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**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**AND**

**INTERNATIONAL FINANCE CORPORATION**

**INTERIM STRATEGY NOTE**

**FOR THE**

**REPUBLIC OF HONDURAS**

**September 29, 2010**

**Central America Country Management Unit  
Latin America and Caribbean Region  
International Bank for Reconstruction and Development**

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*The date of the CAS Progress Report for Honduras was May 8, 2008*

**GOVERNMENT FISCAL YEAR**

January 1 – December 31

**CURRENCY EQUIVALENTS**

(Exchange Rate Effective as of March 8, 2010)

Currency Unit	Lempira
US\$1.00	18.86

**ABBREVIATION AND ACRONYMS**

AAA	Analytical and Advisory Activities
BCH	Central Bank of Honduras
CABEI	Central American Bank of Economic Integration
CCT	Conditional Cash Transfer
CPS	Country Partnership Strategy
CEM	Country Economic Memorandum
CNBS	National Banking and Insurance Commission
CPI	Consumer Price Index
DPC	Development Policy Credit
DSA	Debt Sustainability Analysis
EFA	Education For All
ENDESA	National Survey on Population and Health
EU	European Union
FHIS	Honduras Social Investment Fund
FY	Fiscal Year
G16	Local Donor Group
C-GAC	Governance and Anticorruption Country
GDP	Gross Domestic Product
GEF	Global Environment Fund
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IGR	Institutional and Governance Review
INE	National Statistics Institute
IMF	International Monetary Fund
INT	Institutional Integrity
ISN	Interim Strategy Note
JSDF	Japan Social Development Fund
MCC	Millennium Challenge Corporation
MIGA	Multilateral Investment Guarantee Agency
MDRI	Multilateral Debt Relief Initiative
OP	Operational Policy
PER	Public Expenditure Review
PETS	Public Expenditure Tracking Survey
PIPS	Integrated Social Protection Program
PPIAF	Public-Private Infrastructure Advisory Facility
PRAF	The Family Allowance Program ( <i>Programa de Asignacion Familiar</i> )

PRS	Poverty Reduction Strategy
PRSC	Poverty Reduction Support Credit
PRS-TAC	Poverty Reduction Strategy Technical Assistance Credit
ROSC	Report on the Observance of Standards and Codes
SANAA	Public Water & Sanitation Company
SEFIN	Ministry of Finance
SBA	Stand By Arrangement
SEPA	Procurement Planning System
SIAFI	Integrated Financial Management Information System
SIDA	Swedish International Development Cooperation Agency
SINAP	National Property Registration System
SME	Small- and Medium-Sized Enterprises
TA	Technical Assistance
UNDP	United Nations Development Program
USAID	United States Agency for International Development
WBG	World Bank Group
WBI	World Bank Institute
WEF	World Economic Forum
WTO	World Trade Organization

**HONDURAS  
INTERIM STRATEGY NOTE**

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# HONDURAS INTERIM STRATEGY NOTE

## I. INTRODUCTION

1. **This Interim Strategy Note (ISN) sets out a twelve month strategy to help the new administration in Honduras address urgent priorities and bridge the gap until a full Country Partnership Strategy (CPS) can be prepared.** Since the CPS Progress Report (Report No.43244-HN) was discussed by the Board on June 10, 2008, political turmoil following the removal from power of President Manuel Zelaya on June 28, 2009, has negatively impacted the implementation of the World Bank Group (WBG) Program. With the arrival of a new democratically-elected government in November 2009, international partners have gradually resumed their programs and dialogue with the authorities. The Bank has engaged in an intensive dialogue with the Government on its development priorities. This ISN lays out the short-term WBG program for Honduras to bridge the gap until a full CPS incorporating the Government's medium-term priorities can be elaborated. The new CPS would also coincide with the first year of the IDA16 cycle providing greater clarity on availability of future IDA resources.

2. **Honduras is in a difficult economic and social situation and in need of urgent support.** Prior to June 2009, the economic situation was already complex due to the impact of the global economic downturn, and to macroeconomic imbalances that had emerged in the second half of 2008. As a result of these imbalances, the IMF was unable to complete the First Review of the Stand-by Arrangement that had been approved in early 2008. The situation was further complicated after June 28, 2009, as the international community reduced and/or paused its assistance to the country. Bank estimates indicate that the combination of these events may have resulted in an increase of poverty rates of about 2 percentage points during 2009. The authorities have reached an agreement with the IMF on an economic program geared at re-establishing macroeconomic stability, strengthening public finances, restoring investor confidence, and supporting economic recovery. In this regard, on October 1, 2010 the IMF Board approved blended 18-month arrangements supported under the Stand-by Credit Facility and the Stand-By Arrangement with total access of 100 percent of quota (about US\$202 million).

3. **The ISN has been prepared in parallel with a proposed Development Policy Credit (DPC) that supports the Government's efforts to address the economic and social crises.** The Government has indicated that its immediate priorities are to restore macroeconomic stability and reignite growth, and address the needs of the poorest segments in society. The need to address macroeconomic imbalances appears to have some urgency given the economic uncertainty created by the fiscal situation (which has been assessed to be unsustainable both over the short and long run) inherited by the new administration and its negative impact on private investment. The proposed DPC has been prepared in close consultation with the IMF, the IDB and CABEL, as part of a coordinated multilateral effort to support the Government's efforts to bring the fiscal framework to a sustainable position. Taking into account recent IDA commitments in support of the Government's Conditional Cash Transfer (CCT) program, *Bono 10,000*, the DPC will

absorb the remainder of IDA funds allocated to Honduras until the end of the IDA 15 cycle.

## II. COUNTRY CONTEXT

### Political Developments

4. **On June 28, 2009, the Honduran Supreme Court ordered the removal of President Zelaya following his decision to conduct a referendum that, if won, would have allowed him to convene a National Constituent Assembly to rewrite the Constitution.** The same day Congress approved Roberto Micheletti as the interim President and he installed a new administration, replacing many within the Cabinet. As a result of these political developments, much of the international community put aid programs on hold, although a number of donors continued implementation of projects, particularly those focused on the poor. The Bank followed a process consistent with Operational Policy (OP 7.30), which included conducting an assessment of the prevailing situation with respect to the de facto Government. During the assessment period the Bank paused the implementation of the existing portfolio and no new lending was approved. The situation remained fluid for much of 2009 and the Bank began to resume disbursements in December 2009, once it was clear that the conditions of OP 7.30 were fulfilled.

5. **On November 29, national elections took place.** Porfirio Lobo, from the National Party, won with 55 percent of votes cast, which resulted in 71 seats in Congress, out of 115. International observers (including the National Democratic Institute and the EU) concluded that the elections were free and fair.

6. **Following his inauguration as President on January 27, 2010, Mr. Lobo named a Government of national reconciliation which included some political rivals, and quickly set about reengaging with the international community and development partners.** The new Government has agreed to carry out a series of forward-looking actions detailed in the agreement dated October 31, 2009 (*“Acuerdo Tegucigalpa/San Jose para la Reconciliacion Nacional y el Fortalecimiento de la Democracia en Honduras”*). The Truth and Reconciliation Commission, established under this agreement, became operational on May 4, 2010.

### Key Macro and Debt Developments

7. **The global economic crisis, pre-existing macroeconomic imbalances, and the domestic political crisis have all negatively affected the Honduran economy.** GDP contracted by 1.9 percent in 2009 following growth of 4 percent in 2008 and an average of 6.3 percent in 2004 to 2007. This contraction was the result of lower exports (which in 2009 declined 21.2 percent with respect to 2008), lower international remittances flows (estimated to have declined from 20 percent of GDP in 2008 to 17.1 percent of GDP in 2009), and lower fixed investment, which declined from 33 percent of GDP in 2008 to 23 percent in 2009. Foreign direct investment is estimated to have contributed to this decline in domestic investment by falling from 6.4 percent of GDP in 2008 to 3.5 percent in 2009.

**Table 1. Honduras - Selected Economic Indicators**

<b>Output and Inflation</b>						
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010<sup>b/</sup></b>	<b>2011<sup>p/</sup></b>	<b>2012<sup>p/</sup></b>
Real GDP Growth	6.3	4.0	(1.9)	2.4	3.5	4.0
Consumer Prices	8.9	10.8	3.0	2.7	5.8	5.5
<b>Public Sector</b>						
<b>Central Government</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010<sup>b/</sup></b>	<b>2011<sup>p/</sup></b>	<b>2012<sup>p/</sup></b>
<b>Central Government Total Revenues</b>	19.2	19.8	17.4	18.0	18.3	18.1
Current Revenues	17.6	17.7	15.5	16.4	17.3	16.6
Tax Revenues	16.4	16.0	14.4	15.1	16.1	16.1
Non Tax Revenues	1.2	1.7	1.1	1.2	1.3	0.5
Other	1.6	2.1	1.9	1.7	1.0	1.5
<b>Central Government Total Expenditures</b>	22.1	22.2	23.5	22.5	21.7	20.8
Current Expenditures	18.1	17.4	19.0	18.7	17.5	16.2
Wages and Salaries	9.2	9.3	11.1	11.1	10.3	9.4
Capital Expenditures	4.1	4.9	5.2	3.7	4.3	4.6
Other	(0.1)	(0.1)	(0.7)	0.2	-	-
<b>Central Government Balance</b>	(2.9)	(2.4)	(6.2)	(4.5)	(3.4)	(2.8)
<b>Combined Public Sector</b>	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010<sup>b/</sup></b>	<b>2011<sup>p/</sup></b>	<b>2012<sup>p/</sup></b>
<b>Combined Public Sector Total Revenues</b>	25.4	26.2	24.8	24.5	24.5	25.0
Current Revenues	23.4	24.0	22.8	22.6	23.3	23.8
Tax Revenues	16.8	16.5	15.0	15.8	16.7	16.7
Non Tax Revenues	6.6	7.5	7.8	6.8	6.6	7.1
Other	2.0	2.3	2.1	1.9	1.2	1.2
<b>Combined Public Sector Total Expenditures</b>	27.0	27.9	29.4	28.3	27.5	27.0
Current Expenditures	20.7	21.2	23.6	21.7	20.0	19.1
Wages and Salaries	11.7	11.8	13.9	13.7	12.8	11.7
Capital Expenditures	5.6	6.0	5.9	5.1	5.8	6.2
Other	0.7	0.8	(0.1)	1.4	1.8	1.7
<b>Combined Public Sector Balance</b>	(1.6)	(1.7)	(4.6)	(3.7)	(3.0)	(2.0)
<b>Total Public Sector Debt</b>	19.7	20.6	23.7	27.7	29.4	29.9
<b>External Sector</b>						
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010<sup>b/</sup></b>	<b>2011<sup>p/</sup></b>	<b>2012<sup>p/</sup></b>
Current account balance (% of GDP)	(9.0)	(12.9)	(3.2)	(6.2)	(6.7)	(6.8)
(excluding official transfers)	(10.3)	(14.1)	(4.0)	(6.9)	(7.4)	(7.5)
Exports (annual percentage change) b/	9.6	11.7	(21.2)	9.2	6.8	7.2
Imports (annual percentage change) b/	21.7	18.2	(28.1)	11.4	7.6	6.3
Gross international reserves (US\$ million)	2,733.0	2,691.0	2,331.0	2,386.0	2,600.0	2,850.0
In months of imports	3.5	4.7	3.6	3.4	3.5	3.6
Net International Reserves (US million)	2,409.0	2,236.0	2,069.0	2,130.0	2,350.0	2,600.0

a/ Preliminary. Fiscal balance does not include recently identified arrears. b/ Goods only.  
Sources: Ministry of Finance; IMF, and Bank staff estimates.

8. **The fiscal situation deteriorated dramatically in 2009.** The overall deficit of the combined public sector rose to 4.6 percent of GDP (up from 1.7 percent of GDP in 2008), reflecting lower tax revenue but also a large increase in budgeted expenditures (mostly public sector wages) and extraordinary spending.<sup>1</sup> The deficit of the Central Government increased to 6.2 percent of GDP (up from 2.4 percent of GDP) and was financed largely by costly short-term bonds, while the position of the largest public sector enterprises and the pension funds worsened. While this increase in the fiscal deficit is not unlike those observed in many other countries, it took place in the midst of a political crisis which resulted in a suspension of much of planned international development assistance. Honduras experienced an estimated shortfall of US\$130 million in grants and US\$190 million in credits during the second half of 2009. By end 2009, arrears had accumulated to roughly 3.4 percent of GDP.

9. **Soon after taking office, the Government projected that in the absence of corrective actions, the Central Government fiscal deficit could have reached about 7 percent of GDP in 2010.** This deficit, together with the need to clear arrears of about 4.4 of GDP, a projected deterioration in the operating balance of the public enterprises (which in 2010 are expected to record losses of 0.1 percent of GDP), and amortization obligations of 2.4 percent of GDP, would have resulted in financing needs of the combined public sector in excess of 14 percent of GDP. This figure is well above any reasonable estimate of available financing resources.

10. **The Government has implemented key fiscal reforms.** Congress has approved legislation aimed at lowering the 2010 fiscal deficit by about 3 percentage points of GDP. In April 2010, Congress approved the *Ley de Fortalecimiento de los Ingresos, Equidad Social y Racionalización del Gasto* that: (i) eliminates the zero-rated value-added tax (*Impuesto Sobre las Ventas, ISV*) on goods and services, except for exporters; (ii) raises the tax on electricity to 12 percent to those households with a monthly consumption of more than 750 kwh; (iii) reforms the tax bases on tobacco and alcohol excise taxes and implements a specific tax combined with an ad-valorem component; (iv) removes tax exemptions on imported vehicles and introduces different rates depending on the size and the price of the vehicle; and (v) creates a rental income tax with an annual withholding rate of 10 percent over the lease price.

11. **The Government has also passed some additional measures to control public spending and address a number of structural problems.** These new measures impose a hiring freeze in all ministries, introduce a legal framework for the adoption of public-private partnerships and initiate an audit of the accumulated public sector arrears. By taking the necessary fiscal measures, the Government will improve its budget composition with lower interest payments and higher public investment, and reduce its deficit. In addition, the Government is working on a new fiscal package that includes measures to address more structural problems. This package includes measures such as reforming the pension systems and civil service reform.

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<sup>1</sup> The combined public sector includes Central Government, Social Security Institutions, Public Enterprises, Local Governments and Decentralized agencies.

12. **In the absence of major external shocks, the economy is expected to recover gradually.** Since prospects for improving domestic demand (through domestic stability, investment, remittances and credit) and external demand (through exports and foreign direct investment) are expected to recover strongly, it is likely that GDP growth will rebound to around 3-4 percent through 2012. Industrial production is expected to continue to be driven by *maquila* exports, demand for which will be affected by growth in the US.

