2006 the major activities need to be focussed around monitoring and evaluation of the PRS interventions implemented by the state and using these findings to feed back into a broader political discourse around the pro-poor content of public policies and the transparent management of public finances. The following table shows the external debt balances as at the end of 2004:

Table 4.2.1 External debt balance per creditor, US\$, 2003-2004

<b>Creditor</b>	<b>Balance at 31/12/2003</b>	<b>Balance at 31/12/2004</b>	<b>%</b>
<b>Total Bilateral</b>	<b>1,707.4</b>	<b>1,776.8</b>	<b>34.1%</b>
Germany	130.4	128.0	2.5%
Belgium		14.9	0.3%
Canada	16.1	9.2	0.2%
Colombia	20.0	19.1	0.4%
Costa Rica	17.5	14.8	0.3%
Denmark	10.1	10.1	0.2%
Spain	355.8	351.7	6.7%
USA	130.1	110.4	2.1%
France	61.4	66.4	1.3%
Guatemala	23.1	23.1	0.4%
Holland	19.0	19.6	0.4%
Italy	218.1	252.1	4.8%
Japan	483.1	502.2	9.6%
Korea		4.5	0.1%
Kuwait	49.3	49.6	1.0%
Mexico	56.8	56.8	1.1%
Norway	8.2	8.2	0.2%
Rep of China	85.2	112.8	2.2%
Switzerland	6.9	7.1	0.1%
Venezuela	16.3	16.2	0.3%
<b>Total Multilateral</b>	<b>3,107.6</b>	<b>3,433.8</b>	<b>65.9%</b>
BCIE	320.7	337.2	6.5%
BID	1,288.2	1,411.0	27.1%
Nordic Devt Fund	8.4	11.9	0.2%
IFAD	62.2	68.3	1.3%
IDA/IBRD	1,229.1	1,384.4	26.6%
OPEC	24.9	23.8	0.5%
IMF	170.9	195.2	3.7%
CDC	3.2	2.0	0.0%
<b>Total Commercial</b>	<b>2.7</b>	<b>2.7</b>	<b>0.1%</b>
Deutsch Sudamerik Bank	0.1	0.1	0.0%
Laboratorio Bago	1.5	1.5	0.0%
Banco Nacional del Paris	0.2	0.2	0.0%
Bofa USA	0.9	0.9	0.0%
<b>TOTAL</b>	<b>4,817.7</b>	<b>5,213.3</b>	<b>100.0%</b>

Source: FOSDEH (2005) *Situación Actual de la Deuda Externa y sus Perspectivas*

The pro-poor agenda is particularly relevant when examining the economic implications of future debt cancellation. As stated above, the details of the new deal have not been worked out, and in the annual meetings of the World Bank and the IMF no clear framework or set of arrangements has emerged. Different donors have made different declarations, for example France that its portion must be used in health, and the Spain in education. There is no guarantee that these funds will enter under the same set of arrangements as the HIPC II funds, and whether therefore in Honduras the CCERP will have the same oversight functions, and if the PRS will become a “process” to the extent that any intervention ostensibly designed to facilitate the achievement of the MDGs becomes part of this, while the core of an integrated pro-poor policy agenda is dissolved. The IADB has categorically stated, contradicting announcements by President Maduro, that it will not be involved in further debt cancellations. As a major donor to Honduras, and the largest creditor with 27% of the total (see table 4.2.1 above), this will have significant implications given the high loan portfolio it maintains and is expanding with Honduras, generally beyond the PRS process.

