Statement by Patricio Rubianes  
Date of Meeting: December 14, 1999 

HONDURAS: Country Assistance Strategy  

1. Medium Term Objectives:  

We very much appreciate the opportunity to comment on the Bank Group’s strategy to support the Honduran Government macroeconomic efforts. The country’s active work to recover from a devastating natural disaster is also commendable. The proposed CAS is well aligned with the Government’s priorities: poverty reduction, public sector reform, and infrastructure rehabilitation and private sector development.

2. Challenges ahead:  

We appreciate the statement distributed by Mr. Ferrer’s office on macroeconomic performance, social sector, and structural reforms, which allows us to be selective with our comments. Nevertheless, we are concerned about poverty levels, which are still high and became worse with hurricane Mitch, as well as about regional imbalances.

To change this situation, acceleration in economic growth is necessary, but at the same time increased efficiency of public expenditure in the social sectors is needed. Private sector involvement is crucial, particularly to overcome the heavy dependency on commodity prices of exports, and improve disaster management prevention.

We concord with the Honduran Government that IFC should orient its efforts to finance SMEs, in order to contribute to the reduction of unemployment problem, and get involved in the strengthening of its domestic financial sector.

3. The Aftermath of Hurricane Mitch:
We encourage the Government and the WBG to continue with a sustained longer-term reform in the social sectors. In Education, by training teachers, improving the quality of education and incorporating community participation in primary education and articulating the content of basic and secondary education.

In the Health sector, there is also the need to improve the health decentralization services, responsibilities and budgets, as well as focusing on bonds' targeted to the poors programs (PRAF) and a communication system to solve health emergency needs in remote rural communities.

4. CAS Scenarios:

The balance between lending and non-lending services in Honduras is acceptable, due to the enormous external aid after Mitch. Thus, the WBG’s experience in other countries could be transmitted through technical advice, as well as by aid coordination. Nevertheless, a long-term strategy of IDA lending is expected to support Honduras efforts to correct structural imbalances.

The poverty reduction strategy agenda is too wide, although, the proposed IDA base case lending scenario of US$ 317 million appears to be reasonable, specially after the reconstruction of damages caused by Mitch. It is reasonable to focus on strengthening the financial sector by adding an adjustment operation to reach the high case-lending scenario of US$ 367 million.

5. HIPC Preliminary documents:

The Government’s commitment to prepare itself the Poverty Reduction Strategy by the year 2000 and its performance during the execution of the ESAF program, are good prerequisites to receive financial assistance from HIPC. Therefore, we believe Honduras qualifies for the Enhanced HIPC Initiative, as recommended in the very-well prepared joint debt sustainability and eligibility analysis.

We also agree with the recommendation and conditions to have Honduras Final HIPC document in 2000, and in providing interim assistance between the decision and completion points, which is crucial to Honduras’ poverty reduction program.