Central America Social Expenditures and Institutional Review

HONDURAS

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Health, Nutrition and Population Global Practice
Social Protection and Labor Global Practice
Latin America and the Caribbean Region

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# Table of Contents

List of Figures ......................................................................................................................... 3  
List of Tables ........................................................................................................................... 5  
Acronyms .................................................................................................................................. 6  
Acknowledgments ..................................................................................................................... 8  
Executive Summary .................................................................................................................... 9  
I.  Context ................................................................................................................................ 15  
II.  Recent Trends in Social Spending in Honduras ...................................................................... 19  
III. Performance and Challenges in Education ............................................................................. 25  
     III.1  Recent Evolution of Education Public Spending ............................................................ 25  
     III.2  Performance of Education Indicators ............................................................................ 30  
     III.3  Institutional Arrangements .......................................................................................... 38  
IV.  Performance and Challenges in Health ................................................................................. 40  
     IV.1  Recent Evolution of Health Public Spending ............................................................... 40  
     IV.2  Performance of Health Indicators ................................................................................ 48  
     IV.3  Institutional Review: Progress and Challenges .............................................................. 53  
V.  Performance and Challenges in Social Protection and Labor ................................................ 61  
     V.1  Recent Evolution of Social Protection and Labor Public Spending ................................. 61  
     V.2  Social Security ............................................................................................................... 62  
     V.3  Social Assistance and Subsidies .................................................................................... 63  
     V.4  Labor Market Policies and Programs .......................................................................... 68  
     V.5  Institutional Arrangements ............................................................................................ 73  
VI. Conclusion and Policy Recommendations ............................................................................ 74  
     VI.1  Education .................................................................................................................... 75  
     VI.2  Health ........................................................................................................................ 77  
     VI.3  Social Protection and Labor ....................................................................................... 80  
Annex ....................................................................................................................................... 83  
Bibliography ............................................................................................................................ 87
List of Figures