In economic terms the new deal is problematic. FOSDEH, the Honduran debt and development platform, has done extensive analysis of the fiscal implications of a debt deal in the context of CAFTA, rising petrol prices and the wage bill issue described above. Falling revenues from tariffs as a result of CAFTA, and pressures on spending from wage earners and rising costs do not leave much room for extra spending on poverty reduction initiatives. Ultimately, the new deal does not bring any new money for development financing to Honduras and as a result, the potential spending power is completely dependent on the revenue generation and collection capacity of the next government. As it stands, the tax system in Honduras is regressive: the rich do not pay taxes and most foreign investments and enterprises are exempt. Thus the financing of the PRS is dependent on low to middle-income earners, and indirectly on growth in this sector to provide more revenue. The public debt burden is high in Honduras and while not as controversial as in neighbouring Nicaragua, public debt payments are primarily comprised of debt acquired in the bail-out of large agricultural banks and businesses. In this sense, FOSDEH argue that external debt has been converted into public debt and the current conditions for debt relief and cancellation are permitting the sustenance of a development model in Honduras that will not work in favour of the poor.

Given this context, there is an intimate connection between fiscal issues and financing the PRSP with governance and transparency issues. The rate of tax collection is low and white collar crime and corruption generally operates with impunity, often involving large state entities, and the very business elite exempt from taxation as well as drug trafficking and organised crime operations. This complex interrelation of issues illustrates the central importance of the focus of public policies held by the next administration, and in particular the elements of a future fiscal pact and the relative position of the PRS and pro-poor growth policies. Other outstanding issues relating to this new deal are the conditions for contracting new debt and its sustainability. In 2004 alone, new debt of US\$457.6million was contracted. The concrete dynamics of the Paris Declaration in Honduras around ownership, harmonisation, alignment and aid effectiveness are crucial for determining the direction of development efforts and their impact on the poor.

## **5. *Civil Society and the PRS***

The complexity outlined in the previous section is as relevant for discussing the challenges facing civil society and their future role in the PRS framework and in public policy processes in general. These challenges involve basic elements, with complex implications for civil society, including:

- What is the PRS? Where is it in the public administration framework?
- Who decides and organises within the public finance management system? How does it interact with political structures at central and decentralised levels?
- Who implements public policies? Who evaluates their impact?
- Where should engagement take place, who decides the rules, and at what stage in the process?
- What can be done via participation, input, monitoring and evaluation to impact the content of future policies? What are the key political processes and what is the role of civil society in them?

The role of donors, and their relationships with civil society, are relevant factors in each of these areas, since donors are important in Honduras in determining the procedural framework for public administration, and to an extent play a role as a political watchdog, while shying clear of full political engagement with the content and impact of public policies.

The PRSP as stands is a description of processes in government and civil society within the HIPC II framework. This includes the original PRSP document, the participatory processes around it, debt relief processes, the regional PRSP strategies, the sectoral workplans and part of the national budget. To the different actors involved, discussion of the PRSP can mean all or some of these elements. These processes have given many advantages to civil society by encouraging participatory processes and for acting as unifying focus for diverse sectors and levels of civil society. In addition, they have been valuable in giving civil society actors a “window” on the full range of public administration activities, and the power of oversight over a certain portion of the national budget. There are still weaknesses on the part of civil society in terms of their technical capacity to track and monitor the government in all of these arenas, and the diffuse nature of the PRS does not help this. Still there is no clear government plan linking decentralisation and sectoral plans with the PRSP; and while the PRSP is part of the national budget, the parliament that oversees the budget is not involved in PRS processes. Besides the national budget, donor projects are grouped around the areas of the PRSP and under sectoral policies, and in this way linked to a single matrix working towards the Millennium Development Goals. However this sum of efforts organised in a PRS “matrix” do not necessarily amount to a transformative poverty reduction agenda. These complexities add to the difficulties for civil society in attempting to monitor the PRS, in all its understandings and in its relationship to other policy and budget areas.

Civil society has had a role in decision-making around PRS resources. But the demands have come from various sides, the regional poverty reduction strategies, designed and promoted by civil society actors, the sectoral workplans devised by the relevant government ministries in conjunction with donors, the Municipal development plans, elaborated under the auspices of the Home Affairs Ministry, and the Consultative council for the PRSP, organised by “sectors” of civil society. Within the PRS framework the articulation of territorial and sectoral plans has proved to be technically and politically an important stumbling block. The issue is highly relevant when looking at the role of civil society in evaluating and monitoring the PRSP. Furthermore, these technical prioritisation processes have consumed much of civil society energy, while parliament as an actor has been neglected. This raises issues around the role of civil society in the longer term, in terms of the overall political direction of public policy, engagement with the wider political system including all ministries (beyond those directly involved in PRSP), the political parties and parliament. A balance between technical involvement and acquiring expertise and this political role of civil society needs to be established to ensure transformation and pro-poor development.

