1. Key development issues and rationale for Bank involvement

Building on the advances made under the PFM Reform Program 2004-2007, the government has developed a Public Management Reform Program based on a medium-term framework strategy for the sector, described in the “Strategic Paper for the Modernization of the Public Sector”\footnote{“Visión Estratégica para la Modernización del Sector Público”, CPME and SEFIN, December 2008.}. The two main objectives of the program are to improve the capacity of the state to provide quality services to address the needs of the population, and to improve citizen’s trust in public institutions. In order to achieve these objectives the program seeks to consolidate the reforms undertaken since 2004 under the previous public sector reform program in the areas of tax administration; fiscal and monetary statistics; financial management, procurement, internal and external control, planning and human resources.

Several international development partners (the World Bank, the Interamerican Development Bank, Sida, DFID, KfW) are currently supporting government’s effort to improve public sector management through various financial instruments based on different execution policies. In line with the Paris Declaration and the Accra Agenda for Action, the government has requested the international cooperation to provide support to the reform agenda under a sector-wide approach (SWAp). The program’s approach offers a unique instrument for a sustained country-led partnership in support of a medium-term strategy. The main advantages of the program approach are that: (i) it provides a single framework for implementation, budget execution and M&E, reducing duplication of instrument and decreasing transaction costs; (ii) it promotes national leadership and a strong focus on results; (iii) it strengthens inter-institutional coordination and facilitates integration of individual reforms into a coherent package of mutually reinforcing and sequenced reforms; and (iv) it provides a platform for coordination, harmonization and alignment to donors that wish to support public sector management reforms in Honduras.
2. Proposed objective(s)

The overarching objective of the Public Sector Reform Program is to contribute to enhancing efficiency and performance accountability in the use of public resources in Honduras, which will in turn improve the state’s capacity to provide quality services, and citizen’s trust in public institutions. The Development Objective of the Reform Program is to improve management of public resources by supporting: i) the consolidation\(^2\) of ongoing reforms in the areas of customs and tax administration, financial management, planning, procurement, internal and external control, and human resources, and ii) the introduction of a results-focus in the management of public resources.

The World Bank’s contribution to the Reform Program would aim at: (i) supporting the use of financial management, customs and tax administration and procurement systems by central government agencies, and (ii) introducing performance incentives in public management. The World Bank’s contribution would also be instrumental in providing incentives to advance the reforms supported by the other components, though a Competitive Fund. Specific outcome and output indicators will be defined in order to assess the impact of Bank’s contribution without compromising the flexible nature of such support.

3. Preliminary description

The government of Honduras has designed a Public Management Reform Program based on a medium-term strategy for the sector. It is proposed that the Bank supports government’s Reform Program with a $15.0 million Technical Assistance Investment Credit under a Sector Wide Approach (see Section 5 for a discussion on alternative options). Other co-funders of the Reform Program are: the Inter-American Development Bank (IDB) with a contribution of $28.6 and KfW with an estimated contribution of 10 million euros.

<table>
<thead>
<tr>
<th>Program Components</th>
<th>Total(^3)</th>
<th>IDB</th>
<th>WB</th>
<th>KfW</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Tax and custom</td>
<td>12.1</td>
<td>11.4</td>
<td>0.7</td>
<td></td>
</tr>
<tr>
<td>2. Financial Management</td>
<td>13.3</td>
<td>12.8</td>
<td>0.5</td>
<td></td>
</tr>
<tr>
<td>3. Planning</td>
<td>4.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Control</td>
<td>3.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Procurement</td>
<td>7.3</td>
<td>1.5</td>
<td>5.8</td>
<td></td>
</tr>
<tr>
<td>6. Central Bank</td>
<td>1.7</td>
<td>1.7</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Results-based Management</td>
<td>6.6</td>
<td>1.6</td>
<td></td>
<td>5.0</td>
</tr>
<tr>
<td>8. Competitive fund</td>
<td>5.0</td>
<td></td>
<td></td>
<td>5.0</td>
</tr>
<tr>
<td>Administration of the program</td>
<td>2.1</td>
<td>0.8</td>
<td>0.8</td>
<td>0.5</td>
</tr>
<tr>
<td>Financial costs/Other</td>
<td>1.5</td>
<td>0.4</td>
<td>0.6</td>
<td>0.5</td>
</tr>
</tbody>
</table>

\(^2\) Consolidation in this context refers to the full implementation of the reforms, ensuring that the associated public management systems are operational and used by end-users as a management tool.