Figure 1: Annual GDP growth in Honduras and Central America, 2001-2013 .................................................................15
Figure 2: Poverty rates in Honduras 2007-2013 ...............................................................................................................16
Figure 3: Income inequality in Honduras and Central America ..........................................................16
Figure 4: Social Spending as a % of GDP by country 2012 (%) .................................................................20
Figure 5: Social Sector Spending in Honduras, 2007-2012 .................................................................................20
Figure 6: Social Sector Spending Per-capita Constant dollars - PPP (2007) .................................................20
Figure 7: Central Government Overall Balance, 2007-2013 .................................................................21
Figure 8: Budget Execution, 2007-2012 ......................................................................................22
Figure 9: Public Sector Performance and Efficiency in Honduras and LAC, 2010 ........................................24
Figure 10: Production Possibility Frontier (Data Envelope Analysis) for Total Social Public Spending, Honduras and LAC, 2010 ........................................................25
Figure 11: Public spending on education versus GDP per capita (circa 2011) ...................................................26
Figure 12: Public Spending on Education (PPP, US$ 2007 million) 2007-2012 ..............................................26
Figure 13: Public Spending on Education as a % of GDP 2007-2012 .................................................................26
Figure 14: Public spending on education by level, selected countries sorted by GDP per capita (circa 2011) .........................................................................................................................27
Figure 15: Evolution of real per student public spending by level, 2007-2012 ..........................................................28
Figure 16: Wage bill as a percentage of public education spending, circa 2011 ........................................29
Figure 17: LAC Teacher Salaries in relation to GDP per capita, circa 2010 .................................................30
Figure 18: Student/teacher ratio in secondary public education in relation to GDP per capita, circa 2011 ..................................................................................................................................................30
Figure 19: Net enrollment rate by level, 2007-2013 ..................................................................................31
Figure 20: Secondary education, net enrollment rate (circa 2011) ...........................................................31
Figure 21: Gross attendance rate in secondary education, by geographic location, 2007-2013 ..........32
Figure 22: Gross enrollment rate in secondary education, by socioeconomic status, 2007-2013 ........32
Figure 23: Urban attendance rates of youth aged 13-18, by type of school and income quintiles, 2013 (percent) ..........................................................................................................................................................33
Figure 24: Rural attendance rates of youth aged 13-18, by type of school and income quintiles, 2013 (percent) ..........................................................................................................................................................33
Figure 25: Attendance rates of students aged 5-20, by geographic location 2013 (percent) ..............34
Figure 26: Attendance rates of students aged 5-20, rural areas 2007 and 2013 (percent) ..............34
Figure 27: Percentage of students by performance level, Reading and Mathematics, 7th to 9th grade, 2013 ..................................................................................................................................................35
Figure 28: Percentage of students by performance level, by location, Mathematics, 7th to 9th grade, 2013 ..................................................................................................................................................35
Figure 29: TIMSS 2011 Mathematics 4th grade and GDP per capita (6th grade for Honduras) ..........36
Figure 30: PIRLS 2011 4th grade and GDP per capita (6th grade for Honduras) ..............................................36
Figure 31: TIMSS 2011 Mathematics 8th grade and GDP per capita (9th grade for Honduras) ..........36
Figure 32: Teachers’ use of class time, selected Latin American countries or regions, 2011 ..............37
Figure 33: Variance in instructional time across schools, Honduras 2011 .................................................37
Figure 34: Variance in instructional time within schools, Honduras 2011 ..................................................37
Figure 35: Average perception of public education versus private education, selected countries, 2011 ........................................................................................................38
Figure 36: Institutional Framework of the Education System .............................................................................38
Figure 37: Public Health expenditure, (% of GDP) vs GDP per capita, PPP 2012, Honduras compared with CA, LAC, LMICs, and some comparator countries (2011) ..................41
Figure 38: Per capita public spending on health (PPP) in Honduras relative to CA, LAC and other comparator countries (2011) ........................................................................................................41
Figure 39: Share of Public Health Expenditures relative to Total Public Expenditures in CA, 2012.42
Figure 40: Trends in per capita public spending on health in PPP, constant 2007 prices ...............42
Figure 41: Individuals who consulted a public facility when ill by income quintile (%) ..........44
Figure 42: Individuals who used public hospitals for inpatient services (%) .................................44
Figure 43: Per Capita Spending: IHSS* and MOH, 2007 to 2012 .............................................................45
Figure 44: MOH: Average Expenditures Shares by Category: 2007-2011 ....................................................46
Figure 45: IHSS expenditure shares by category: 2007-2011 .................................................................46
Figure 46: Hospital Expenditures Share of Total Public Expenditures on Health: Average 20012 (percent) ...................................................................................................................47
Figure 47: MOH Expenditures on Main Programs: 2005-2011 (constant 2000 lempiras) .................47
Figure 48: Under-Five Mortality Rate, per 1,000 ..........................................................................................48
Figure 49: Maternal Mortality Rates, per 100,000 .......................................................................................49
Figure 50: Prenatal care provided by medical doctor ..................................................................................50
Figure 51: Professionally assisted deliveries .............................................................................................50
Figure 52: Access to all types of health insurance (%) .............................................................................50
Figure 53: LAC Ave., CA Ave., HN OOP as % of private spending ...............................................................51
Figure 54: Consultation of health providers when ill in the last 30 days, by income level (percent) 52
Figure 55: Reasons for not consulting health provider, by income quintile (percent) .................52
Figure 56: Institutional Overview: Health Sector Service Provision and Financing in Honduras* ....53
Figure 57: Level of satisfaction with hospitals, CA and Honduras 2011 ....................................................56
Figure 58: Health Worker Ratios per 10,000 Inhabitants ...........................................................................58
Figure 59: Changes in Health Staff to 10,000 Population Ratios .................................................................58
Figure 60: Geographical Distribution of Health Personnel (percent) .........................................................59
Figure 61: Social Protection and Labor Spending: as a % of GDP, 2007-2012 .........................................62
Figure 62: Social Protection and Labor Spending: as a % of GDP: Honduras and Central American countries, 2012 .................................................................................................................62
Figure 63: Coverage of Social Security, 2007-2013 ...................................................................................63
Figure 64: Social Assistance and Labor spending in Honduras as a % of GDP, 2007-2012 ...........64
Figure 65: Social Assistance and Labor spending in Honduras and CA countries as a % of GDP, 2012 .........................................................................................................................................64
Figure 66: Percentage of beneficiaries and spending of main CCTs in CA countries - poorest quintile ........................................................................................................................................66
Figure 67: Beneficiary incidence of major social protection programs in Honduras, 2013
Figure 68: Type of Employment by Age Group, Honduras 2013.
Figure 69: Unemployment rates (%) by age groups, Honduras 2007-2013
Figure 70: Unemployment rates (%) by location, Honduras 2007-2013
Figure 71: Unemployment rates (%) by level of education, Honduras 2007 and 2013
Figure 72: Spending of Public Training Institutions in Central America, 2012
Figure 73: Training Opportunities for the Unemployed by Income Quintile, 2007
Figure 74: Evolution of Real Minimum Wages in Honduras and Central America, 2000-2011
Figure 75: Change in wage pay by Educational Level, 2007-2013