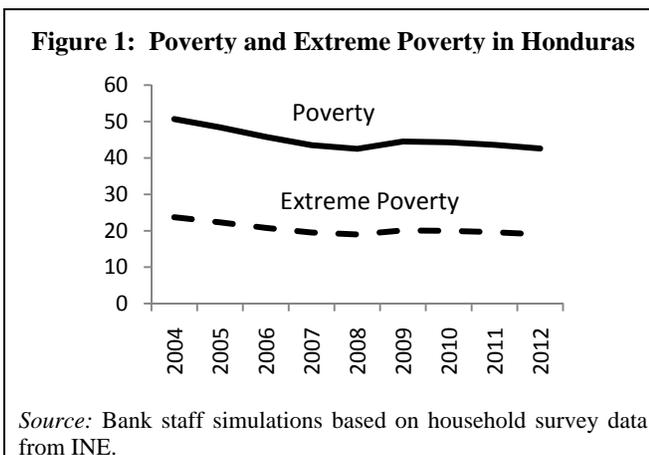
13. **The economic recovery and higher commodity prices are expected to widen the current account deficit.** As the US economy recovers, export growth is expected to increase to about 9 percent in 2010 and gradually stabilize at around 7 percent in 2011 and 2012. Worker remittances are expected to remain at about 16 percent of GDP over the 2010-2012 period. Imports are anticipated to grow close to 11 percent; combined with lower exports, this would keep the current account deficit at 6.2 percent of GDP in 2010, but it is expected to increase to 6.7 percent of GDP in 2011 and 2012. Foreign direct investment is projected to increase from 4.5 percent in 2010 to 5 percent of GDP in 2012.

14. **The Government's medium-term fiscal framework aims to lower the deficit to 2 percent of GDP by 2012.** The fiscal measures taken by the Government would help contain the overall consolidated public sector deficit at 3.7 percent of GDP in 2010 and would be supported by additional measures included in the IMF program to lower the fiscal deficit to 3 percent of GDP in 2011 and 2 percent of GDP in 2012. The improved composition of public sector expenditure, together with a tight monetary policy would support a faster recovery and stronger position in international reserves (Table 1).

15. **A Debt Sustainability Analysis, prepared jointly by the Bank and the IMF, suggests that Honduras' public debt is on a sustainable trajectory.** In the baseline scenario, the public-debt-to-GDP is expected to increase from 27.7 percent of GDP in 2010 to 30.4 percent of GDP in 2013 and afterwards it will gradually decline. The trajectory of public debt is projected to decline even under the most pessimistic alternative scenarios.

### Poverty and Human Development

16. **Honduras remains one of the poorest and most unequal countries in Latin America and recent progress on the poverty reduction front is under threat.** Consumption-based poverty figures for 2009 show that about 44.5 percent of the population was living in poverty and 20.1 percent in extreme poverty.<sup>2</sup> The Gini coefficient for 2007 stood at 0.57. Poverty in Honduras may have risen by more than 150,000 people between



<sup>2</sup> Honduras official figures may differ from Bank data as they are based on household income and use a different methodology in the calculation.

2008 and 2009 and no major declines are expected to have occurred in 2010 as per capita growth is estimated at 0.3 percent. Staff analysis suggests that as a result of the modest recovery projected in the medium term, poverty could decline to between 42 and 43 percent by 2012 (see Figure 1).

17. **One of the reasons for Honduras high poverty rates is that female labor force participation in Honduras is the lowest in Central America at 40 percent.** Policy actions aimed at skills formation, availability of child care and micro finance schemes that help poor female entrepreneurs would improve participation. This is an important opportunity as increased gender equity in labor markets has been associated with poverty reduction and economic growth. A gender analysis will be prepared under the next CPS and will be informed by analytical work currently under preparation, including the Central America Regional Study on Gender and Income Generation which has a specific focus on poor and rural women income generation.

18. **The negative impact of the growth slowdown on poverty rates has been compounded by the trend in remittances, which in 2009 declined by about 14 percent.** The impact of the decline in workers' remittances is particularly relevant in this context given the importance of these flows: in 2008 workers remittances represented about 20 percent of Honduran GDP and it is estimated that around a quarter of the poorest quintile of the population receive remittances (representing around a quarter of their total incomes). Since more than half of all migrants come from urban areas, the urban poor are more vulnerable to the decline in remittances.

19. **The country has made some progress in improving health sector outcomes.** Honduras has made progress in improving maternal and child health. Significant reductions have been achieved in infant and under-five mortality ratios. Chronic malnutrition in children less than 2 years has decreased from 27 percent in 2001 to 24 percent in 2005. The numbers remain well below the Lower Middle Income Country averages, however, and hide stark regional differences.

20. **Education performance is low, despite high levels of spending.** Over the past two decades, Honduras has devoted an increasing share of public spending to the education sector. The public sector education expenditures rose from 5 percent to 8.6 percent of GDP between 1990 and 2007.<sup>3</sup> In spite of increased public expenditures on education, Honduras has not been able to increase the level of education outcomes of its students. Standardized test scores in mathematics and Spanish language have not changed significantly since 1997.<sup>4</sup> The difference in enrollment for poor families is also an issue in secondary education, above all in rural areas. In 2007, school enrollment among 14 year-olds was only 50 percent for students in the poorest quintile, compared to 90 percent in the richest quintile; and, in 2009, less than 30 percent of the children aged 13-15 years old in rural areas were enrolled in school.

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<sup>3</sup> Source: Honduras Institutional Governance Review (Report No. 53517) and Public Expenditure Tracking Survey.

<sup>4</sup> In 1997, the average 6<sup>th</sup> grade standardized test scores were 35 percent in math and 42 percent in language. The data for 2007 shows little improvement: 39 percent in math and 45 percent in Spanish (Transparency and Accountability in the Education and Health Sectors in Honduras. World Bank, 2008).

21. **Despite a multitude of small social programs and the creation of the new Ministry of Social Development, effective social safety net programs to protect the poor and help mitigate the impact of shocks and crises are largely missing.** Most programs have low coverage and are excessively fragmented (over 80 programs/projects and over twenty agencies). The key safety net program, *Bono Solidario* involving cash transfers to the poor, covers less than 8 percent of the population.

22. **Crime and insecurity have worsened in recent years, representing a clear development challenge.** Honduras has one of the highest rates of murder and kidnapping in Latin America, occurrences resulting from its growing role as a central transshipment point in the international drugs trade. A murder rate of 43 per 100,000 habitants<sup>5</sup> places Honduras among the top five most violent countries in Latin America, and insecurity has increased during the political crisis of 2009. According to a recent Bank study (Crime, Violence, and Economic Development in Central America) on this issue, crime, violence and more generally lack of security may be costing the Honduran economy more than 9 percent of GDP annually.

23. **In addition, the impact of climate-related disasters is a critical consideration in the vulnerability of the Honduran economy.** Based on the estimated normalized damage in millions of 2007-equivalent US\$), Honduras shows the highest cumulative losses due to three landfalling tropical cyclones in Central America during the 1976-2005 period.<sup>6</sup> This underscores the need to support Honduras in integrating climate resilient measures into core development programs across sectors (e.g., agriculture, water, transport etc.) and targeting specific hazardous or vulnerable places and people such as coastal zones, or the urban and rural poor.

## **Governance**

24. **Honduras is making advances towards a stronger governance framework, but less rapidly than would be expected in a country with its trajectory of institutional and democratic reforms.** The Government is aware of the conclusions of the 2009 Bank Institutional Governance Review (Report No. 53517) which indicates the need to strengthen the country's accountability framework and in particular, the accountability of policymakers towards citizens and to focus the policy discussion on performance. Three factors are highlighted that, if addressed, could help the country to improve its governance framework: (i) the lack of transparency around decision-making; (ii) the lack of available information to assess performance which makes it difficult for citizens to hold policymakers accountable; and (iii) the weak organizational capacity of groups representing public interest.

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<sup>5</sup> 2006 data.

<sup>6</sup> J. Curry, M. Jelinek, B. Foskey, A. Suzuki & P. Webster. 2009. Potential Economic Impacts of Hurricanes in Mexico, Central America, and the Caribbean ca. 2020-2025. In: Assessing the Potential Consequences of Climate Destabilization in Latin America. Latin America and Caribbean Region. Sustainable Development Working Paper 32.

## **KEY DEVELOPMENT ISSUES AND GOVERNMENT STRATEGY**

25. **As one of its first acts, the Honduran Congress approved the Government's proposed National Vision 2010-2038 and National Plan 2010-2022**, setting forth long-term development objectives which will serve as the basis for successive short-term government plans beginning in 2010. The overarching long-term objectives are: (i) a Honduras without extreme poverty, educated and healthy with consolidated provision of social services; (ii) a Honduras with a developing democracy, with security and without violence; (iii) a productive Honduras generating opportunities for dignified employment while making sustainable use of resources and reducing environmental vulnerability; and (iv) a modern, transparent, responsible, efficient and competitive state.

26. **Consistent with these broad objectives, the National Plan 2010-2022 lays out 11 strategic pillars, combined with a set of 58 specific goals.** These are: (i) sustainable development for the population; (ii) democracy, citizenship and good governance; (iii) poverty reduction with generation of assets and equal opportunity; (iv) education and culture as mediums of social emancipation; (v) health as the basis for improved conditions of life; (vi) security as a prerequisite of development; (vii) development of Honduras' regions; (viii) productive infrastructure as the motor of economic development; (ix) macroeconomic stability as the basis for internal savings; (x) competitiveness, an improved image of the country, and development of productive sectors; and (xi) adaptation to and mitigation of climate change.

27. **The Government is designing a short- and medium-term operational plan that will serve as the basis for the future Country Partnership Strategy.** The administration has convened a series of regional events aimed at generating feedback from the public with respect to its 4-year Government Plan (2010-2013) and the summarized proposal for the 2011 National Budget. This is the first time in Honduras that the National Budget proposal is widely publicized for comment; it is also the first time that the National Budget proposal is identified by region, by municipality and by development objective, within the framework of the Country Vision and National Plan.

28. **The Bank will continue to work with the Government to identify development and governance priorities to be supported in a Country Partnership Strategy.** The Bank's operational response to support the Government over the period covered by this ISN is detailed in the sections below.

### **III. HONDURAS - WORLD BANK PARTNERSHIP**

29. **The FY2007-10 CAS (November 30, 2006), whose underlying goals were reconfirmed by the CAS Progress Report (May 8, 2008), was based on 4 pillars:** The first pillar, Equitable Economic Growth for Employment Generation, has supported the Government's efforts to maintain macro-economic stability, improve the performance of economic services (notably the energy and transport sectors) and promote competitiveness, particularly in rural areas. The second pillar, Good Governance through State Modernization and Civic Participation, has supported the Government's public sector reform agenda, focusing on improvements in transparency, social monitoring and public expenditure management at the central and local levels, as well as interventions aimed at

strengthening competition and the judiciary. The third pillar, Environmental Protection and Risk Management, continued the Bank's support to the management of protected areas and the implementation of disaster risk mitigation strategies at the national and local level with grant funding. The fourth pillar, Development of Human Capital, included Bank support to education, health and social protection. The 2006 CAS pillars were based on Honduras' Poverty Reduction Strategy.

**Table 2. Active World Bank Portfolio in Honduras as of September 2, 2010**

<b>Pillar</b>	<b>Active Portfolio (Closing Fiscal Year)</b>	<b>Commitment US\$ million</b>	<b>Undisbursed Balance US\$ million</b>
Equitable Economic Growth for Employment Generation	Financial Sector TA (12)	9.9	5.8
	Trade Facilitation (11)	28.1	5.1
	Rural Infrastructure (12)	47.0	29.5
	Water & Sanitation Project (13)	30.0	24.2
	Rural Competitiveness (16)	30.0	28.2
	Second Road Reconstruction Improvement (13)	73.6	69.0
	Power Sector (14)	30.0	29.5
	GEF Rural Electrification (12)	2.4	1.6
Good Governance Through State Modernization and Civic Participation	Poverty Reduction Strategy TA Credit (11)	8.0	1.0
	Barrio Ciudad (11)	15.0	8.9
	Judicial Reform Project (11)	15.0	4.5
Environmental Protection and Risk Management	Disaster Mitigation (11)	19.7	1.2
	GEF Corazon (12)	12.0	7.76
Development of Human Capital	Nutrition and Social Protection (12)	20.0	9.1
	Social Protection (15)	40.0	40.35
	Education Quality (12)	15.4	12.4
<b>Total</b>	<b>15 Projects</b>	<b>396.1</b>	<b>278.1</b>

30. **Since the Progress Report (Report No. 43244-HN) was discussed by the Board on June 10, 2008, the Bank has continued to concentrate its efforts on improving the conditions of the poor, particularly in rural areas.** While the Progress Report included a provision of both budget support and investment lending, subsequent crises diverted the Bank's focus from some of its original objectives in response to emergency-related demands including additional financing for roads damaged by heavy rains, and an operation to respond to the food crisis. The Bank has continued to focus on the poor through education and health projects, and in rural areas through agriculture projects such as the recently effective Rural Competitiveness Project. There has also been a particular effort to support youth in both the *Mi Primer Empleo* Project and *Barrio Ciudad*. The recently approved Social Protection Project directly supports Government's poverty reduction efforts. Moving forward the Bank's program will continue to be aligned with the country's poverty reduction goals, as articulated through the national planning process.

#### **IV. PROPOSED BANK GROUP INTERIM STRATEGY**

31. **The Bank's approach to programming operations during this period of transition to a fuller CPS-based strategy involves four basic principles:** (i) support for a return to macroeconomic stability and growth following the economic and political crises

of 2008-09; (ii) support for poverty reduction and higher employment as the basis for social stability; (iii) intensified support for efforts to improve governance and fight corruption; and (iv) continued implementation of the current portfolio in support of the CAS pillars.

**(i) Macro stability and growth**

32. **The new Government has requested a DPC to support its efforts to stabilize the economy and reestablish the groundwork for growth.** The Bank proposes to support the authorities with a US\$74.7 million Development Policy Credit (DPC) to tackle the current fiscal difficulties and to launch a number of structural reforms that will pay off in the medium to long run. Specific priority areas supported by the DPC are: (i) tax reform, including closing tax loopholes, widening some tax bases, and improving tax administration; (ii) civil service reform, focused on human resource management in the education sector and a rationalization of the public wage bill; (iii) reform of power sector tariffs to support the financial sustainability of the state-owned electricity company; and (iv) strengthening public financial management and transparency by resolving outstanding public sector arrears and investigating the shortcomings of the financial management information system.

