HONDURAS: Country Assistance Strategy

We found this a comprehensive and useful document. The various Annexes, especially the ones on Poverty and Social Conditions and the Dialogue with Civil Society, were particularly illuminating. We have no problem with supporting the main thrust of the proposed CAS approach as it relates to the overarching objectives of poverty reduction and social development, while continuing to help the country rebuild after the devastating effects of Hurricane Mitch. The low, base and high-case lending scenarios also seem appropriate and sufficiently flexible to accommodate potential developments. Given the many donor partners, the selectivity that has been practiced in working out the areas where the Bank can make a genuine difference, as demonstrated in Annex F, is very welcome.

Having stated this, we have some selective comments and a couple of questions.

The first point is to note the fundamental challenges posed to the country and its development partners by the pervasiveness of poverty. Though there are some differences in various estimates, it seems clear that between half and two-thirds of the population are trapped in poverty, with a heavy concentration in the rural areas and amongst indigenous and Afro-Honduran peoples. It was gratifying to note that the consultations with civil society appear to indicate that there was a broad measure of agreement that the Bank’s diagnosis of the poverty problem was correct.

It is also true that given the situation with the skewed distribution of rural assets, the lack of access to credit, and the low productivity it will take considerable time to rectify. Thus, it is not surprising that there are different views on how best to approach the rural reform strategy, and the document, in para. 72, is appropriately realistic as to what can be achieved over this CAS period. Of course, the challenge has been made even greater in the aftermath of Hurricane Mitch, which in addition to the destruction and loss of life and the
stress placed on already weak institutional capacity, has added about 6 percentage points to the poverty level.

This situation makes it appropriate to move ahead with the CAS now—it is, after all, six and a half years since the previous one—while fully recognizing that the planned Poverty Reduction Strategy Paper, which has already been launched, can help deepen the understanding of local poverty and help sharpen the focus on the outcomes.

A second point is to note the weakness in social indicators. The rather mixed performance in the social sectors is well-addressed in the report. Given the demonstrated benefits that accrue from educational opportunities, it is worrisome to see the widespread concerns over the quality of education, and especially to read that the private sector representatives feel that Honduras cannot hope to compete in a globalized environment until the problems at the state university are straightened out.

A third comment would be to note the overall weakness of institutions and the urgency of measures to strengthen the capacity of the public administration. Paragraph 55 puts the case for moving ahead in this area if broader macro objectives, as well as those of economic and social reconstruction, are to be attained.

A fourth comment concerns the need to strengthen the financial sector. Here it will be essential for the Bank Group, along with the IMF, to maintain an active involvement. In this context, we noted the feeling of private sector representatives that the lack of access to term financing and high interest rates were seen as major obstacles to private sector development—an observation that seems to confirm the impression gained during the visit by a group of Executive Directors earlier this year.

Turning now to some questions for staff, the discussion of the current re-assessment of its approach by IFC as mentioned in paragraph 74 is a bit cryptic and we wonder if IFC staff could elaborate a little on what they see as the main challenges and opportunities.

For the Bank staff, the statement at the end of the document that some weakening in the quality of IDA's portfolio may be inevitable in the light of the generally weak institutional context is commendable for its honesty but some elaboration of what preventive measures might be taken would be appreciated.

Finally, we feel that the staff is right to highlight possible unfavorable developments in the external environment, especially in the trade area, as a major risk to successful implementation of the CAS. This confirms once again the wisdom of the original decision to discuss trends in the external environment in these documents. Given the many internal and external challenges, we wish the Honduran authorities well.