One disappointment for some civil society actors from the regions and the sectors that presented proposals to the CCERP was the exclusion of civil society as a possible implementation mechanism. The debate continues around the effectiveness of using local organisations or state institutions, but to date there is no mechanism that allows the government to disburse funds to a non-state actor. Instead of implementers, on the basis of the mobilisation of civil society around the PRSP formulation process and the articulation of demands from various levels, many donors increasingly see civil society actors’ role in the context of the implementation of the PRS as the “watchdog”. In particular, budget tracking, social audit and impact monitoring of poverty interventions is called for. Given all the accumulated experience of participation in PRS and engagement with public policy processes, civil society is well-positioned. However it is important that the state does not substitute its responsibilities with civil society interventions. These nuances are at the core of debates around transparency and accountability and who is responsible for guaranteeing the same.

There are a variety of different theses around the uses of and methodologies for undertaking social audit. Some donors for example see the role of local government and other participatory structures in facilitating and organising participatory feedback mechanisms. While this is relevant, particularly in the facilitation of information and openness to receive favourable or unfavourable feedback, some of the approaches to social audit seek to control civil society actions. If demand-side governance is to be true to the aims of measuring aid effectiveness, the participants need to have independence and autonomy from the implementing institutions. Ultimately, if a donor nominates a committee to undertake participatory evaluation of their intervention, no matter how indirect, there is a conflict of interest. However resource issues often mean that social audits are tied to particular projects or interventions – this is fine so long as the autonomy of the transparency commission is guaranteed. The Ombudsman in Honduras has been working on a legislative framework for transparency commissions and social audit activities at municipal level, but there are no longer funds available at this level to finance their activities. Civil society actors maintain that

transparency and social audit commissions should be both spaces for citizen participation and feedback mechanisms on interventions. In this sense, these processes must be rooted in longer term participatory processes linked to local level democratisation, and not simply ad-hoc, project based structures. But, their independence should not entail a reliance on voluntarism, and there should be resources made available.

The CCERP envisages a role in coordinating and collating the results of social audit activities throughout Honduras as a means for giving true feedback on these evaluations. This discourse highlights another series of issues for civil society in its evaluation role. Civil society actors work at various levels, on a variety of issues, and are not characteristically organised to mirror the state apparatus that is being monitored. In addition, while some regions and sectors have been active and well-prepared in PRS processes, there are multiple areas and sectors that continue to be disconnected from the discourse. How to ensure that the valuation of impact feeds back into government and the broader political agenda has not been effectively tackled. A strategic vision is needed in relation to future policy formulation process and to learn from mistakes and failings to date.

All of these factors ultimately pose questions for civil society around the impact of their engagement and the future investment of their energies around the PRS, broadly understood and general public policy in the next government. The G-16 donors, who generally deal primarily with the government, have repeatedly stated their belief in the role of civil society as a key actor, in tripartite processes and especially in the transition from one administration to another. This moral support needs to be matched by coherent and concrete actions in dealings with the Honduran government and specific attention to the role that civil society is expected to play.

The ACI PRSP Fund, managed by Trocaire has financed over 52 interventions by civil society to increase capacity and strengthen the institutionality of civil society actors to strategically undertake their multiple roles. Information on these specific activities can be found on the webpage: <http://aci-erp.hn>. The key challenges are related to the context that has been described in this section. Particular concerns are centred on how to bring together dispersed and disconnected actors to articulate a pro-poor agenda; to ensure impact from engagement; the consolidation of efforts based on accumulated learning; and to construct valid proposals and support behind them in the next administration. The role of civil society in constructing the basis for a political system that is democratically responsible for the human development of the entire population is an important complement to the institutional and procedural focus of the harmonisation and alignment debate.

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