List of Tables

Table 1: Selected Human Development Indicators, Honduras, LAC, Central America, and Closest Income/Population Comparators, 2000-2011
Table 2: Changes in Public Expenditures on Health (percent shares of GDP and TPS, total and per capita) in Nominal and Real Terms
Table 3: Trends in MOH Facility Expansion, 1990 to 2012
Acronyms

ADePT  World Bank’s Software Platform for Automated Economic Analysis
ALMP  Active Labor Market Program
CA  Central America
CBOs  Community-Based Organizations
CCT  Conditional Cash Transfer
CENISS  Centro Nacional de Información del Sector Social (National Center for Information on the Social Sector)
CEPAL  Comisión Económica para América Latina (Economic Commission for Latin America)
CIM  Inter-institutional Committee on Drugs
COMDEs  Consejos Municipales de Desarrollo Educativo (Municipal Councils for Educational Development)
CONEANFO  Comisión Nacional para la Educación Alternativa No Formal (National Commission for Alternative Non-Formal Education)
DEA  Data Envelope Analysis
EDSTATS  World Bank Education Statistics Database
EHPM  Encuesta de Hogares de Propósitos Múltiples (Multiple Purpose Household Survey)
ENCOVI  Encuesta Nacional de Condiciones de Vida (National Survey of Life Conditions)
ENDESA  Encuesta Nacional de Demografía y Salud (National Survey of Demographics and Health)
EVM  Estrategia para una Vida Mejor (Strategy for a Better Life)
FHISS  Fondo Hondureño de Inversión Social (Honduras’s Social Investment Fund)
FOPRIDEH  Federación de Organizaciones No Gubernamentales para el Desarrollo de Honduras (Federation of Non-Governmental Organizations for the Development of Honduras)
FLE  Fundamental Law of Education
GoH  Government of Honduras
HIV  Human Immunodeficiency Virus
HR  Human Resources
ICEFI  Instituto Centroamericano de Estudios Fiscales (Central American Institute for Fiscal Studies)
IHSS  Instituto Hondureño de Seguridad Social (Honduras’s Social Security Institute)
INPREMA  Instituto Nacional de Previsión del Magisterio (National Pension System for Teachers)
INFOP  Instituto Nacional de Formación Profesional (National Institute for Professional Training)
INJUPEMP  Instituto Nacional de Jubilaciones y Pensiones de Empleados Públicos (National Institute for Public Sector Employees’s Pensions)
LAC  Latin American and the Caribbean
LMIC  Lower middle Income Country
LSESCP  Law for the Strengthening of the Education Sector and Community Participation
MDG  Millennium Development Goal
MIC  Middle-Income Country
MIS  Management Information System
MMR  Maternal Mortality Rate
MOF  Ministry of Finance
MOH  Ministry of Health
NCD  Non-communicable disease
NGO  Non-governmental Organization
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<tr>
<th>Acronym</th>
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<tr>
<td>OABI</td>
<td>Oficina Administradora de Bienes Incapacitados (National Office for the Administration of Seized Goods)</td>
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<td>PAHO</td>
<td>Pan American Health Organization</td>
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<td>PATI</td>
<td>Temporary Income Support Program</td>
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<td>PHC</td>
<td>Primary Health Care</td>
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<td>PIRLS</td>
<td>Progress in International and Literacy Survey</td>
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<tr>
<td>PRAF</td>
<td>Programa de Asignación Familiar (Family Allowance Program)</td>
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<tr>
<td>PSE</td>
<td>Public Sector Efficiency</td>
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<td>PSP</td>
<td>Public Sector Performance</td>
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<tr>
<td>RAMNI</td>
<td>Accelerated Reduction of Maternal and Child Mortality Initiative</td>
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<tr>
<td>RBM</td>
<td>Resource-Based Management</td>
</tr>
<tr>
<td>ROI</td>
<td>Registro de Oferta Institucional (Registry of Institutional Programs)</td>
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<tr>
<td>RUB</td>
<td>Registro Único de Beneficiarios (Unique Beneficiary Registry)</td>
</tr>
<tr>
<td>SDS</td>
<td>Secretaría de Desarrollo Social (Ministry of Social Development)</td>
</tr>
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<td>SEDUC</td>
<td>Secretaría de Estado en el Despacho de Educación (Ministry of Education)</td>
</tr>
<tr>
<td>SEPLAN</td>
<td>Secretaría Técnica de Planificación y Cooperación Externa (Technical Secretariat for Planning and Donor Cooperation)</td>
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<tr>
<td>SIAFI</td>
<td>Sistema Integrado de Administración Financiera (Integrated System for Financial Management)</td>
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<td>SPL</td>
<td>Social Protection and Labor</td>
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<td>STA</td>
<td>Superior Tribunal of Accounts</td>
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<tr>
<td>SUEPPS</td>
<td>Sistema Único de Evaluación de Políticas Públicas Sociales (Unified System for the Evaluation of Social Public Policies)</td>
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<td>Trends in Mathematics and Science Study</td>
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<td>WHO</td>
<td>World Health Organization</td>
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Acknowledgments