33. **IFC's activities in Honduras support economic growth.** IFC engagement has been increasing significantly in recent years. After relative inactivity over the past decade, IFC committed investments for US\$38 million in FY08, US\$163 million in FY09, and US\$100.9 million in FY10. The Corporation's outstanding investments in Honduras totaled US\$156.51 million as of June 30, 2010. The bulk of IFC activity over the past two years has been in financial markets, telecoms, and agribusiness. IFC has based a resident Principal Investment Officer in Tegucigalpa since 2008 to increase operations in the country.

34. **In agribusiness, IFC is focusing on competitive export sectors as well as processed foods.** IFC has approved loans in the palm oil and sugar sectors, and is pursuing opportunities in coffee, dairy, and beverages. In financial markets, IFC is supporting banks with trade finance facilities and special-purpose facilities to reach SMEs and housing finance and supporting SMEs through microfinance institutions. It is also selectively looking for equity opportunities to further capitalize local financial institutions.

35. **IFC is also working with subnationals in the infrastructure sector.** IFC recently approved a US\$15.9 million risk-sharing facility with local banks to finance Tegucigalpa's 2010-11 US\$44 million investment program in road infrastructure. If successful, this program could be rolled out to reach other municipalities.

36. **Honduras was selected as one of six pilot countries to participate in the Climate Investment Funds' Scaling Up Renewable Energy Program for Low Income Countries (SREP).** The Fund would give the country access to up to US\$30 million in potential co-financing for projects to support energy efficiency, renewable energy and access to modern sustainable energy. The Bank plans to work with the Government of Honduras to identify projects for investment during the ISN period. Most recently, IFC is

also considering investing in renewable energy projects. IFC is working alongside local banks to develop mezzanine or risk-sharing facilities to reach small renewable energy projects and can support directly projects greater than 10MW. IFC is currently analyzing financing a run-of-the-river hydro project located downstream from the existing 300 MW El Cajon hydro.

**(ii) Support for poverty reduction**

37. **The new Government has made it a priority to provide direct support to Honduras' poorest families and is proposing the implementation of a new Conditional Cash Transfer (CCT) Program, *Bono 10,000***, building on the lessons learned from the successes of *Oportunidades* in Mexico and *Bolsa Familia* in Brazil. This Program would cover a large share of the extreme poor (600,000 families living in extreme poverty, which corresponds to roughly 30 percent of all households in Honduras) and provide more adequate benefits (US\$45 per month, per family) conditional on investments in human capital accumulation through regular monitoring of child growth and use of health and education services. The US\$40 million Bank Social Protection Project (Report No: 54132-HN) approved by the Board in June 2010 focuses on building both the central and local capacity necessary to implement and operate the CCT Program, as well as providing co-financing for conditional cash transfers to extremely poor families with children 0 to 17 years old, conditional on the children's school attendance and regular health check-ups.

**(iii) Support for efforts to improve governance and fight corruption**

38. **Honduras is one of the Governance and Anti-Corruption Country (C-GAC) pilots within the LAC Region, which has allowed for additional resources to support governance priorities.** The Bank support will continue to support the Government's efforts in the following areas: (i) implementation of the access to information law; (ii) strengthening check and balance institutions to enhance accountability of the Executive and provide support to the Legislature to conduct its oversight role; (iii) supporting efforts to make performance information available to the public and focus the policy discussion on performance in the sectors where the Bank is engaged; and (iv) supporting social monitoring activities and strengthening the voice of stakeholders representing public interest in the sectors where the Bank is engaged. Several grants support these initiatives.

39. **During the ISN period the Bank will also work with authorities to define new governance priorities to be supported in the next CPS.** This could include support for developing a National Anticorruption Plan that could be supported in coordination with other development partners. The Bank will also seek to improve coordination between governance and fiduciary actions to enhance the development effectiveness of Bank operations through an integrated approach that mitigates fiduciary risks while addressing weaknesses in the broader governance framework. This integrated approach will be developed during the ISN period and defined in detail in the next CPS. The Bank will also support the governance agenda through sector-based approaches (see Box 1).

**Box 1. The Water Sector - An Example of a Country-Driven Agenda Supported by the Bank**

In 2003, the Government of Honduras passed a water sector framework law that dramatically reformed the water and sanitation sector organization by promoting a full decentralization to municipalities. Shortly thereafter the Bank engaged in a significant effort, initially through technical assistance and later through lending, to help the country implement these complex reforms. As a result the Bank's current portfolio includes four operations under supervision covering most of the sector's aspects, including a project supporting the reform implementation and creation of urban water utilities (PROMOSAS), a project supporting rural water and sanitation coverage extension (PIR), an output-based project for coverage extension financed by GPOBA and a project supporting water, sanitation and slum upgrading in low-income neighborhoods (Barrio-Ciudad).

In addition, the Bank also provides technical assistance on sector governance and transparency and efficiency improvements through a series of trust funds, and has been actively coordinating its involvement with that of other donors. Starting in March 2010, and in response to a severe drought affecting the capital's water supply, the Bank also launched an extensive public dialogue about short- and long-term solutions to better manage water in the City, which has involved several workshops and the creation of a number of working groups to help shape a common solution. Through this extensive engagement, the Bank has positioned itself as a key partner of the Government in promoting its sector policy agenda, increasing water and sanitation coverage in rural and poor areas and improving service quality and sustainability in the main cities.

**(iv) Portfolio implementation**

40. **Portfolio implementation will be a focus for the ISN period.** Renewed efforts were made to improve the portfolio since the CPS Progress Report was delivered to the Board. Disbursements had fallen off in FY09, but performance indicators were picking up due to increased Bank and Government attention to portfolio management. Weaker projects were restructured and issues delaying start-up of newer operations were addressed by early FY10.

41. **Before these advances could take hold, portfolio implementation was setback by the political crisis and the government transition.** In line with OP7.30 the Bank stopped processing withdrawal applications during the process of assessing the prevailing situation. Without new resources from the Bank, most projects were unable to continue financing ongoing contracts. The Government also put a hold on entering into new contracts. Before resuming disbursements the Bank carried out individual project supervision in line with its fiduciary responsibilities. However, as resources from the Bank began to flow again in December 2009 project implementation slowed due to the political transition. As a result, considerable efforts were required to stabilize the portfolio, including the normalization of contracts implementation, reinforcement of project implementation arrangements including staffing, and ensuring that operational plans for 2010 are consistent with government fiscal constraints and emergency priorities.

42. **Performance of the portfolio is improving and the Government has created a task force for follow-up and rapid response to portfolio issues.** At a portfolio review held in June 2010, the Bank and Government agreed to jointly focus on portfolio management, including monthly reviews of progress and rapid resolution of identified problems. This should help to accelerate disbursements and ensure that projects are implemented according to their operational plans. In addition, the Bank will be holding quarterly mini-reviews of the portfolio with the Government to ensure that high-level attention is given to any persisting problem areas.

**Table 3. Revised Bank Program**

CPS Progress Report		ISN Additional Projects not envisioned at time of PR	
FY09	FY10	FY10	FY11
Land Administration II (US\$30m) *	Health Sector Decentralized Service Delivery (US\$15m) *	Social Protection Project (US\$40 million)	Development Policy Credit (US\$75 million)
Utility restructuring Project (US\$30m) [A]	Public Sector Management Program (US\$20m) - dropped		
DPC (US\$20m) - dropped	Third Road Reconstruction & Improvement Project (US\$20m) [A – Additional Financing (US\$25 million)]		
<b>US\$80 million</b>	<b>US\$50 million</b>	<b>US\$40 million</b>	<b>US\$75 million</b>

A: Actual; \*: The Land Administration II and Health Sector Decentralized Service Delivery projects had been prepared before June 28, 2009, but not submitted to the Board.

Note: US\$10 million in Supplemental Financing for the Financial Sector DPC was approved in FY09 under the Global Food Crisis Response Program.

43. **The Government is considering restructuring elements of the portfolio.** The objective would be to shift resources from slow-disbursing projects to free resources to fund key government priorities, in particular rapid disbursing employment-generating activities either in the form of new projects or as additional financing to well-performing components of ongoing operations. Because all remaining IDA 15 resources for Honduras have been committed, the Bank-Government task force mentioned above is undertaking an exercise of identifying resources that might be available for reallocation.

44. **Gender.** The current Bank portfolio includes several projects that target female beneficiaries. These include the Land Administration project that has provided land titles to female head of households; the Health Reform program which supports rural health centers operated by the community and seek to improve the conditions of pregnant women and mothers; and the Nutrition and Social Protection Project that includes a program of nutritional supplements for women and children under two. Gender will continue to be mainstreamed in WBG activities as appropriate.

45. **Economic and Sector Work.** The Bank's ESW program will include a return to core diagnostic research that is directly applicable to support the Government's development priorities. Given the significant changes in the country since the Progress Report, an integrative piece of analytical work to assess the country's economic situation and prospects for growth would be particularly valuable as an input for the next CPS and to inform government policy-making. For this reason, the AAA program will include a Country Economic Memorandum during the period covered by the ISN.

### **Box. 2 Examples of Ongoing IFC Advisory Services in Honduras**

In 2005, IFC in collaboration with a Bank project launched a Municipal Simplification program in Tegucigalpa and San Pedro Sula to help improve processes related to obtaining a Municipal Operating License. IFC has expanded this program to other municipalities: Puerto Cortés, La Ceiba, El Progreso, Roatán and Copán Ruinas. IFC is also coordinating its Trade Facilitation program with IBRD in Puerto Cortés. IFC has signed access to finance projects with existing IFC clients Banco Popular Covelco (BANCOVELO), Banco FICOHSA, and Banco Atlántida. These engagements are aimed at improving bank performance, adopting best practices, and expanding access to finance for underserved sectors (e.g. SMEs).

More recently, IFC launched its Business Edge program April 2010, providing local SMEs with customized management training to help them improve performance and competitiveness. With respect to Infrastructure Advisory Services (IAS), IFC is seeking to participate as government and/or municipal advisor to structure transactions under PPP-schemes in the telecommunications, energy, health, and transport sectors. IFC is in advanced negotiations with the Government to provide advice on Hondutel and has signed a mandate to advise the Municipality of La Ceiba on its “*Calle 8*” road project.

46. **Trust Funds are an important source of resources in Honduras.** The Bank will continue implementation of the trust fund portfolio in support of the CPS pillars. There are twenty active trust funds in Honduras for a total commitment of approximately US\$20 million (see Annex 7 Summary of Non-Lending Services). Over 50 percent of commitments are undisbursed. The trust fund portfolio is well targeted to the poor, including for vulnerable youth and women. There are also several trust funds aimed at improving governance and transparency in the public sector.

#### **Objectives and Results**

47. **The CAS Progress Report Results Matrix will continue to be used to assess progress during the CPS and ISN period, as many of the outcomes have not yet been achieved.** Due to the lag in implementation and political situation many development outcomes (and some intermediate indicators) have not yet been achieved (see status update in Annex 1). As many of the outcomes identified in the Progress Report continue to be relevant for the longer term development prospects, the ISN proposes to continue to use the existing results matrix with some revisions (see Annex 2). It is possible that some development outcomes will still not be achieved and as such would likely feature in the Results Matrix of the next CPS.

#### **Partnerships and collaboration with other donors**

48. **The complexity of the crisis in Honduras calls for collaboration among all major donors.** The US\$75 million DPC is being prepared in coordination with a number of other donors such as the Inter-American Development Bank (IDB), the European Union (EU), and the Central American Bank for Economic Integration (BCIE) who are preparing similar operations, and with the IMF. The Bank is also playing an active role in the G16 donor coordination forum.

## V. RISKS TO INTERIM STRATEGY

49. **A critical risk is related to the challenges the Government will face to bring the fiscal situation under control.** The economic and political crises of 2009 have exacerbated an already difficult fiscal situation. In order to bring the public finances under control the Government will need to implement tough and unpopular policies. As a result, there is a risk that approval and implementation of the planned fiscal package could be more difficult than anticipated and jeopardize the needed fiscal adjustment. The Government's fiscal consolidation efforts are being discussed with the donor community, including the Bank, the IMF, the IDB and CABEL, in order to obtain funding support.

50. **The downturn in the US economy has had a significant impact on Honduras' economic performance and poverty levels.** The US slowdown has negatively affected exports and flows of remittances. Remittances are a critical source of external finance and of household income for around one in ten households. Honduras is also vulnerable to increases in oil and food prices. To the extent that the global slowdown lasts longer than expected, there is a risk that the fiscal situation will remain difficult and poverty and unemployment levels fail to decline significantly. The Bank will remain actively engaged through dialogue, and analytical work.

51. **Companies may take longer than expected to recover from the twin effects of the global financial crisis and the political crisis.** Uncertainty over the currency, and interest rates could hamper bank lending and weaken business confidence. IFC is developing risk-sharing structures to provide local currency loans to clients which would help mitigate at least the currency risk. IFC is also supporting local banks through its Global Trade Facility Program in order to provide trade financing opportunities for businesses.

52. **The Central America region remains highly vulnerable to multiple natural disaster risks.** Recent analysis of the area shows an increase in tropical cyclone landfalls since 1995 which indicate a broader increase in average tropical cyclone wind speeds and a shift toward a greater number of Category 4 and 5 hurricanes (see paragraph 23). While the severity of the impacts vary from sector to sector, the key impacts that are already manifesting with negative consequences for the economy include: increased flood risk and loss or damage of key infrastructure/facilities; soil erosion and loss of land; increased destructiveness of tropical storms; loss of protective coastal systems such as coral reefs partly due to higher ocean surface temperatures; loss of livelihoods, especially those dependent on fisheries. The country's past experience has highlighted the value of investing in early warning systems, institutional strengthening and mitigation efforts. Building on progress to date, the Bank is providing both lending resources and analytical support to strengthen the country's natural disaster mitigation systems.

