We welcome the discussion of this Country Assistance Strategy for Honduras, prepared jointly by IDA and IFC in consultation with the Government and civil society representatives. We would like to commend staff for the candid analysis contained in this excellent document and also for being able to include issues that should address some of the devastation caused by Hurricane Mitch. We are particularly pleased to note the serious collaboration between the donor community, government and civil society in Honduras' post-hurricane reconstruction.

Honduras’ macroeconomic performance improved significantly in the two-year period that preceded the October 1998 hurricane. Growth rebounded, the current account deficit fell and average real wages increased against a background of falling inflation from 26 percent in 1997 to 13 percent in September 1998. At the same time, the Honduran authorities have made steady progress in their structural reform program. In particular, the approval of a concession by the legislature for the construction and management of roads and the encouragement of private investment in mining has been a significant milestone in Honduras’ private sector development process.

Despite these remarkable efforts by the Government, Honduras still faces a number of formidable challenges. Poverty is still pervasive, with nearly two-thirds of Honduran households classified as very poor. What is even more worrisome is the huge gap between the rich and poor. Even among those already classified as poor, the gap between the rural poor and the urban poor continues to be a serious cause for concern: while poverty levels dropped from 47 percent to 36 percent between 1991 and 1998 in the urban areas, that in the rural areas dropped only from 60 percent to 55 percent during the same period. This suggests that more conscious efforts need to be made in addressing the widening poverty gap between rural and urban dwellers in Honduras. In this regard, since analyses in the document show a positive correlation between growth and poverty reduction, the Government and the donor community should increase efforts aimed at
stimulating growth in the rural areas. We, therefore, concur with the statement in paragraph 12 that as the emergency phase of the reconstruction is completed, Honduras must set in motion the policies and reforms that will allow the economy to grow with greater contribution to the reduction of poverty.

This chair fully supports the Bank Group's strategy for Honduras, which has drawn substantial lessons from the previous CAS and has also benefited from intensive dialogue with the Government and civil society. We are particularly pleased with the focus of the CAS on the need for a comprehensive poverty reduction. We also welcome the emphasis in the Government's development agenda on human resource and social sector development, which is consistent with both Honduras' needs after Hurricane Mitch, and various donor efforts aimed at mitigating the adverse effects of the hurricane.

We would, however, like to see a more focused treatment of the issues of inequality and poverty in the Bank Group CAS. While we note with appreciation that the planned poverty update in Honduras will provide a deeper analysis of inequality which should lay the foundation for a more equitable society, the need for concrete measures to address poverty, particularly in the rural areas, cannot be over-emphasized. It is imperative, therefore, that targeted measures for rural social services and rural productive activities be quickly undertaken by the Government and its development partners. With regard to targeting, we are pleased to note the substantial progress already made in addressing gender issues.

Perhaps one of the most critical sectors for rural development in most developing countries is agriculture, which provides employment and subsistence to a large proportion of rural dwellers. However, while this document has been clear about IDA's role in helping Honduras address its potentially huge coastal and inland valley environmental issues, IDA policy measures on how farming could be used to address rural poverty and inequality have not been equally clear in the document. We would appreciate more staff comments on this issue.

On the whole, we find the proposed mixed lending and non-lending instruments adequate and in line with IDA's comparative advantage commitment. We believe, however, that the CAS should be a little more specific on the roles IFC and MIGA need to play in Honduras in order give a clearer picture of the Bank Group's participation in both public and private reconstruction and development.

With regard to the lending levels, we have no difficulty in endorsing the proposals in paragraph 73 and 74. We are also comfortable with the triggers set for both the high and low case scenarios.