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Executive Summary

Honduras has experienced moderate economic growth in the past decade, in line with the rest of the region. Despite this growth track record, limited opportunities for decent jobs for the majority of workers have resulted in stagnant poverty and inequality rates that are still the highest in Central America (CA).

In parallel, progress in human development indicators has also been mixed in the last decade. In education, while primary enrollment has significantly increased, low coverage at all other levels of education, inequalities in access and low quality persist. In health, Honduras is close to achieving the 2015 child mortality Millennium Development Goals (MDGs), but maternal mortality, non-communicable diseases (NCDs), and violence pose additional challenges. And despite advances in setting up a social protection system, fiscal sustainability and lack of coordination among interventions prevail, undermining poverty reduction efforts.

The ability of the Honduras government to expand safety nets, to increase the access and quality of public education and health services, to engage in active labor market policies, and to improve human development indicators in general, remains limited for a number of reasons. First, overall real social public spending has been on the decline in the last few years. Second, low revenues and fiscal deterioration pose challenges to adequately financing needed social sector improvements. Third, challenges in budget formulation and execution (mainly due to institutional factors) also diminish the impact of social spending. But more importantly, Honduras needs to significantly improve the effectiveness and efficiency of its social spending.

This note argues that moving forward Honduras should prioritize three main aspects: a) to rationalize and increase the effectiveness of social public spending by enhancing the pro-poor features of targeting mechanisms; b) to significantly redress the imbalance between recurrent spending, especially the wage bill, and capital expenditure; and c) to continue strengthening information systems’ tools, legislation, and institutions in an effort to consolidate programs into fewer and higher impact interventions. Sector-specific challenges aligned with these broad objectives are addressed below.