## Annex 1. Revised CPS Results Matrix and Outcomes Achieved to Date

EXPECTED RESULTS (REVISED)	ACTUAL RESULTS ACHIEVED	INTERMEDIATE INDICATORS AND MILESTONES TO TRACK (REVISED)	ACTUAL INDICATORS	BANK ACTIVITIES [Includes partners that directly support activities identified in matrix]
<b>OBJECTIVE 1: EQUITABLE ECONOMIC GROWTH FOR EMPLOYMENT GENERATION</b>				
<b>1. Reduce Public wage pressures<sup>7</sup></b> Progressive reduction of total central government expenditure in salaries to less than 10.6% of GDP by 2011. (2009 baseline: 11.1%)	<b>1. Total central government expenditure in salaries:</b> 11.1% of GDP in 2009. [IMF]			<b>Ongoing portfolio (Ends):</b> Development Policy Credit: (11) TTL: Christian Gonzalez <b>AAA - Delivered</b> HN Fiscal Emergency NLTA (10) PER (08)
<b>2. Improve public enterprise finances</b> Preservation of total central government current income above 17.3% of GDP (as in 2010) and combined public sector income over 24.5 % of GDP (as in 2010).	<b>2. Total central government current revenue:</b> 15.5% of GDP in 2009. [IMF] <b>Combined public sector income:</b> 24.8 % of GDP in 2009 [IMF]			
<b>3. Improve tax collection</b> Central Government tax revenues as a share of GDP increase to 16.1 percent in 2011 (baseline: 2009 14.4 percent)				
<b>OBJECTIVE 1A: Strengthening Competitiveness</b>				
<b>1. Strengthen competitiveness and resilience of the financial sector.</b> <b>1.1</b> Prevention of money-laundering and financing of terrorism. [CNBS]  <b>1.2</b> System for Payments, Financial Supervision and Control of Systemic Risks in place with comprehensive coverage.	<b>1.1 Money Laundering:</b> While some progress in the prevention of anti money laundering and financing of terrorism has been achieved, additional capacity building measures are required to achieve full compliance with international standards.  <b>1.2 Control of Systemic Risks:</b> The institutional arrangement proposed by the Financial Sector Policy Committee to deal with systemic risks has been adopted and implemented.	<b>1.1.a</b> The FIU remains operational from 2007 and every year thereafter.  <b>1.2.a</b> CNBS maintains updated its relational database of financial-system's borrowers from 2007 and every year thereafter.  <b>1.2.b</b> BCH continues implementing its plan for the modernization of the national payments and settlements system from 2007 and every year thereafter.	<b>1.1.a</b> The FIU has been operational since 2007 and remains in need for capacity building. The assessment of Honduras' AML/CFT was conducted by the Bank and was adopted by the Caribbean Financial Action Task Force in 2009.  <b>1.2.a</b> The relational database is being maintained.  <b>1.2.b</b> The introduction of a payment system has been delayed as the original contractor resigned. Financial supervision and control of systemic risks has improved and is in process of consolidation.	<b>Ongoing Portfolio (Ends)</b> Financial Sector TA (11) TTL: Juan Bucheneau Development Policy Credit (11) TTL: Christian Gonzalez  AAA-Delivered Remittances (09) TTL: Isaku Endo  AML/CFT Assessment (09) TTL: Gabriella Ferencz Credit Reporting Assessment (10) WHCRI IFC

<sup>7</sup> All figures are based on the new methodology to estimate GDP that Honduras adopted in 2007.

EXPECTED RESULTS (REVISED)	ACTUAL RESULTS ACHIEVED	INTERMEDIATE INDICATORS AND MILESTONES TO TRACK (REVISED)	ACTUAL INDICATORS	BANK ACTIVITIES [Includes partners that directly support activities identified in matrix]
<p><b>2. Improve performance of economic services: Energy</b></p> <p><b>2.1</b> The losses in the energy system (ENEE) have decreased by 4% from 2005 to 2011. Baseline: 24.6% losses in 2005, 22.5% in 2010. [ENEE]</p> <p><b>2.2</b> Improvement in the transparency, focus and the cost of subsidies to households consuming less than 150 kwh/month by 2010. [ENEE]</p> <p><b>2.3</b> Extend electricity services to rural households: 8,100 through grid and 2,500 through the installation of solar systems by 2011. Baseline: (Dec 2009) 5,066 grid installations 1,070 solar installations</p>	<p><b>2.1 Energy system losses:</b> ENEE has initiated the remote metering process in San Pedro Sula and has started to reduce losses. Loses as of 2010 at: 22.5% (2% reduction).</p> <p><b>2.2 Subsidies:</b> Targeting measures have improved with the reduction of the scope of Bono 80 in the 2008 budget to users that consume less than 150 mwh/month. [ENEE]</p> <p><b>2.3</b> Electricity has been extended to: 5,596 households through grid extension and 1,250 households and 13 schools through the installation of solar systems. The Solar System Program (PROSOL) has been created for rural electrification with the participation of private providers -solar companies and availability of micro-financing if needed; a wind power measurement study has been completed with satisfactory wind levels to be public to the private sector to develop wind power electrification</p>	<p><b>2.1.a</b> Approval of a plan to restructure ENEE separating its accounts in business units (generation, dispatch, and distribution) by 2011. [ENEE]</p>	<p><b>2.1.a Restructuring of ENEE :</b> CPME is procuring consultancy services to support the government in the restructuring. The contract is expected to be signed by end of 2010. [ENEE]</p>	<p><b>Portfolio (Ends)</b> Power Sector Efficiency Enhancement (14) TTL: Ariel Yepez Development Policy Credit (11) TTL: Christian Gonzalez Rural Infrastructure (12) TTL: Stephen Brushett GEF Rural Electrification (12) TTL: Ariel Yepez <b>AAA – Delivered</b> Energy Study (07)</p>
<p><b>3. Improve performance of economic services: Water &amp; Sanitation</b></p> <p><b>3.1</b> Implementation of the Water Sector Law, including the transfer of water services and sanitation to Municipal entities, properly regulated by the ERSAPS by 2011.</p> <p><b>3.2</b> Improvement in the transparency, efficiency, and effectiveness of the subsidy allocation in the water and sanitation sector</p>	<p><b>3.1</b> The reform is fully implemented in 5 of the 10 largest municipalities and is on track to be achieved in another 3 by 2011. National institutions have been strengthened and the sector is regulated by ERSAPS.</p>	<p><b>3.1.a</b> At least 3 of the 6 greater systems operated by SANAA transferred to Autonomous Municipal Service Providers by 2011. [SANAA, CONASA, ERSAPS, SEFIN]</p> <p><b>3.1.b</b> At least 10 Municipalities have developed fully functioning Autonomous Water and Sanitation Services Providers by 2010. [FHIS, SANAA, SEFIN]</p> <p><b>3.2</b> The 2 Bank supported projects have</p>	<p><b>3.1.a Transfer of systems:</b> Two have been transferred, Singuatepeque and Comayagua. A third one is expected to be transferred in 2011 (Danli). The Bank is also providing support for a possible transfer in Tegucigalpa, although whether the actual transfer will take place is uncertain.</p> <p><b>3.1.b Development of Autonomous Water and Sanitation services providers:</b> Done in 9 municipalities, namely Puerto Cortes, Choloma, Choluteca, San Pedro Sula, Singuatepeque and Comayagua, Catacamacas, Tela and Santa Rosa. [ERSAPS, 2010]. At least 2 more expected by the end of 2011 (Danli and La Lima).</p> <p><b>3.2</b> Progress has been made on sector governance</p>	<p><b>Ongoing Portfolio (Ends)</b> Water &amp; Sanitation Sector Modernization(13) TTL: David Michaud Rural Infrastructure (12) TTL: Stephen Brushett, Barrio-Ciudad (12) TTL: Ellen Hamilton</p> <p><b>Other Bank Instruments (Ends)</b> GPOBA Water (11)</p>

EXPECTED RESULTS (REVISED)	ACTUAL RESULTS ACHIEVED	INTERMEDIATE INDICATORS AND MILESTONES TO TRACK (REVISED)	ACTUAL INDICATORS	BANK ACTIVITIES [Includes partners that directly support activities identified in matrix]
<p><b>3.3</b> Extend and improve water and sanitation services to 9,900 households through OBA Facility by 2011.</p> <p><b>3.4</b> Extend water and sanitation connections to 9,300 rural households and build 3,100 latrines by 2011. [As of Dec 2009 1,246 water connections installed 884 latrines installed]</p>		<p>transparent subsidy allocation schemes based on poverty and performance of service providers. In addition the design of a country wide Water Fund to scale up this experience is ongoing.</p> <p><b>3.3</b> Water and Sanitation contracts signed for extending access and improving quality to 11,664 households of subprojects selected through the OBA Facility and with subsidy allocation upon the verification of outputs.</p> <p><b>3.4</b> Water services extended and improved to 3,701 rural households, and sanitation services extended to 2,619 rural households through the construction of latrines.</p>	<p>and transparency: ERSAPS has started publishing an annual benchmarking report and the Bank is supporting customer accountability and transparency at utility level in a number of municipalities.</p> <p><b>3.3</b> As of Dec 2009 10,608 contracts signed (so far no service has been extended, just contracts)</p>	
<p><b>4. Improve performance of economic services: Roads</b></p> <p><b>4.1</b> Ensure sustainable and substantial improvements in road maintenance through financing covering at least 75% of the public network, including 100% of the paved primary network by 2010. [SOPTRAVI]</p> <p><b>4.2</b> Rehabilitation of 400km of rural roads, by 2011 for improved all-season access. [105km as of Dec 2009]</p>	<p><b>4.1 Improvements in road maintenance: Substantial, but uneven progress achieved.</b> Road Fund projected to meet 74% of national network requirements in 2009 and 100% of maintainable primary paved network in 2010. [Fondo Vial / SOPTRAVI]</p> <p><b>4.2</b> 195 km of rural roads rehabilitated as of August 2010.</p>	<p><b>4.1.a</b> A long-term maintenance plan for all public networks is approved by 2010 and budget is provided each year from 2010 in line with the requirements of the plan. [Fondo Vial / SOPTRAVI]</p> <p><b>4.1.b</b> Budget is provided to support 100% of routine maintenance of the primary paved network by at least 70 micro-businesses by 2007 and each year thereafter. [Fondo Vial]</p>	<p><b>4.1.a Long-term maintenance plan for all public networks</b> was approved in 2007 and budget allocations have increased 2007-2009 in line with its provisions. [Fondo Vial / SOPTRAVI]</p> <p><b>4.1.b Budget was provided</b> to support 100% maintenance of the primary paved network in 2010. [Fondo Vial]</p>	<p><b>Ongoing Portfolio (Ends)</b> Road Construction and Infrastructure (10) TTL: Anna Okola, Rural Infrastructure (12) TTL Stephen Brushett Road Reconstruction and Improvement Project II ( 13)</p> <p>IFC</p>
<p><b>5. Improved business environment and strengthen competition</b></p> <p><b>5.1</b> The Competition Policy Law is being effectively implemented by 2011: -At least 4 anti-trust cases presented and resolved by the new entity by 2011.</p>	<p><b>5.1.</b> Competition Policy Law was approved by Congress and more than 35 economic concentration cases were resolved by the Comisión para la Defensa y Promoción de la Competencia (CDPC) between 2007 and May 2010.</p>	<p><b>5.1.a</b> Reduction in the time to start a business reduced from 44 days in Doing Business 2007 to 15 days in Doing Business 2011.</p> <p><b>5.1.b</b> Reduction of the time to export from 28 days in Doing Business 2007 to 15 days in Doing Business 2011.</p> <p><b>5.1.c</b> Reduction of the time to deal with licenses (environmental and other building permits) from 199 days in Doing Business 2007 to 100 days in Doing Business 2011.</p>	<p><b>5.1.a Time to start a business</b> reduced to 14 days in Doing Business 2010.</p> <p><b>5.1.b Time to export</b> reduced to 20 days in days in Doing Business 2010.</p> <p><b>5.1.c Time to deal with licenses</b> reduced to 106 days in Doing Business 2010.</p>	<p><b>Ongoing Portfolio (Ends)</b> Trade Facilitation (11) TTL: Thomas Haven <b>AAA</b> Regional Investment Climate Assessment (09) ROSC Study (08)</p> <p>IFC</p>

EXPECTED RESULTS (REVISED)	ACTUAL RESULTS ACHIEVED	INTERMEDIATE INDICATORS AND MILESTONES TO TRACK (REVISED)	ACTUAL INDICATORS	BANK ACTIVITIES [Includes partners that directly support activities identified in matrix]
		<p><b>5.1.d</b> The responsible entity for the implementation of the competition policy law (CDPC) operating effectively (adequate budget, appointed personnel) by 2008. [Honduras Comisión para la Defensa y Promoción de la Competencia (CDPC).]</p>	<p><b>5.1.d</b> The Competition Policy Agency (CDPC) is fully operational.</p>	
<b>OBJECTIVE 1B: Increasing Rural Incomes</b>				
<p><b>1. Improve security of access to land</b><sup>8</sup>  <b>1.1</b> A transparent, efficient and reliable property registrations system measured by an increase in urban and rural land parcels incorporated in SINAP under the parcel-based system from 120,000 by 2011. [Instituto de la Propiedad]</p>	<p><b>1. Number of land parcels incorporated in SINAP under the parcel-based system:</b> 100,932 in June 2010. [PATH]</p>	<p><b>1.1.a</b> Increase in new property titles in urban areas from 30,000 in 2007 to 50,000 in 2011 (aprox.). [Instituto de la Propiedad (SINAP)]</p> <p><b>1.1.b</b> Increase in urban and rural cadastered properties incorporated into SINAP from 240,000 in 2007 to 550,000 in 2011. [Instituto de la Propiedad]</p> <p><b>1.1.c</b> Registration offices integrated into the SINAP network: 8 by 2009 and 18 by 2012. [Instituto de la Propiedad]</p>	<p><b>1.1.a</b> 40,237 new property titles in urban areas as of June 2010.</p> <p><b>1.1.b Number of cadastered properties incorporated into SINAP:</b> 364,238 since project start. [PATH]</p> <p><b>1.1.c Integration of registration offices to SINAP:</b> 9 registration offices as of June 2010. [PATH]</p>	<p><b>Portfolio (Ends)</b>  PATH Land Administration (10)  TTL: Enrique Pantoja</p>
<p><b>2. Promote rural competitiveness in farm, agro-forestry and off-farm employment.</b>  <b>2.1</b> 30 productive alliances established by 2011.</p>		<p><b>2.1.a</b> 1,330 rural beneficiaries benefiting from rural productive alliances by 2011.</p> <p><b>2.1.b.</b> Increase the percentage of Rural Productive Alliances that favorably rate the technical assistance received by service providers to 85% by 2011.</p>		<p><b>Portfolio</b>  Rural Competitiveness (16)  TTL: Marie-Hélène Collion</p> <p><b>AAA</b>  Regional Investment Climate Assessment(09)</p> <p>IFC</p>

<sup>8</sup> Indicators and Outcomes refer to the Project area of PATH, which is Comayagua, Siguatepeque, Cortés y Tegucigalpa

