



1. Project Data:		Date Posted : 10/02/2002	
PROJ ID: P034607		Appraisal	Actual
Project Name: Hn Pub Sec Mod Tac	Project Costs (US\$M)	16.65	13.0
Country: Honduras	Loan/Credit (US\$M)	9.6	8.75
Sector(s): Board: PS - Central government administration (90%), Compulsory pension and unemployment insurance (7%), Law and justice (3%)	Cofinancing (US\$M)	5.0	2.81
L/C Number: C2814; CP842			
	Board Approval (FY)		96
Partners involved : IDB	Closing Date	06/30/2000	06/30/2000
Prepared by :	Reviewed by :	Group Manager :	Group:
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2. Project Objectives and Components

a. Objectives
The Public Sector Modernization Technical Assistance Credit (PSMTAC) was to provide support for the Honduran Government's public sector reform program, which was comprised of three elements : private sector participation in public services; administrative reform; and reform of public management . The specific objectives of the PSMTAC were to provide: (i) policy formulation to design the reforms; (ii) support for implementation, by providing means and information and to help comply with the conditions and action plans under the Public Sector Modernization Structural Adjustment Credit (PSMSAC) approved at the same time as the PSMTAC; and (iii) institutional strengthening to the entities that were to benefit from new management systems . There was also a component aimed at avoiding a short-term insolvency of the Honduran Social Security Institute .

b. Components
Under the private participation in public services (about 23% of total project costs), consultant services covered telecommunications, civil aviation, and ports, and included a range of services tailored to the needs of each sector . These services included preparing the strategy and /or carrying out a study to review options for increasing private participation; helping to draft rules and regulations for proposed laws under consideration by Congress; marketing privatization transactions; valuation of assets /liabilities, financial projections; preparation and negotiation of legal documents; support to the bidding process; extension of concessions; and the creation of regulatory agencies . During implementation, the ports component was replaced with an electricity component, as this became a higher priority for Government.

For administrative reform (about 20% of project costs), consultant services were to prepare and help implement plans for institutional restructuring; a Project Preparation Facility (PPF) had financed the plans by the time the credit was approved, with monitorable targets . The consultant services were also to strengthen the entities involved in the restructuring . Finally, consultant services were to be used to strengthen the Honduran Social Security Institute (provision of a computerized system for programming and budgeting, accounting, and so on); and to carry out a diagnosis of the pension and health services system and propose reforms .

In public management reform (46% of project costs), consultant services were to include carrying out an action plan, developed by consultants financed under the PPF, which would improve human resource management through better payroll monitoring and audits, employment census, development of a comprehensive human resources management system, and development of human resources strategy and policies . Assistance to the Education and Health secretariats was also included to assess human resource requirements . Development of an integrated financial management and investment programming component was the largest single component of the project (at \$4.9 m, or 30% of project costs) and included the introduction of a new system to cover budget, treasury, accounting, and public debt, to be linked to the human resource management system and training technical staff in the relevant public entities.

The remainder of project costs (11%) were to improve public procurement and to finance a project coordination unit .

c. Comments on Project Cost, Financing and Dates

There is no explanation in the ICR for why the project costs were only 70% of estimates. The project was completed on schedule and closed as planned on June 30, 2000.

3. Achievement of Relevant Objectives:

The story of the achievement of objectives of the PSMTAC is similar to the story of the achievement of the objectives of the adjustment credit PSMSAC, as the input of the this credit served to support the Government of Honduras in meeting the objectives of the reform program.

Private participation in public service . As anticipated, consultant services helped to bring HONDUTEL to the point of sale, although no sale in fact occurred (para. 5); in civil aviation, consultant services helped private sector participation to exceed objectives, with four international airports now under private management . A regulatory framework was created and a regulatory agency established . Consultants helped to train technical and administrative staff. In both the ports and electricity sectors, outcomes were below expectations, although consultants helped to articulate strategies for privatization in both sectors . In ports, no actions were taken and the component was abandoned as the Government shifted attention to the electricity sector . In this latter sector, little progress was made in passing a framework law for privatizing the electricity sector and support for it in Congress has waned. The overall achievements of the PSMTAC in this area were moderate .

In administrative reform , objectives of the PSMTAC were partially achieved . Consultants helped to formulate the institutional restructuring plans in key secretariats and central government entities and to update relevant laws; the project financed further consultancy, equipment and training to assist in the implementation of the programs and to train staff in the relevant government units . After downsizing, the civil service is similar in size to other Central American countries. The social security component was less successful (see para. 5).

In public management , the objectives of the PSMTAC were partially achieved . The action plans in both human resource and financial management were carried out as anticipated, and as a result a human resource management system and a modern financial administrative system are now in place . 25,000 posts in the central administration were classified and an appropriate salary structure established; a human resource data base was made operational and problems, such as absenteeism, multiple employments, and excessive administrative posts, have been identified, but not yet corrected . In financial resource management, consultants put in place an integrated information system that is functioning, providing real time information, with improved accuracy, and increased transparency.

Public procurement is being improved. Consultants under PSMTAC designed a decentralized system and are helping to implement it. Activities included development of procedures and norms and staff training . The expected results are economies of scale and increased transparency of procurement .