Education: High spending, meager results; catalyzing a new institutional framework to deliver results

The level of public spending on education in Honduras is high by international standards and is mostly focused on primary education. In 2012, Honduras’ public spending on education accounted for 5.9 percent of the Gross Domestic Product (GDP). This level of fiscal effort on education is higher than both the average for the Latin America and the Caribbean (LAC) Region and the average for countries in the Organization for Economic Cooperation and Development (OECD). A
first explanation for such a high relative level of spending is the wage bill: in Honduras, more than 90% of the public expenditure on education is allocated to salaries. This is a share that is higher than almost any comparable lower middle-income country, and, certainly, the highest rate in the Latin America region. Such a high wage bill in the Education Sector’s budget is partially attributed to the relatively high level of teacher salaries, especially after a massive increase in the minimum wage that took place in early 2009. If it is taken into account that the bulk of Honduran teachers graduated from a Teacher Training High School (known as “Escuelas Normales”) and therefore hold a secondary education degree, their salaries are, on average, higher than comparable tertiary education graduates. Probably due to such significant returns to becoming a public school teacher, there does not seem to be a shortage of teachers in the country. This could be evidenced in the average student-teacher ratios, whose orders of magnitude are in line with comparable CA countries.

Despite such high relative levels of public spending on education and teacher wages, Honduras faces significant challenges in all other fronts: coverage, equity and quality of education. In regards to coverage, only primary education (grades 1 through 6) has become universal. But access at all other levels of education (pre-primary, secondary and higher education), however, continues to be strikingly low. One of the reasons behind the low coverage rates lies in the equity of educational services. Honduras presents significant within-country inequalities, across income levels and geographic locations. Many areas of the country still faces significant shortages of both pre-primary and secondary education institutions, thereby limiting the opportunities for primary school preparedness and for continuation beyond this level. Arguably, the equity factor was fueled by a legislation that, up to 2012, only considered primary education as compulsory education. A final challenge is pervasive across the board: quality. Both national and international tests suggest that the majority of Honduran students do not reach satisfactory levels of grade-appropriate literacy and numeracy skills.

Looking ahead Honduras faces a tough task: improving both access and quality without affording to spend more in the Education sector. In other words, how to do more with the resources the country is already investing in the sector? How to make expenditure far more efficient and, at the same time, move beyond universal primary education while significantly increasing quality? There is no silver bullet and significant trade-offs will have to be considered and assessed. But, at least the core legal instruments seem to be already in place. The 2011 Law for the Strengthening of the Education Sector through Community Participation (LSESCP), the 2012 Fundamental Law of Education (FLE) – including its 22 By-Laws approved in August 2014 – and the Draft Law on Decentralization (DLD) are important institutional vehicles carrying several clear messages. The first one is the new bar set for access: compulsory education in Honduras comprises now twice as many years of education than before, i.e. from kindergarten through the end of secondary education (K-11/12). The second one is a renewed focus on quality, with the streamlining of an “evaluation culture” and a higher bar for new entrants into the teaching profession by setting 2016 as the year in which any new teacher in the system will have to be a higher education graduate. The third message is the role played by lower levels of government and communities in the provision and management of education. The draft of the Decentralization Law, currently being discussed and expected to be
passed by Congress before the end of 2014, stipulates that both the pre-primary and primary education levels are expected to be fully decentralized to municipalities. The new decentralized system is expected to not only increase the quality and access of provision of educational services from K-6, but also to have communities, through institutional bodies already approved by law (the Municipal Councils of Educational Development or COMDEs), take on increasing responsibilities for the management of education.

Moving forward it is critical for Honduras to finalize the Education Strategy 2015-2018 and prepare a new Education Sector Plan 2015-2018 that could focus on the aforementioned challenges building on the significant fiscal effort already made. In the short term, this would imply different actions, including the development of a clear roadmap for the implementation of the FLE and the LSESCP starting in 2015, the preparation of a detailed needs assessment (both physical and financing gaps) for designing interventions with better targeting features, and the design of a medium-term plan to create more fiscal space within the Ministry of Education (SEDUC)’s budget for slowly reducing the share of the wage bill and reallocate savings into quality enhancing inputs.

Recommended medium term priorities (i.e. over a 3- to 5-year horizon) include an aggressive skills development strategy for both teaching and non-teaching staff, in line with the upcoming changes in the provision and management of education, and a much stronger focus on monitoring and evaluation of educational programs or interventions. As for the former, while the new cohorts get trained and this flow gradually starts upgrading the stock of existing teachers at all levels, substantial in-service training will be needed to get older teachers to get up to speed and significantly improve performance in front of their classes. Concerning the second initiative, the assessment of the cost-effectiveness of new and ongoing interventions are critical steps to improve targeting of public spending. A potentially good initiative would be the establishment of a Research Department within the organizational structure of SEDUC.