EXPECTED RESULTS (REVISED)	ACTUAL RESULTS ACHIEVED	INTERMEDIATE INDICATORS AND MILESTONES TO TRACK (REVISED)	ACTUAL INDICATORS	BANK ACTIVITIES [Includes partners that directly support activities identified in matrix]
<b>OBJECTIVE 2: GOOD GOVERNANCE THROUGH STATE MODERNIZATION AND CIVIC PARTICIPATION</b>				
<b>Improve transparency and accountability</b>				
<p><b>1. Improving the effectiveness and transparency of public spending</b>  <b>1.1</b> SIAFI is used for 100% of the public spending by central government and decentralized agencies and is published on the web page in a timely and accessible format as of 2008.</p>	<p><b>1.1</b> SIAFI is used for 100% of the public spending by central government. All decentralized agencies use SIAFI to formulate their budget, but only a few for budget execution. Data is sometimes published with delays and usability could be improved.</p> <p><b>1.2.</b> The Results Based Management (RBM) System was used by all central government agencies to monitor institutional goals. The new administration is currently developing a new monitoring system based on the RBM System - it is too early to assess scope and impact.</p>	<p><b>1.1.a</b> SIAFI is linked to Honducompras and SIARH as of 2008.</p>	<p><b>1.1.a</b> The interface between SIAFI and Honducompras is operational, and the HR module of SIAFI (SIARH) is operational for all central government agencies, including health workers (only pending the incorporation of the education sector).</p>	<p><b>Ongoing Portfolio (Ends)</b>  PRs TAC (11) TTL: Ana Dodero  Aid Coordination PHRD (09)  <b>AAA</b>  IGR (09), PETS (10)_PER (08)</p>
<p><b>2. Professionalization of key functions and agencies in public sector</b>  <b>2.1</b> The first phase of the professionalization and accreditation program has been implemented in at least 4 central government agencies, and in key cross-cutting functions of public administration (financial management, human resources, acquisitions and internal control) by 2009. [Central Civil Service Office, DGSC]</p>	<p><b>2.1. Professionalization Plan:</b> The Professionalization plan was published on September 11, 2009 in the Official Gazette. However, due to the proximity of the elections, the plan was only implemented in the tax agency (DEI) but not in the rest of the public administration.</p>	<p><b>2.1.a</b> New implementing regulations for the Civil Service Law have been promulgated through Executive Decree by 2008. [DGSC]</p> <p><b>2.1.b</b> A Monitoring and Validation Committee with members from civil society, the private sector and the donor community established 2008. [DGSC]</p>	<p><b>2.1 a Implementing Regulations:</b> New regulations of the Civil Law were published on July, 28 2008 in the Official Gazette. There is currently a draft legislation to amend the Civil Law which will be submitted to Congress shortly.</p> <p><b>2.1.b</b> The Validation Committee was established and held two meetings during the first half of 2009.</p>	<p><b>Ongoing Portfolio (Ends)</b>  PRs TAC (11)  TTL: Ana Bellver</p> <p><b>AAA</b>  IGR (09), PETS (10)  PER (08)</p>
<p><b>3. Strengthen Transparency through implementation of the Transparency Law</b>  <b>3.1</b> Transparency Law effectively implemented measured by: -100 % of the <i>de oficio</i> information required by the law is published on the web by the obliged institutions by 2008 and each year thereafter.</p>	<p><b>3.1 Transparency Law:</b> Approved in Dec 2006 and fully implemented in Jan 2008. Access to Public Information Institute (IAIP) established in August 2007. Information officials named for most central and decentralized government agencies, although many institutions are lagging behind. Data on the publication of <i>de oficio</i> information</p>	<p><b>3.1.a</b> Implementing Regulation promulgated by Executive Decree by 2008.</p> <p><b>3.1.b</b> 100 % of the Government institutions' information offices with equipment and human resources necessary to operate by 2008.</p>	<p><b>3.1.a Implementing Regulations:</b> Approved and published in La Gazeta on March 6, 2008.</p> <p><b>3.1.b</b> Has not reached 100% of government institutions. Some information offices lack adequate equipment. Also, according to IAIP, there is instability in the employment of Public Information Officials; several have been recently replaced (with the change in Administration of the GoH) and others</p>	<p><b>Ongoing Portfolio (Ends)</b>  IDF  <b>AAA</b>  IGR (09)  <b>Other Partners</b>  SIDA, DFID</p>

EXPECTED RESULTS (REVISED)	ACTUAL RESULTS ACHIEVED	INTERMEDIATE INDICATORS AND MILESTONES TO TRACK (REVISED)	ACTUAL INDICATORS	BANK ACTIVITIES [Includes partners that directly support activities identified in matrix]
<p>-100% of the information requests from public have been responded to by the obliged institutions by 2009 and each year thereafter.</p>	<p>and the treatment of information requests is not yet available, but a web-based system and transparency indicators are being designed for this purpose. In 2010 there have been advances in compliance with publication of <i>de oficio</i> information on web portals, on the part of most involved institutions of GoH, although there remains much to be done in order to reach expected results. According to IAIP, Municipal Governments are in a weaker situation; fewer than 100 of the 298 municipalities have transparency offices/officials<sup>9</sup>. Government institutions, with support from the IAIP, are working to improve this in 2010.</p>		<p>are also expected to soon be replaced.</p>	
<p><b>4. Improving access, efficiency and accountability in the judicial sector.</b>  <b>4.1</b> The judicial channels to make justice more accessible have been broadened and diversified, particularly for minorities or vulnerable groups, with the result that the number of new court users from those groups has increased by 40,000 a year by end-2011. [Supreme Court, CSJ]</p>	<p><b>4.1 Judicial channels broadened:</b> New Peace Courts established in five provinces. Rehabilitation and refurbishment of Family and Domestic Violence Courts in Tegucigalpa and San Pedro Sula carried out. A mobile court pilot operational from January 2008. [CSJ].</p>	<p><b>4.1.a</b> Clearance rates for non-criminal cases increased from 26% to 66% by 2011 [CSJ].</p> <p><b>4.1.b</b> Users perception of judicial performance improved: More than 33% of businesses and users consider that the judicial system is fair and judges are credible, by end of 2011. [CSJ]</p> <p><b>4.1.c</b> Justice more accessible: Number of women, poor, youth and small businesses accessing courts or related justice services increased by 100,000 a year by end of 2011. [CSJ]</p>	<p><b>4.1.a Increase in clearance rates for non-criminal cases:</b> Increase from 26% in 2005 to 56% in 2007. [CSJ].</p> <p><b>4.1.b Improved user perception of judicial performance:</b> 47.2% of enterprises, and 42% of citizens consider that judicial performance has improved. [CSJ].</p> <p><b>4.1.c Justice more accessible:</b> Number of women, poor, youth and small businesses accessing courts or related justice services already increased by 65,000 a year in 2009. [CSJ].</p>	<p><b>Ongoing Portfolio (Ends)</b>  Judicial Reform Project (11)  TTL: David Varela</p>

<sup>9</sup> According to IAIP, from June to December of 2009 (during some of the most difficult months of the Honduran crisis), transparency web portals were operating irregularly: there was no updating of information, and some portals were removed. During that period, only 12 of 64 web portals were “moderately updated.”

EXPECTED RESULTS (REVISED)	ACTUAL RESULTS ACHIEVED	INTERMEDIATE INDICATORS AND MILESTONES TO TRACK (REVISED)	ACTUAL INDICATORS	BANK ACTIVITIES [Includes partners that directly support activities identified in matrix]
<b>OBJECTIVE 3: ENVIRONMENTAL PROTECTION AND RISK MANAGEMENT</b>				
<p><b>1. Ensuring sustainability of protected areas.</b>  <b>1.1</b> 10 protected areas (approx. 280,000 ha) demarcated and with management plans by the end of 2011. [ICF]</p> <p><b>1.2</b> At least 1,500 families benefiting from sustainable natural resources management programs</p>	<p><b>1.1 Demarcation:</b> Delimited in 6 of 8 protected areas, 2 already demarcated as of June 2010. [ICF]</p> <p><b>1.1 Management Plans:</b> Implementation of the Patuca management plan has begun; preparation of the Tawahka management plan is in the process of being contracted as of July 2010. [SERNA/ICF]</p> <p><b>1.2</b> 1,252 families benefiting from sustainable production and conservation projects in protected areas as of July 2010.</p>	<p><b>1.1.a</b> Creation of a Fund (<i>fideicomiso</i>) to finance the conservation of priority SINAPH PAs by 2007. [SERNA]</p> <p><b>1.1.b</b> Implementation of management plans for Tawahka and Patuca areas, specifically. [SERNA/ICF]</p> <p><b>1.1.c</b> Approval of a new Forestry Law that transforms COHDEFOR to an institution not sustained by sales of forestry products.</p> <p><b>1.2</b> Financing community-based subprojects that promote natural resource management through local socio-economic development.</p>	<p><b>1.1.a</b> Fondo Hondureño de Areas Protegidas (FHAP) has been established, but is not yet operational. Pending actions are to develop a financing plan, internal regulations and an operations manual. [SERNA]</p> <p><b>1.1.b</b> Preparation and implementation of management plans for the Río Plátano Biosphere Reserve have also been supported. The effectiveness management rating for the Tawahka, Patuca, and RPBR protected areas are Regular according to the PROARCA rating system.</p> <p><b>1.1.c New Forestry Law</b> approved by Congress and sanctioned by the Executive in February 2008. COHDEFOR replaced by Instituto Nacional de Conservación y Desarrollo Forestal Áreas Protegidas y Vida Silvestre (ICF).</p> <p><b>1.2</b> The second round of subprojects is currently being reviewed; at this rate, it is expected that at least 2,000 families will benefit from a total of 50 subprojects by the end of FY11.</p>	<p><b>Ongoing Portfolio (Ends)</b>  GEF Corazón Grant (13) TTL: Catalina Marulanda  <b>AAA</b>  Environmental Assessment (08)</p> <p><b>Projects Closed:</b>  PATH (08)  GEF Pico Bonito Grant (07)  Forestry &amp; Rural Productivity (10)</p>
<p><b>2. Reducing the impact of natural disasters.</b>  <b>2.1</b> Implementation of a national disaster risk management system for early warning, response, risk and vulnerability assessment, and mitigation investments at the local level (81 participating municipalities by 2009). [SGJ, COPECO]</p>	<p><b>2.1</b> Plans are in place for 61 municipalities and are at an advanced stage for the additional 20.</p>	<p><b>2.1.a</b> Disaster mitigation and risk reduction plans developed and approved by the Municipalities in 60 of the most vulnerable municipalities by 2007, and for a total of 81 of the most vulnerable municipalities by 2010. [SGJ, COPECO]</p>	<p><b>2.1</b> The flood early warning system is operational and 44 municipalities were participating in the national emergency system through local emergency committees by April 2010.</p> <p><b>2.1.a</b> DR Management Plans and Territorial Development Plans completed in 61 municipalities. Design of mitigation works done in 61 municipalities and 30 works had been executed by April 2010.</p>	<p><b>Ongoing Portfolio (Ends)</b>  Disaster Mitigation (11)  <b>AAA</b>  CAPRA (11)</p>

EXPECTED RESULTS (REVISED)	ACTUAL RESULTS ACHIEVED	INTERMEDIATE INDICATORS AND MILESTONES TO TRACK (REVISED)	ACTUAL INDICATORS	BANK ACTIVITIES [Includes partners that directly support activities identified in matrix]
<b>OBJETIVE 4: DEVELOPMENT OF HUMAN CAPITAL</b>				
<p><b>1. Improving coverage, efficiency and quality of Basic Education</b> (1<sup>st</sup> to 9<sup>th</sup> Grade) by</p> <ul style="list-style-type: none"> <li>- Increasing the percentage of students completing 6th grade (all ages) from 72% in 2005 to 85% by 2010. [Secretaría de Educación]</li> <li>- Increasing the 6<sup>th</sup> to 7<sup>th</sup> grade transition rate from 70% in 2005 to 80% by 2010. [Secretaría de Educación]</li> </ul>	<p><b>1. Percentage of students completing 6th grade:</b> 84% in 2009. [Secretaría de Educación]</p> <p><b>6<sup>th</sup> to 7<sup>th</sup> grade transition rate:</b> 86% in 2009 [UPEG/Secretaría de Educación]</p>	<p><b>1.a</b> 2,100 PROHECO schools staffed and functioning by 2008. [Secretaría de Educación]</p> <p><b>1.b</b> The Ministry of Education has designed a mechanism to disseminate information (the number of teachers assigned to each school and the school calendar) to parents and publishes it in all schools by 2010. [Secretaría de Educación]</p> <p><b>1.c</b> Nationally representative assessment of student learning implemented and published in the Presidency's Results Based Management System in 2008, participation of the country in PISA and PIRLS in 2010 and every other year thereafter. [Secretaría de Educación]</p> <p><b>1.d</b> Human Resource Management in Education improved, measured by: Teacher post audit completed by August 2008; 100% of the personnel records updated in SIARH by March 2011; and 100% of salary payments made through SIAFI by March 2011.</p>	<p><b>1.a PROHECO:</b> Target exceeded. 2909 PROHECO schools in 2009. [Secretaría de Educación]</p> <p><b>1.b Improved information to parents:</b> Significant progress. The number of teachers per department is published on the Education Ministry's web page and a single official school calendar for the whole country has been established. The Ministry of Education have plans to publish the information on teachers per school and per district.</p> <p><b>1.c Student learning assessment:</b> Significant progress. UMCE assessed in math and language and for grades 1st to 6th a nationally representative sample of students from 854 schools in 2008. The results were presented by the Ministry of Education in February 2009. The 2009 EFA POA established the evaluation of student learning in Math and Spanish . However, because of the political situation in the country no evaluation was conducted in 2009.</p> <p><b>1.d Teacher Post Audit:</b> Important progress. Census of teachers and post audit completed in late 2008. Recommendations have arisen from the Tribunal Superior de Cuentas to the Ministry of Education based on the findings. As of June 2010, not all the recommendations have been incorporated, but the current administration has a clear plan and, it seems, they have the political commitment to address all the recommendations. The new database which will be linked to SIAFI is in the process of being created.</p>	<p><b>Ongoing Portfolio (Ends)</b> Community Education (08),_Education Quality Project (13)</p> <p><b>Proposed Portfolio (Starts)</b> DPC (11)</p> <p><b>AAA</b> PETS (09), IGR (09), Regional Service Delivery Study (09), Poverty Assessment (09), PER (08)</p>