\(^3\) The table does not include national contributions.
**Component 1: Customs and Tax administration modernization.** This component will support the modernization of the customs and tax administrations through the improvement of tax-payer services and the security environment, implementation of international standards for cross-border trade, strengthening oversight of internal revenue, and the implementation of an internal revenue administration system based on taxpayers’ segmentation. Estimated total cost: $12.1 million.

**Component 2: Consolidation of the public expenditure financial management system.** This component will support the consolidation of the ongoing financial management reform by institutionalizing the Integrated Financial Management System (SIAFI) in the central government and decentralized agencies, the implementation of the human resource module and the interface with Honducompras, and the development of the integrated financial management system for municipalities. Estimated total cost: $13.4 million.

**Component 3: Strategic and operational planning.** This component will support the design and implementation of the national planning system throughout the public administration: the strengthening of technical and analytical capacities of the Technical Assistance Unit (UNAT) in the Secretary of the Presidency and the planning units in the ministries and decentralized agencies; the strengthening of the link between planning and budgeting under a scheme of performance-informed budgeting and; the further development information system that supports results-based management throughout the public sector (SGPR). Estimated total cost: $4 million.

**Component 4: Internal and external control framework.** This component would strengthen the national public resources control system (SINACORP) and institutionalize the coordination between external (Supreme Accounts Institution) and internal (Executive branch) controls under the recently created National Office for the Development of Internal Control (ONADICI). Estimated total cost: $3 million.

**Component 5: Procurement.** This component will support the development of the procurement system (Honducompras), its implementation and the institutionalization of the procurement agency’s functions and personnel. Estimated total cost: $7.3 million.

**Component 6: Integration of fiscal and monetary statistics.** The objective would be to consolidate the program to modernize Honduras’ macroeconomic statistics at the Honduras Central Bank (BCH) through the consolidation of the historical series of macroeconomic aggregates, improving the calculation of key indexes, and the development of an integrated data management system. Estimated total cost: $1.7 million.

To ensure that the results-based management approach and the professionalization program are integrated into the reforms supported by the other components, the following two components have been added as crosscutting:

**Component 7: Results-based management.** This component will support the development and implementation of an integrated results-based management system in the Public Administration that incorporates a results-focus in the management of financial, human and physical resources.
To this end, the component will support: (i) the integration of the planning and budgeting processes both at the strategic and operational level, in order to use output and outcome indicators to quantify the strategic objectives of programs; and incorporate efficiency and results measures that may be linked to budget decisions; (ii) the professionalization of technical staff that are critical for the consolidation and sustainability of ongoing public management reforms (procurement, planning, internal audit, and financial management), (iii) the adoption of a performance orientation in human resource management, procurement and control, and (iv) institutional pilots in key sectors for the implementation of the Poverty Reduction Strategy. The pilots would focus on strengthening the ‘performance chain’ linking inputs, available resources, outputs and outcomes; the inclusion of objectives and outcomes in the strategic plans of the spending units; the integration of strategic plans and the budget; enhanced management flexibility in spending units; and the improvement of data quality and the introduction of interoperability between systems. Estimated total cost: $6.6 million.

Component 8: Competitive Fund. In order to provide flexibility to the program and offer performance incentives, this component will establish a virtual competitive fund that will become operational in year 2. Only institutions that have achieved year 1 results will be allowed to apply for additional funds. Proposals will be reviewed by the Steering Committee and funds allocated to eligible expenditures according to the criteria set up in the Operations Manual. Similarly, consideration is being given to the possibility that funds from low performing components could be transferred to the Competitive Fund in year 3 to ensure full disbursement of the program and provide incentives to reward good performance. Estimated total cost: $5 million.

The World Bank has assisted the government of Honduras in the development of the strategic vision and in the design of the overall Reform Program. Beyond its specific financial contribution, the World Bank has been leading this effort, providing technical assistance to the government throughout the process. It is proposed that the Bank continues assisting the government of Honduras in the implementation of the overall program, participating in joint supervision missions and facilitating policy discussion on public management reform options.

The specific financial contribution of the World Bank to the Reform Program would contribute to the consolidation of the reforms in three areas: custom and tax administration, financial management, and procurement. In addition, the World Bank’s contribution would support the introduction of a results-focus in the Public Administration and provide performance incentives to advance the reforms supported by the other components. Specific outcome and output indicators will be defined in order to assess results of Bank’s contribution without compromising the flexible nature of such support.

4. Safeguard policies that might apply
No safeguard policies apply.

5. Tentative financing

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4 An US$46,789 EFO, funded by Sida, was received to provide technical assistance to government for the preparation of the vision and the strategic framework.
Source:  ($m.)  
Borrower/Recipient  0  
International Development Association (IDA)  15.0  
Total  15.0  

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