Health: Progress in reducing coverage gaps and enhancing sector performance with challenges in improving quality, efficiency, and accountability

Public spending on health is lower in Honduras than average in CA and LAC countries, and tends to be generally lower than countries with similar incomes/characteristics. Between 2007 and 2012, Honduras’ total public spending on health increased in nominal and real terms but its per capita public spending on health declined in real terms from 2007 to 2012.

Two main agencies oversee the public health sector in Honduras. Specifically, the Ministry of Health (MOH) and the Honduras Social Security Institute (IHSS) account for at least 98 percent of total public expenditures on health. From 2007 onwards, the MOH (the main provider of health services in the country), increased its expenditures on primary health care (PHC) related services while it continued to spend more on hospitals. Both the MOH and the IHSS allocated the majority of their spending on salaries.
The increased spending on PHC-related services (integrated family care, coverage extension through decentralized health facilities, and environmental sanitation and health promotion) has yielded positive results. However, challenges remain with regard to certain outcomes and in closing coverage gaps. For example, under-five child mortality and chronic malnutrition have declined. Coverage rates for immunizations and services such as prenatal care have also increased. However, the country needs to address maternal mortality and the increasing threat of NCDs. It also needs to reduce disparities in access to services between urban and rural areas and across income quintiles. Access to financial protection also remains an issue as Honduras has one of the highest out-of-pocket spending shares out of total health expenditures in the LAC region.

Progress has been achieved in certain institutional and governance aspects but challenges remain, particularly in enhancing accountability. In recent years, the MOH has moved toward assigning budgets based on planned activities linked with targets; it has also performance-based contracts with decentralized facilities and will be piloting performance-based contracts with some public hospitals with the goal of expanding this to all public hospitals by 2018. Decentralization efforts have advanced mainly through the increase in community-based PHC facilities in rural areas, reaching at least 10 percent of the population in 2012. Transparency in the sector has also improved as a result of the active participation of civil society groups such as Transformemos Honduras (Let’s Transform Honduras) and the Federation of Non-Governmental Organizations for Honduras’s Development (FOPRIDEH) in highlighting sector weaknesses and calling for reforms. Despite these improvements, however, the sector continues to face challenges, particularly in the management of human resources and drugs which have an impact on service quality. IHSS also suffered a financial crisis and allegations of mismanagement that lead to the replacement of its Board.

In moving forward, recommended short-term priorities in the sector would be: (a) ensuring that the 2014-2018 Health Sector Plan has a well-defined and costed operational plan that prioritizes cost effective prevention and health promotion services and other short-term actions to improve human resources (HR) distribution and performance including undertaking a feasibility study on the use of mobile-health to bridge the HR gap, as well as complementary measures to support recent drug procurement reforms. It is recommended that this plan be based on an inventory and mapping of facilities (including their human resources and equipment); (b) a more in-depth review of the draft Social Protection Law, which includes provisions for expanding financial protection using different health insurance regimes that - while well intentioned- could inadvertently contribute to sector fragmentation and also increase demands on IHSS’ limited capacity; and (c) the actions to strengthen IHSS management and improve its financial solvency while holding legally accountable the persons responsible for its mismanagement. Recommended medium-term priorities would be: (a) the preparation and implementation of an HR strategy that would attract and retain more health workers in the public sector; (b) the development of a phased and budgeted strategy to move toward an integrated health system that would enhance access and financial protection while minimizing disparities across population groups; (c) the generation of additional resources to fund the expansion of results-based management in the sector; and (d) the implementation of stronger
and consistently applied measures to improve accountability in the sector to support ongoing reforms.