EXPECTED RESULTS (REVISED)	ACTUAL RESULTS ACHIEVED	INTERMEDIATE INDICATORS AND MILESTONES TO TRACK (REVISED)	ACTUAL INDICATORS	BANK ACTIVITIES [Includes partners that directly support activities identified in matrix]
<p><b>2. Improving quality and coverage of basic health services.</b><sup>10</sup></p> <p><b>2.1</b> Increased coverage of institutional delivery from 57% in 2004 to 75% by 2010. [Secretaría de Salud]</p> <p><b>2.2</b> Reduced chronic malnutrition in children less than 5 yrs. of age from 33% in 2004 to 26% by 2010. [Secretaría de Salud]</p> <p><b>2.3</b> Reduced HIV/AIDS prevalence growth rate in pregnant women from 12% in 2005 to less than 10% by 2010. [Secretaría de Salud]</p>	<p><b>2.1</b> Coverage of institutional delivery is 67% (2005-2006) [ENDESA]<sup>11</sup></p> <p><b>2.2</b> The malnutrition rate is 30.15% (2005-2006) [ENDESA]<sup>12</sup></p> <p><b>2.3</b> In 2004 the prevalence rate in pregnant women was 0.5% and in 2009 it was 0.3%. The growth rate was negative. [Source: Asamblea General Extraordinaria de las Naciones Unidas sobre el VIH y Sida (UNGASS)]</p>	<p><b>2.1.a</b> 300,000 persons in the poorest rural communities have access to health service through the contracting of at least 25 service suppliers by 2008. [Secretaría de Salud]</p> <p><b>2.2.a</b> Childhood integral attention in the community (AIN-C) strategy expanded to 1,000 new communities in Lempira, Intibuca, La Paz, and Copán by 2010. [Secretaría de Salud]</p> <p><b>2.3.a</b> National HIV/AIDS prevention and control strategy updated for the 2008-2011 period. [Secretaría de Salud]</p>	<p><b>2.1.a</b> [Secretaría de Salud]</p> <p><b>2.2.a</b> 263 communities with AIN-C strategy in Lempira, Intibuca, La Paz, and Copán. [Secretaría de Salud] Coverage was extended in Ocotepeque and El Paraíso to 24 municipalities and 314 households with a population under 2 of approximately 4300 as of June 2010.</p> <p><b>2.3.a</b> Target accomplished. The new strategy (PENSIDA III) was presented by CONASIDA (National Committee for HIV/AIDS) on December 7, 2007[CONASIDA]</p>	<p><b>Ongoing Portfolio (Ends)</b> Health Sector Reform Project (09), Nutrition and Social Protection (12), Regional HIV/AIDS Project (11) Social Protection (14) <b>AAA</b> PETS (10), IGR (09), Regional Service Delivery Study (09), Poverty Assessment (09), Addressing the challenges of HIV/AIDS in LAC (07) PER (08) <b>Other Bank Instruments</b> Reproductive Health in Central America (07), UNAIDS ASAP Initiative</p>
<p><b>3. Improve the impact of social assistance to vulnerable groups.</b></p> <p><b>3.1</b> Children and at-risk youth are benefiting from effective safety net interventions</p>	<p><b>3.1</b> Children zero to five in 800 rural communities benefit from an improved community based nutrition intervention (AIN-C) and about 4000 at risk youth have participated in training to increase their employability.</p>	<p><b>3.1.a</b> Design of a complete, well-focused and integrated social assistance strategy to attend to the 80 thousand poorest households including the definition of baselines, objective information and monitoring and evaluation methods by 2008. [First Lady Office/PRAF]</p>	<p><b>3.1.a</b> Since 2008, the government has identified the 200,000 poorest households using the <i>Sistema de Registro de Beneficiarios</i> (SIRBHO). This system is being used to identify beneficiaries for the Bono 10,000 project as well. An evaluation scheme will be finalized by the second half of 2010.</p>	<p><b>Ongoing Portfolio (Ends)</b> Nutrition &amp; Social Protection (12) TTL: Cornelia Tesliuc, Social Protection (15) TTL: Cornelia Tesliuc <b>AAA</b> Regional Service Delivery Study (09), Poverty Assessment (09) PER (08) <b>Other Bank Instruments</b> Social Assistance – Children and Youth Innovation Fund (10)</p>
<p><b>4. Strengthen the capacity of Afro-Honduran and indigenous groups to manage their development.</b></p> <p><b>4.1</b> 100% of the sub-projects financed by Nuestras Raíces have been incorporated into FHIS's project cycle by 2010. [FHIS]</p> <p><b>4.2</b> At least 70% of the sub-projects financed by Nuestras Raíces declared sustainable by 2009. [FHIS]</p>	<p><b>4.1 FHIS project cycle:</b> 100% of the sub-projects financed by Nuestras Raíces have been incorporated into FHIS's project cycle by 2010. [FHIS]</p> <p><b>4.2 Sustainability:</b> 75% of sub-projects were declared sustainable by 2009.</p>	<p><b>4.1.a</b> Elaboration of 9 indigenous people development plans by their corresponding federations by 2008. [FHIS]</p> <p><b>4.1.b</b> Design and implementation of 1,400 development plans (and sub-projects) to be incorporated into the 9 ethnic development plans by 2009. [FHIS]</p>	<p><b>4.1.a Number of plans:</b> 9 indigenous people development plans have been elaborated.</p> <p><b>4.1.b Number of sub-projects:</b> 1,666 subprojects designed and under implementation. [FHIS, 2007]</p>	<p><b>Ongoing Portfolio (Ends)</b> Nuestras Raíces (10) TTL: Cornelia Tesliuc</p>

<sup>10</sup> The Health Sector Project closed May 31, 2010 and the follow-up Project that was prepared will be financed by IADB. Thus the indicators for health services will not be monitored going forward.

<sup>11</sup> ENDESA, the national health survey, is typically completed every 5 years. Given the trend the Government of Honduras would complete the next ENDESA in 2010-11, however this may be delayed pending funding. Attempts were made to measure this indicator under the Health Project, but due to staff changes in the project implementation unit performance indicators were not monitored.

<sup>12</sup> More recent ENDESA results not available (see above).

## Annex 2 Honduras ISN: Revised Core CPS Outcomes

Original Core CAS Indicator	Key Change Made
<b>OBJECTIVE 1: Equitable Economic Growth for employment generation</b>	
<p><b>1. Reduce Public wage pressures<sup>13</sup></b> Progressive reduction of total central government expenditure in salaries to less than 9% of GDP by 2010. (2005 baseline: 8.2%)</p> <p><b>2. Improve public enterprise finances</b> Preservation of total central government current income above 16.4% of GDP (as in 2005) and combined public sector income over 24.2 % of GDP (as in 2005).</p>	<p><b>1. Target Revised</b> Progressive reduction of total central government expenditure in salaries to less than <b>10.6%</b> of GDP by 2011. (2009 baseline: 11.1%)</p> <p><b>2. Improve public enterprise finances</b> Preservation of total central government current income above <b>17.3%</b> of GDP (as in 2010) and combined public sector income over <b>24.5 %</b> of GDP (as in 2010).</p> <p><b>Indicators added:</b> <b>3.</b> Central Government tax revenues as a share of GDP increase to 16.1 percent in 2011 (baseline: 2009 14.4 percent).</p>
<b>OBJECTIVE 1A: Strengthening Competitiveness</b>	
<p><b>1. Strengthen competitiveness and resilience of the financial sector.</b></p> <p><b>1.1</b> Prevention of money-laundering and financing of terrorism. [CNBS]</p> <p><b>1.2</b> System for Payments, Financial Supervision and Control of Systemic Risks in place with comprehensive coverage.</p>	<b>No Change</b>
<p><b>2. Improve performance of economic services: Energy</b></p> <p><b>2.1</b> The losses in the energy system (ENEE) have been decreased by 5% from 2005 to 2010. Baseline: 24.6% losses in 2005. [ENEE]</p> <p><b>2.2</b> Improvement in the transparency, focus and the cost of subsidies to households consuming less than 150 kwh/month by 2010. [ENEE]</p>	<p><b>Target Revised:</b></p> <p><b>2.1</b> The losses in the energy system (ENEE) have been decreased by <b>4%</b> from 2005 to 2011. [ENEE]</p> <p><b>2.2. No change</b></p> <p><b>Indicators Added:</b> <b>2.3</b> Extend electricity services to rural households: 8,100 through grid and 2,500 through the installation of solar systems by 2011.</p>
<p><b>3. Improve performance of economic services: Water &amp; Sanitation</b></p> <p><b>3.1</b> Implementation of the Water Sector Law, including the transfer of water services and sanitation to Municipal entities, properly regulated by the ERSAPS by 2010.</p>	<p><b>3.1. Indicator extended until 2011.</b></p> <p><b>Indicators Added:</b> <b>3.2</b> Improvement in the transparency, efficiency, and effectiveness of the subsidy allocation based upon the verification of outputs in the water and sanitation sector.</p>

<sup>13</sup> All figures are based on the new methodology to estimate GDP that Honduras adopted in 2007.

	<p><b>3.3</b> Extend access of water and sanitation services to urban and rural communities.</p> <p><b>3.2</b> The 2 Bank supported projects have transparent subsidy allocation schemes based on poverty and performance of service providers. In addition the design of a country wide Water Fund to scale up this experience is ongoing. Finally, progress has been made on sector governance and transparency: ERSAPS has started publishing an annual benchmarking report and the Bank is supporting customer accountability and transparency at utility level in a number of municipalities.</p> <p><b>3.3</b> Extend and improve water and sanitation services to 9,900 households through OBA Facility by 2011.</p> <p><b>3.4</b> Extend water and sanitation connections to 9,300 rural households and build 3,100 latrines by 2011.</p>
<p><b>Improve performance of economic services: Telecommunications</b></p> <ul style="list-style-type: none"> <li>Approval of a regulatory framework for the Telecommunications sector by 2008. [CONATEL]</li> <li>HONDUTEL with a private partner by 2010</li> </ul>	<p><b>Indicators dropped. No lending in sector.</b></p>
<p><b>4. Improve performance of economic services: Roads</b></p> <p><b>4.1</b> Ensure sustainable and substantial improvements in road maintenance through financing covering at least 85% of the public network, including 100% of the primary network by 2010. [SOPTRAVI]</p>	<p><b>Target revised:</b></p> <p><b>4.1</b> Ensure sustainable and substantial improvements in road maintenance through financing covering at least <b>75%</b> of the public network, including 100% of the paved primary network by 2010. [SOPTRAVI]</p> <p><b>Indicator added:</b></p> <p><b>4.2</b> Rehabilitation of 400km of rural roads, by 2011 for improved all-season access.</p>
<p><b>5. Improved business environment and strengthen competition</b></p> <p><b>5.1</b> Honduras ranks 80 in the WEF Business Competitiveness index by 2010 and ranks 110 in the Ease of Doing Business 2010.</p> <p><b>5.2</b> The Competition Policy Law is being effectively implemented by 2010: -At least 4 anti-trust cases presented and resolved by the new entity by 2010.</p>	<p><b>5.1 Indicator Dropped<sup>14</sup></b></p> <p><b>5.2 Indicator and Intermediate Indicators extended to 2011</b></p>

<sup>14</sup> Business Competitiveness Index indicator removed as it is no longer tracked by the WEF. Ease of Doing Business ranking removed since ranking is highly dependent on performance of other countries. Absolute Doing Business indicators (e.g. number of days) remain as intermediate indicators.

<b>OBJECTIVE 1B: Increasing Rural Incomes</b>	
<p><b>Improve security of access to land</b><sup>15</sup></p> <p><b>1.1</b> A transparent, efficient and reliable property registrations system measured by an increase in urban and rural land parcels incorporated in SINAP under the parcel-based system from 130,000 in 2007 to 210,000 in 2009. [Instituto de la Propiedad]</p>	<p><b>Target Revised:</b></p> <p><b>1.1</b> A transparent, efficient and reliable property registrations system measured by an increase in urban and rural land parcels incorporated in SINAP under the parcel-based system from <b>120,000</b> by 2011. [Instituto de la Propiedad]</p>
<p><b>Promote rural competitiveness in farm, agro-forestry and off-farm employment.</b></p> <p><b>2.1</b> 10% increase in farm and forest product exports for productive alliances by 2011, compared to baseline.</p>	<p><b>Indicator Replaced:</b></p> <p><b>2.1</b> 30 productive alliances established by 2011.</p> <p><b>Intermediate Indicators Added:</b></p> <p><b>2.1.a.</b> 1,330 rural beneficiaries benefiting from rural productive alliances by 2011.</p> <p><b>2.1.b.</b> Increase the percentage of Rural Productive Alliances that favorably rate the technical assistance received by service providers to 85% by 2011.</p>
<b>Governance</b>	
<p><b>1. Improving the effectiveness and transparency of public spending</b></p> <p><b>1.1</b> SIAFI is used for 100% of the public spending by central government and decentralized agencies and is published on the web page in a timely and accessible format by 2008.</p> <p><b>1.2.</b> Sistema de Gerencia por Resultados links sectoral and institutional goals in 5 institutions by 2009.</p> <p><b>1.3</b> Updated PRS and annual reports, including definition of PRS spending and financial programming, validated and socialized with the CCERP from 2008 and thereafter. [UNAT]</p>	<p><b>1.1 No change</b></p> <p><b>1.2</b> Government is developing new results based management system so this indicator no longer relevant.</p> <p><b>1.3 Indicator dropped.</b> The previous administration published a National Plan that absorbed the PRS, so it is difficult to continue measuring this indicator.</p>
<p><b>2. Professionalization of key functions and agencies in public sector.</b></p> <p><b>2.1</b> The first phase of the professionalization and accreditation program has been implemented in at least 4 central government agencies, and in key cross-cutting functions of public administration (financial management, human resources, acquisitions and internal control) by 2009. [Central Civil Service Office, DGSC]</p>	<p><b>2.1 Target extended to 2011.</b></p>
<p><b>3. Strengthen Transparency</b></p> <p><b>3.1</b> Transparency Law effectively implemented measured by:</p> <ul style="list-style-type: none"> <li>-100 % of the de oficio information required by the law is published on the web by the obliged institutions by 2008 and each year thereafter.</li> <li>-100% of the information requests from public have been responded to by the obliged institutions by 2009 and each year thereafter.</li> </ul>	<p><b>3.1 No change</b></p>

<sup>15</sup> Indicators and Outcomes refer to the Project area of PATH, which is Comayagua, Siguatepeque, Cortés y Tegucigalpa