4. Significant Outcomes/Impacts:

Interestingly, components of the PSMTAC that were not supported by the adjustment credit, such as social security reform and ports reform, did not do as well as components that were subject to conditionality under the adjustment credit. Thus, it seems likely that successful outcomes were attributable to a combined effort of both operations, one reinforcing the other. In private participation in public services, it was not as great as expected in either the telecommunications or electricity sectors. Telecommunication service has, nevertheless, improved, with more private agents offering non-basic services, and expanded coverage and quality of services . The tariff structure has been modified. In the electricity sector, since 1996, there has been an improvement in coverage of households receiving electricity; lower average prices paid to generators due to more competition from private providers, and a decrease in distribution losses. In civil aviation, outcomes exceeded expectations, and air traffic has grown substantially.

Likewise, the administrative reforms underway are far-reaching and may lead to a more streamlined and efficient public service. However, recent salary increases in the health and education sectors are undermining the progress achieved in containing expenditures through rationalizing employment .

Finally, progress was made in establishing both a human resources management system and a financial resources management system, although significant challenges remain (para. 5).

5. Significant Shortcomings (including non-compliance with safeguard policies):

Telecommunications : HONDUTEL was not privatized, although it was brought to the point of sale . Only one bid was received, and it was below the Government's base price . It is not clear from the ICR how much responsibility lies with the consultants for over-optimistic expectations. Telecommunications services remain in public hands . **Electricity** : In spite of consultants' efforts to provide support to the Government to concession electricity, it remains in public ownership and management. Coverage and quality of telephone and electricity services in Honduras remain well below the service levels in other countries in the Region .

Administrative reform : Although the consultants fulfilled their objectives in putting in place a reform program that has been largely implemented, the wage bill has continued to increase, mainly due to the increased salaries of teachers and health workers, and reached 10 percent of GDP in 2001 compared to 8.2 percent at the outset of the reforms . Thus the main objective of the administrative reform, to reduce expenditures, was not achieved, and fiscal sustainability is still an important issue .

On social security reforms, consultants prepared three proposals for reforming social security, but no action was taken. The focus of the administration turned to emergency relief and reconstruction following Hurricane Mitch, and, although the President has approved a new law with some improvements to the Honduran Social Security Institute,

the pension system is still in danger of collapse and further reforms are urgently needed .
In public management , the consultants put in place both human and financial resource management systems .
 There remains the more difficult task of correcting the problems identified through the creation of the human resources data base (absenteeism, multiple employments, gaps between official and actual functions, and skewed allocation of administrative posts relative to operational posts), which will involve unpopular measures . The ICR concluded that the Civil Service Directorate, in spite of training received under this TA project, is not up to the challenge.

6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Satisfactory	Moderately Satisfactory	This credit was put in place to support the Government in carrying out an ambitious reform program. Although most of the inputs were delivered as planned, the outcome and impact of those inputs fall somewhat short of their objectives . For increasing private participation in public services, privatization of ports was dropped, and telecommunications and electricity sectors were not privatized, although private participation has increased and services have improved . There were substantial administrative reforms and employment cutbacks that the PSMTAC helped to put in place, but the basic objective of reducing administrative expenditures was not met . Social security reforms were not carried out. Finally, the credit supported important improvements in systems for human and financial resource management, but the challenge of dealing with many problems now identified, particularly in human resources, remains .
Institutional Dev .:	Substantial	Substantial	
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with '*' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

1. Combining instruments, with a TA project complementing an adjustment credit was important for a successful design and implementation of the reform process .
2. The commitment of the Government was demonstrated throughout the process by high -level attention to the reform program, adoption of detailed implementation programs prior to credit effectiveness, proper staffing of counterparts, and a pro-active approach to privatization, including discussions with the private sector . In spite of this, however, the Government failed to follow through on some important reforms, including privatization and social security; cutting back administrative expenditures; and dealing with problems such as absenteeism and multiple employments of civil servants. Hurricane Mitch also played an important role in detracting Government's attention from the ambitious and complex reform program. Therefore, Government commitment is a necessary, but not sufficient condition for success of complex reforms .

8. Assessment Recommended? Yes No

9. Comments on Quality of ICR:

The quality of the ICR is good, with a detailed discussion of each component and a frank assessment of its strengths and weaknesses. Overall, it is a thorough job and the lessons learned at the end are for the most part thoughtful and consistent with the story.

The report could have explained, however, why the project cost turned out to be only about 70% of expected cost at appraisal, although the program was implemented apparently in its entirety . In addition, there are some seeming (minor) inconsistencies: there was significant emphasis on capacity building of DGSC (para c1 and several of sub-paragraphs describe improvements in DGSC operations); but on page 15 in the last sub-paragraph of this section, the report states that the DGSC remains institutionally and technically weak, is not up to the challenge of

managing human resources, and is in the process of being undermined by a shift of responsibility to a higher -ranked unit. This suggests that the efforts to strengthen it were not successful, and in any case are likely to be in vain if its managerial responsibilities are to be diminished or eliminated. An explicit acknowledgement of this outcome for DGSC would have been appropriate. Finally, under lessons learned, the statement about the importance of transparency in privatizations and concessions is probably true, but it doesn't emerge from the particular experience of the PSMTAC (if the consultants were instrumental in ensuring transparency, this was not mentioned in the text); it is a more appropriate lesson for the PSMSAC.