<p><b>4. Improving access, efficiency and accountability in the judicial sector.</b></p> <p><b>4.1</b> The judicial channels to make justice more accessible have been broadened and diversified, particularly for minorities or vulnerable groups, with the result that the number of expedients by each 100,000 people has increased in 5%. [Corte Suprema de Justicia, CSJ]</p> <p><b>4.1.a</b> Clearance rates for noncriminal cases increased from 26% to 45% by 2010 [CSJ].</p> <p><b>4.1.b</b> Users perception of judicial performance improved: Less than 50% of businesses and users consider that the judicial system is unfair and judges are not credible, by 2010. [CSJ]</p> <p><b>4.1.c</b> Justice more accessible: Number of women, poor, youth and small businesses accessing courts or related justice services increased from 10% to 20%, by 2010. [CSJ]</p>	<p><b>Targets revised:</b></p> <p><b>4.1</b> The judicial channels to make justice more accessible have been broadened and diversified, particularly for minorities or vulnerable groups, with the result that the number of new court users from those groups has <b>increased by 40,000 a year</b> by end-2011. [Supreme Court, CSJ]</p> <p><b>4.1.a</b> Clearance rates for non-criminal cases increased from 26% to <b>66%</b> by 2011 [CSJ].</p> <p><b>4.1.b</b> Users perception of judicial performance improved: More than <b>33%</b> of businesses and users consider that the judicial system is <b>fair</b> and judges are credible, by end of 2011. [CSJ]</p> <p><b>4.1.c</b> Justice more accessible: Number of women, poor, youth and small businesses accessing courts or related justice services increased by <b>100,000</b> a year by end of 2011. [CSJ]</p>
<p><b>OBJETIVE 3: Environmental Protection and Risk Management</b></p>	
<p><b>1. Ensuring sustainability of protected areas.</b></p> <p><b>1.1</b> 10 protected areas (approx. 280,000 ha) demarcated and with management plans by the end of 2010. [ICF]</p>	<p><b>1.1 Extended to 2011.</b></p> <p><b>Indicator Added:</b><sup>16</sup></p> <p><b>1.2</b> At least 1,500 families are benefiting from sustainable natural resources management programs</p> <p><b>1.1.b</b> Implementation of management plans for Tawahka and Patuca areas, specifically. [SERNA/ICF]</p> <p><b>1.2</b> Financing community-based subprojects that promote natural resource management through local socio-economic development.</p>
<p><b>2. Reducing the impact of natural disasters.</b></p> <p><b>2.1</b> Implementation of a national disaster risk management system for early warning, response, risk and vulnerability assessment, and mitigation investments at the local level (81 participating municipalities by 2009). [SGJ, COPECO]</p>	<p><b>All targets met or on track for completion.</b></p>
<p><b>OBJETIVE 4: Development of Human Capital</b></p>	
<p><b>1. Improving coverage, efficiency and quality of Basic Education (1<sup>st</sup> to 9<sup>th</sup> Grade) by</b></p> <ul style="list-style-type: none"> <li>- Increasing the percentage of students completing 6th grade (all ages) from 72% in 2005 to 87% by 2010. [Secretaría de Educación]</li> <li>- Increasing the 6<sup>th</sup> to 7<sup>th</sup> grade transition rate from 70% in 2005 to 80% by 2010. [Secretaría de Educación]</li> </ul>	<p><b>1. Target Revised:</b></p> <ul style="list-style-type: none"> <li>- Increasing the percentage of students completing 6th grade (all ages) from 72% in 2005 to <b>85%</b> by 2010. [Secretaría de Educación]</li> <li>- <b>Target Exceeded</b></li> </ul>

<sup>16</sup> Indicators added to reflect Regional GEF Corazon project.

<p><b>2. Improving quality and coverage of basic health services.</b></p> <p><b>2.1</b> Increased coverage of institutional delivery from 57% in 2004 to 75% by 2010. [Secretaría de Salud]</p> <p><b>2.2</b> Reduced chronic malnutrition in children less than 5 yrs. of age from 33% in 2004 to 26% by 2010. [Secretaría de Salud]</p> <p><b>2.3</b> Reduced HIV/AIDS prevalence growth rate in pregnant women from 12% in 2005 to less than 10% by 2010. [Secretaría de Salud]</p>	<p><b>Indicator dropped, no active lending in Sector<sup>17</sup></b></p> <p><b>2.1.</b> The Health Sector Project closed May 31, 2010 and the follow-up Project that was prepared will be financed by IADB. Thus the indicators for health services will not be monitored going forward.</p> <p><b>2.2</b> Extend to 2011 or next ENDESA survey.</p> <p><b>2.3 Target Exceeded</b></p>
<p><b>3. Improve the impact of social assistance to vulnerable groups.</b></p> <p><b>3.1</b> A social protection policy with a medium and long term vision, agreed by consensus in the Social Protection Sectorial Table framework by 2008. [First Lady Office/PRAF]</p> <p><b>3.1.a</b> Design of a complete, well-focused and integrated social assistance strategy to attend to the 80 thousand poorest households including the definition of baselines, objective information and monitoring and evaluation methods by 2008. [First Lady Office/PRAF]</p>	<p><b>Indicator changed:</b></p> <p><b>3.1</b> Children and at-risk youth are benefiting from effective safety net interventions.</p> <p><b>Intermediate Indicator Changed:</b></p> <p><b>3.1.a</b> Design a well-targeted conditional cash transfer program, Bono 10,000, to cover the extreme poor and provide adequate benefits linked to compliance with investments in human capital of children, including the definition of baselines, objective information and monitoring and impact evaluation methods by 2011.</p>
<p><b>4. Strengthen the capacity of Afro-Honduran and indigenous groups to manage their development.</b></p> <p><b>4.1</b> 100% of the sub-projects financed by Nuestras Raices have been incorporated into FHIS's project cycle by 2010. [FHIS]</p> <p><b>4.2</b> At least 70% of the sub-projects financed by Nuestras Raices declared sustainable by FHIS by 2009. [FHIS]</p>	<p><b>All targets met or exceeded.</b></p>

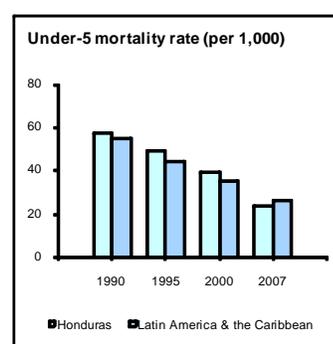
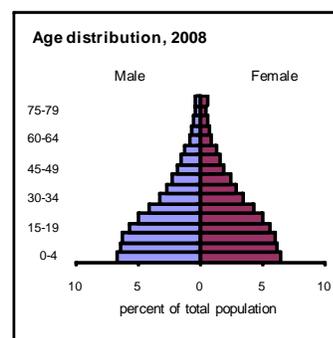
<sup>17</sup> Indicators dropped as there is no active lending in the Sector. New Health project was approved before “pause” but dropped by new government. IDB has continued lending in the sector.

## Annex 3 Honduras At a Glance

### Honduras at a glance

2/25/10

Key Development Indicators (2008)	Honduras	Latin	Lower
		America & Carib.	middle income
Population, mid-year (millions)	7.2	565	3,702
Surface area (thousand sq. km)	112	20,421	32,309
Population growth (%)	1.9	1.1	1.2
Urban population (% of total population)	48	79	41
GNI (Atlas method, US\$ billions)	12.7	3,833	7,692
GNI per capita (Atlas method, US\$)	1,760	6,780	2,078
GNI per capita (PPP, international \$)	3,870	10,309	4,592
GDP growth (%)	4.0	4.4	7.6
GDP per capita growth (%)	2.0	3.2	6.3
<b>(most recent estimate, 2003–2008)</b>			
Poverty headcount ratio at \$1.25 a day (PPP, %)	18	8	..
Poverty headcount ratio at \$2.00 a day (PPP, %)	30	17	..
Life expectancy at birth (years)	70	73	68
Infant mortality (per 1,000 live births)	20	22	46
Child malnutrition (% of children under 5)	9	5	26
Adult literacy, male (% of ages 15 and older)	84	92	88
Adult literacy, female (% of ages 15 and older)	83	90	77
Gross primary enrollment, male (% of age group)	120	119	112
Gross primary enrollment, female (% of age group)	119	115	106
Access to an improved water source (% of population)	84	91	86
Access to improved sanitation facilities (% of population)	66	78	52

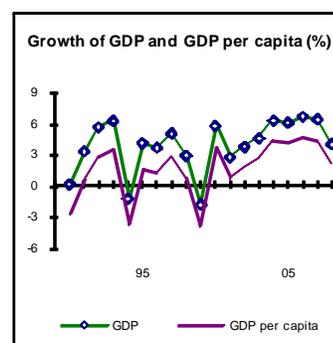


Net Aid Flows	1980	1990	2000	2008 <sup>a</sup>
<i>(US\$ millions)</i>				
Net ODA and official aid	102	448	449	464
<i>Top 3 donors (in 2007):</i>				
Spain	..	6	35	111
United States	19	215	110	71
European Commission	5	10	18	41
Aid (% of GNI)	4.2	16.0	6.5	4.0
Aid per capita (US\$)	28	92	72	65

#### Long-Term Economic Trends

Consumer prices (annual % change)	..	23.3	110	3.8
GDP implicit deflator (annual % change)	13.2	212	30.8	9.8
Exchange rate (annual average, local per US\$)	2.0	4.1	15.0	20.1
Terms of trade index (2000 = 100)	..	129	100	..

Population, mid-year (millions)	3.6	4.9	6.2	7.2
GDP (US\$ millions)	2,566	3,049	7,106	13,343
<i>(% of GDP)</i>				
Agriculture	23.7	22.4	15.9	13.6
Industry	24.3	26.4	32.5	31.0
Manufacturing	15.0	16.3	22.7	21.7
Services	52.0	51.2	51.7	55.4
Household final consumption expenditure	69.4	66.8	70.8	83.5
General gov't final consumption expenditure	12.7	12.9	13.4	16.0
Gross capital formation	24.8	23.0	28.3	33.5
Exports of goods and services	37.2	37.2	54.0	48.6
Imports of goods and services	44.1	39.9	66.4	81.6
Gross savings	..	..	21.2	18.1



1980–90 1990–2000 2000–08  
(average annual growth %)

3.0	2.4	1.9
2.7	3.2	5.3

2.7	2.2	3.8
3.3	3.6	4.6
3.7	4.0	5.4
2.5	3.8	6.4

2.6	3.0	6.1
3.3	2.0	6.1
3.0	6.9	7.2

1.1	1.6	6.5
1.2	3.8	7.9

**Balance of Payments and Trade**

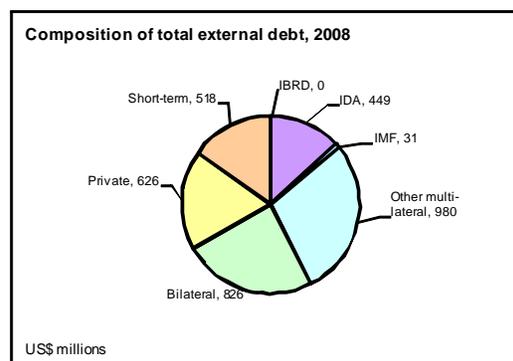
	2000	2008
<i>(US\$ millions)</i>		
Total merchandise exports (fob)	1,306	6,100
Total merchandise imports (cif)	2,980	9,742
Net trade in goods and services	-831	-4,647
Current account balance as a % of GDP	-5.08	-19.77
Workers' remittances and compensation of employees (receipts)	416	2,824
Reserves, including gold	1,319	2,723

**Central Government Finance**

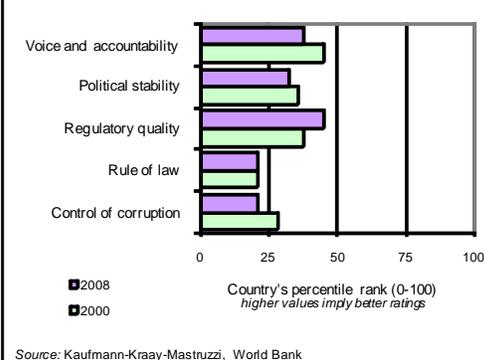
	2000	2008
<i>(% of GDP)</i>		
Current revenue (including grants)	15.1	19.3
Tax revenue	13.8	15.7
Current expenditure	14.8	17.2
Overall surplus/deficit	-5.2	-2.5
Highest marginal tax rate (%)		
Individual	25	25
Corporate	15	25

**External Debt and Resource Flows**

	2000	2008
<i>(US\$ millions)</i>		
Total debt outstanding and disbursed	5,402	3,430
Total debt service	392	367
Debt relief (HIPC, M DRI)	776	1,543
Total debt (% of GDP)	76.0	25.7
Total debt service (% of exports)	8.8	3.7
Foreign direct investment (net inflows)	282	877
Portfolio equity (net inflows)	0	0

**Private Sector Development**

	2000	2008
Time required to start a business (days)	-	20
Cost to start a business (% of GNI per capita)	-	52.6
Time required to register property (days)	-	23
Ranked as a major constraint to business (% of managers surveyed who agreed)	2000	2008
Corruption	..	62.7
Access to/cost of financing	..	62.4
Stock market capitalization (% of GDP)	8.8	..
Bank capital to asset ratio (%)	8.8	8.4

**Governance indicators, 2000 and 2008****Technology and Infrastructure**

	2000	2008
Paved roads (% of total)	20.4	..
Fixed line and mobile phone subscribers (per 100 people)	7	97
High technology exports (% of manufactured exports)	0.3	12

**Environment**

	2000	2008
Agricultural land (% of land area)	26	26
Forest area (% of land area)	48.5	41.5
Nationally protected areas (% of land area)	..	19.6
Freshwater resources per capita (cu. meters)	14,882	13,504
Freshwater withdrawal (billion cubic meters)	0.9	..
CO2 emissions per capita (mt)	0.81	11
GDP per unit of energy use (2005 PPP \$ per kg of oil equivalent)	6.0	5.5
Energy use per capita (kg of oil equivalent)	486	621

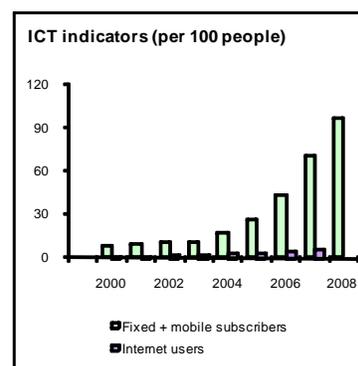
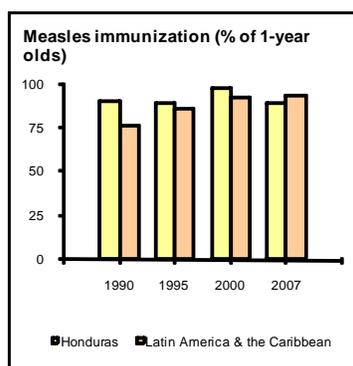
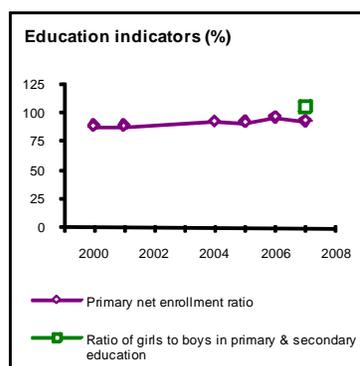
**World Bank Group portfolio**

	2000	2008
<i>(US\$ millions)</i>		
<b>IBRD</b>		
Total debt outstanding and disbursed	151	0
Disbursements	0	0
Principal repayments	27	0
Interest payments	15	0
<b>IDA</b>		
Total debt outstanding and disbursed	838	449
Disbursements	38	51
Total debt service	8	3
<b>IFC (fiscal year)</b>		
Total disbursed and outstanding portfolio of which IFC own account	42	11
Disbursements for IFC own account	27	11
Portfolio sales, prepayments and repayments for IFC own account	9	2
Portfolio sales, prepayments and repayments for IFC own account	26	2
<b>MIGA</b>		
Gross exposure	16	6
New guarantees	0	0

With selected targets to achieve between 1990 and 2015

(estimate closest to date shown, +/- 2 years)

	Honduras			
	1990	1995	2000	2008
<b>Goal 1: halve the rates for extreme poverty and malnutrition</b>				
Poverty headcount ratio at \$125 a day (PPP, % of population)	43.5	15.6	14.4	18.2
Poverty headcount ratio at national poverty line (% of population)	..	..	52.5	50.7
Share of income or consumption to the poorest quintile (%)	2.8	3.1	3.3	2.5
Prevalence of malnutrition (% of children under 5)	..	19.2	2.5	8.6
<b>Goal 2: ensure that children are able to complete primary schooling</b>				
Primary school enrollment (net, %)	88	..	89	93
Primary completion rate (% of relevant age group)	64	71	..	89
Secondary school enrollment (gross, %)	33	33	..	64
Youth literacy rate (% of people ages 15-24)	..	..	89	94
<b>Goal 3: eliminate gender disparity in education and empower women</b>				
Ratio of girls to boys in primary and secondary education (%)	106	..	..	106
Women employed in the nonagricultural sector (% of nonagricultural employment)	48	45	51	45
Proportion of seats held by women in national parliament (%)	10	8	9	23
<b>Goal 4: reduce under-5 mortality by two-thirds</b>				
Under-5 mortality rate (per 1,000)	58	49	39	24
Infant mortality rate (per 1,000 live births)	45	39	32	20
Measles immunization (proportion of one-year olds immunized, %)	90	89	98	89
<b>Goal 5: reduce maternal mortality by three-fourths</b>				
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	280
Births attended by skilled health staff (% of total)	45	55	56	67
Contraceptive prevalence (% of women ages 15-49)	47	50	62	65
<b>Goal 6: halt and begin to reverse the spread of HIV/AIDS and other major diseases</b>				
Prevalence of HIV (% of population ages 15-49)	13	13	0.9	0.7
Incidence of tuberculosis (per 100,000 people)	98	84	73	59
Tuberculosis cases detected under DOTS (%)	..	..	106	87
<b>Goal 7: halve the proportion of people without sustainable access to basic needs</b>				
Access to an improved water source (% of population)	72	77	80	84
Access to improved sanitation facilities (% of population)	45	51	58	66
Forest area (% of total land area)	66.0	57.3	48.5	41.5
Nationally protected areas (% of total land area)	..	..	..	19.6
CO2 emissions (metric tons per capita)	0.5	0.7	0.8	1.1
GDP per unit of energy use (constant 2005 PPP \$ per kg of oil equivalent)	5.4	5.2	6.0	5.5
<b>Goal 8: develop a global partnership for development</b>				
Telephone mainlines (per 100 people)	18	2.9	4.8	11.4
Mobile phone subscribers (per 100 people)	0.0	0.0	2.5	85.8
Internet users (per 100 people)	0.0	0.0	1.2	9.1
Personal computers (per 100 people)	..	0.3	1.1	2.0



## Annex 4 Selected Indicators of Portfolio Performance and Management

(as of September 2, 2010)

Indicator	2008	2009	2010	2011
<b>Portfolio Assessment</b>				
Number of Projects Under Implementation <sup>a</sup>	17	16	15	14
Average Implementation Period (years) <sup>b</sup>	3.6	4.3	4.8	4.8
Percent of Problem Projects by Number <sup>a, c</sup>	17.6	18.8	20.0	14.3
Percent of Problem Projects by Amount <sup>a, c</sup>	20.5	18.0	13.8	10.4
Percent of Projects at Risk by Number <sup>a, d</sup>	29.4	31.3	20.0	14.3
Percent of Projects at Risk by Amount <sup>a, d</sup>	29.5	26.7	13.8	10.4
Disbursement Ratio (%) <sup>e</sup>	22.2	16.1	12.0	1.4
<b>Portfolio Management</b>				
CPPR during the year (yes/no)	Yes	Yes	Yes	No
Supervision Resources (total US\$)	1753	2630	1894	1737
Average Supervision (US\$/project)	110	125	95	91

Memorandum Item	Since FY 80	Last Five FYs
Proj Eval by OED by Number	51	5
Proj Eval by OED by Amt (US\$ millions)	1,884.6	173.5
% of OED Projects Rated U or HU by Number	21.6	20.0
% of OED Projects Rated U or HU by Amt	15.1	14.3

- a. As shown in the Annual Report on Portfolio Performance (except for current FY).
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: Investment projects only.

\* All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

## Annex 5 IDA Program Summary

### Proposed IBRD/IDA Base-Case Lending Program <sup>a</sup>

<i>Fiscal year</i>	<i>Proj ID</i>	<i>US\$(M)</i>	<i>Strategic Rewards b (H/M/L)</i>	<i>Implementation b Risks (H/M/L)</i>
2011	HN - Emergency Economic Recovery Credit	74.7		

## Annex 6 IDA and Grants Operations Portfolio

### Operations Portfolio (IBRD/IDA and Grants)

As of September 2, 2010

Closed Projects 70

#### IBRD/IDA \*

Total Disbursed (Active)	115.27
of which has been repaid	0.00
Total Disbursed (Closed)	445.29
of which has been repaid	159.15
Total Disbursed (Active + Closed)	560.56
of which has been repaid	159.15
Total Undisbursed (Active)	268.85
Total Undisbursed (Closed)	1.25
Total Undisbursed (Active + Closed)	270.10

#### Active Projects

Project ID	Project Name	Last PSR			Fiscal Year	Original Amount in US\$ Millions				Difference Between Expected and Actual Disbursements <sup>a/</sup>	
		Supervision Rating		Cancel.		Undisb.	Orig.	Frm Rev'd			
		Development Objectives	Implementation Progress						IBRD	IDA	GRANT
P088319	HN (CRL) Barrio-Ciudad Project	S	MS	2006		15.00			8.94	6.40	3.58
P086775	HN (CRL1) Rural Infrastructure Project	S	MS	2006		47.00			29.48	28.36	2.32
P064913	HN EMERG DISASTER MGMT (TAL)	S	MS	2000		19.82		0.14	1.22	-8.32	-1.07
P101218	HN Education Quality, Governance & Insti	MS	MS	2008		15.37			12.49	2.68	
P040177	HN Financial Sector Technical Assistance	MU	MS	2003		9.90			5.76	4.76	
P090113	HN GEF Rural Electrification	S	MS	2006			2.35		1.60	1.60	0.12
P081516	HN JUDICIAL BRANCH MODERNIZATION	S	S	2006		15.00			4.50	4.12	
P082242	HN Nutrition and Social Protection	MS	MS	2006		20.00			9.10	8.76	
P083851	HN PRS TAC	S	S	2004		8.00			0.99	0.45	
P104034	HN Power Sector Efficiency Enhancement	MS	MU	2009		30.00			29.48	6.17	
P109058	HN Road Reconstruction & Improvement II	S	MS	2008		73.60			69.03	15.34	
P101209	HN Rural Competitiveness Project	S	S	2008		30.00			28.22	8.92	
P070038	HN Trade Facilitatio & Productivity Enha	MS	MS	2004		28.06			5.09	1.77	-0.62
P103881	HN WATER AND SANITATION PROGRAM	S	S	2007		30.00			24.20	2.99	
P115592	HN- Social Protection	#	#	2010		40.00			40.35		
Overall Result						381.75	2.35	0.14	270.45	83.99	4.34

## Annex 7 Summary of Non-Lending Services

<i>Product</i>	<i>Completion FY</i>	<i>Cost (US\$000)</i>	<i>Audience (a)</i>	<i>Objective (b)</i>
<b><u>Analytical Work/Reports</u></b>				
<b>Recent completions:</b>				
Environmental Assessment	FY08	253	G, D, B, PD	KG, PD, PS
Institutional and Governance Review	FY08	160	G, D, B, PD	KG, PD, PS
Regional Investment Climate Assessment	FY08	160	G, D, B, PD	KG, PS
Regional Energy	FY10	160	G, D, B, PD	KG, PD, PS
Regional Service Delivery Study	FY10	300	G, D, B, PD	KG, PD, PS
Regional Crime and Violence	FY10	300	G, D, B	KG, PD, PS
Public Expenditure Tracking	FY10	90	G, D, B, PD	KG, PD, PS
Fiscal Emergency NLTA	FY10		G	KG, PS
<b>In Preparation / Planned:</b>				
Regional Disaster Mitigation Study	FY11	300	G, D, B, PD	KG, PD, PS
Country Economic Memorandum	FY12	TBD	G, D, B, PD	KG, PD, PS
Central America Competitiveness and Integration Study	FY12	400	G,D,B,PD	KG, PD, PS
<b><u>IDF &amp; JSDF Ongoing Grants</u></b>				
	<b><u>Closing FY</u></b>	<b><u>Amt (US\$000)</u></b>		
Children and Youth Innovation Fund-JSDF	FY10	2,000		
Sustainable Community-based Tourism Devt. For Indigenous ...	FY10	50		
Transparency & Accountability Public Institutions - IDF	FY10	339		
Microenterprise Development for the Poor and Indigenous People	FY12	1,470		
Building Trust in Public Policies and Public Institutions	TBD	829		
Improving Transparency and Accountability for Property Rights Administration - IDF	TBD	400		
<b><u>PHRD Ongoing Grants</u></b>				
Adaptation to Climate Change-PHRD	FY10	300		
<b><u>Other Ongoing Trust Funds</u></b>				
Pico Bonito Sustainable Forests - Biocarbon Fund	FY17	1,800		
GPOBA Water Sector Grant	FY10	4,440		
La Esperanza Hydroelectric- Carbon	FY15	1,395		
Price Risk Management-FS-SP	FY10	70		
Improving Land Tenure for Women-GENTF	FY10	134		
Strengthening of Aid Coordination Capacities	FY10	471		
PRSTAC – SIDA co-financing	FY10	328		
PRSTAC Swedish co-financing – Bank executed	FY10	400		
PRSTAC Swedish co-financing – Bank recipient	FY10	4,623		
Highly Pathogenic Avian Influenza and Control – AHI	FY11	300		
Roadmap for Strengthened Accounting & Auditing FIRST	FY10	478		
Support for Non-Revenue Water Performance Based Contracting - PPIAF	FY10	75		
Graduating the Poorest into Microfinance – CGAP	FY11	100		

a. Government (G), donor (D), Bank (B), public dissemination (PD). b. Knowledge generation (KG), public debate (PD), problem-solving (PS).

**Annex 8 Honduras: IFC Investment Operations Program 2007-2010**  
(as of June 30, 2010)

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010*</b>
<b><u>Commitments (US\$m)</u></b>				
Gross	0	38.0	163.3	100.9
Net**	0	38.0	163.3	100.9
<b><u>Net Commitments by Sector (%)</u></b>				
Agribusiness	0	0	21	0
Financial Markets	0	58	36	85
Global				
Manufacturing	0	42	0	15
Telecommunications	0	0	43	0
<b>Total</b>	<b>0</b>	<b>100</b>	<b>100</b>	<b>100</b>
<b><u>Net Commitments by Investment Instrument (%)</u></b>				
Equity	0	5	0	2
Loan	0	95	64	15
Guarantees	0	0	36	83
<b>Total</b>	<b>0</b>	<b>100</b>	<b>100</b>	<b>100</b>

\*As of June 30, 2010

\*\*IFC's own account only

## Annex 9 IFC Operations Portfolio

MIS

International Finance Corporation

Report Run Date: 09/13/2010

### Statement of IFC's Committed and Outstanding Portfolio

*Amounts in US Dollar Millions*

Accounting Date as of : 06/30/2010

Page 1

Region(s): Latin America & Caribbean

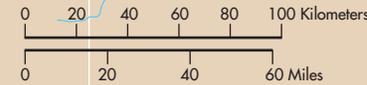
Country(s) : Honduras

Commitment Fiscal Year	Institution Short Name	LN Cmtd - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2008/ 2010	<a href="#">B. Popular</a>	0	2.05	0	0	0	2.05	0	0	2.02	0	0	0	2.02	0.00
2009/ 2010	<a href="#">Banco Atlantida</a>	0	0	0	4.65	0	4.65	0	0	0	0	4.65	0	4.65	0.00
2009	<a href="#">DINANT</a>	30.00	0	0	0	0	30.00	0	15.00	0	0	0	0	15.00	0.00
2009	<a href="#">Digicel Honduras</a>	69.82	0	0	0	0	69.82	0	69.82	0	0	0	0	69.82	0.00
2008/ 2009/ 2010	<a href="#">Ficohsa</a>	13.52	0	0	11.19	0	24.72	0	13.52	0	0	11.19	0	24.72	0.00
1987/ 1999	<a href="#">Gracias Marinas</a>	2.45	0	0	0	0	2.45	0	2.45	0	0	0	0	2.45	0.00
2006/ 2008/ 2010	<a href="#">ISCH</a>	33.85	0	0	0	0	33.85	0	33.85	0	0	0	0	33.85	0.00
2009	<a href="#">La Grecia</a>	4.00	0	0	0	0	4.00	0	4.00	0	0	0	0	4.00	0.00
<b>Total Portfolio</b>		<b>153.65</b>	<b>2.05</b>	<b>0</b>	<b>15.84</b>	<b>0</b>	<b>171.54</b>	<b>0</b>	<b>138.65</b>	<b>2.02</b>	<b>0</b>	<b>15.84</b>	<b>0</b>	<b>156.51</b>	<b>0.00</b>



## HONDURAS

- SELECTED CITIES AND TOWNS
- ⊙ DEPARTMENT CAPITALS
- ⊕ NATIONAL CAPITAL
- RIVERS
- PAN AMERICAN HIGHWAY
- MAIN ROADS
- RAILROADS
- DEPARTMENT BOUNDARIES
- INTERNATIONAL BOUNDARIES



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