**Social Protection and Labor: Managing expansion of resources and institutional reform in a tight fiscal environment**

Honduras spends around 6.1 percent of GDP (data for 2012) in social protection and labor (SPL) programs, slightly higher than the CA average. Within this sector, social security still accounts for the majority of spending (4.6 percent of GDP). However, more recently the government has expanded access and spending in social assistance and subsidies from 1.1 percent of GDP in 2007 to 1.5 percent in 2012, also high levels per regional standards, and in a context of severe fiscal challenges that raises doubts about its sustainability. Further expanding budget envelope to SPL (in particular its social assistance and subsidies components) is thus not recommended. Yet, within the current spending envelope, there are tensions in the allocation and financing of untargeted, government financed subsidies vs. social assistance programs, which are targeted social, and mostly donor financed, such as the Bono 10,000 Conditional Cash Transfer (CCT) Program.

Social security payments absorb a large proportion of SPL resources, only behind Costa Rica and Panama in the region. But in Honduras it benefits a much lower proportion of the population: only thirteen percent of the elderly aged 65 years or more benefit from pensions (versus 68 percent in Panama and 62 percent in Costa Rica). The main pension system is under the responsibility of the IHSS, which covers health, old-age pensions, and professional risks for employees of private enterprises, but to which contributes only 18 percent of the labor force. Social pensions put in place recently are slowly trying to fill the gap in coverage, but benefits are meager, and its expansion is constrained by fiscal resources: a poverty-targeted social pension that covers the minimum income required for pensioners to escape extreme poverty would need resources equivalent to 1.6 percent of GDP.

The Bono 10,000 Program is an important pillar of the SPL system and of the new Government’s Strategy for Better Life (“Estrategia para una Vida Mejor” or EVM), impacting livelihoods of poor families in a high-poverty country. Its increasing resource envelope now reaches 0.5 percent of GDP, only below Ecuador in LAC as the largest CCT program in the region in terms of share of resources. Nonetheless, Bono 10,000 could be strengthened by limiting its reach only to the extreme poor (to address pressures for expanded coverage), revising the menu of benefits (to manage fiscal cost) and its conditionalities (to further close gaps in human development indicators), as well as stabilizing its operational cycle and improving its payment and information systems.

Honduras could reduce or better target expensive and inefficient subsidies in electricity and others, which are representing a large amount or resources (0.5 percent of GDP) and are based on consumption thresholds and prone to fraud, rather than on living conditions. As international experience has shown, these could be integrated into or replaced by CCT benefits such as Bono
10,000. Similarly, given the low coverage of pension systems, there is an opportunity to link the current social pension program to the CCT structure, as in other Latin American countries (Mexico, El Salvador), and in that way save on administrative costs and ensure a more effective implementation. Single payment mechanisms of all benefits and subsidies are also recommended, through for instance a unified card system.

Income vulnerability should also be addressed through labor market policies and programs as well as through regulatory reform (containment of minimum wage increases). Typical labor market interventions in middle-income countries provide employment services through job market information; labor market training; incentives for formalization through apprenticeship programs that reduce labor costs for labor market entrants and for those with low skills; and temporary employment programs that combine workfare with social and community services. Honduras has limited experience in these areas, though resources available are limited, at 0.2 percent of GDP. The majority of these account for programs that focus on training employed adults through the National Institute for Professional Training (INFOP), financed through payroll tax contributions. The new administration has announced a plan to expand on-the-job training opportunities and labor market insertion for vulnerable population, called “Con Chamba Vivis Mejor” (With a job, you have a better life), aimed at creating 25,000 new jobs per year, though resources to its financing are still unclear.

Finally, Honduras is building important tools to better integrate the SPL system overall, including developing a unique beneficiary registry (RUB) and endorsing a more comprehensive Social Protection Policy, but these need still to be fully implemented. EVM seeks to create a comprehensive platform for integrating social policy, bringing together income transfers, labor/employment programs, and programs for specific vulnerable groups. Institutions in the social protection sector have been working up to date with little coordination and with overlapping mandates. However, the new administration has recently undertook a reengineering by creating a new Ministry of Social Inclusion and Development with responsibilities for overall coordination in the social sector and several executing agencies reporting, a fact that is promising though the actual implementation of the reform is to be tested.
I. Context

Honduras has experienced moderate economic growth in the past decade, in line with the rest of the region. Honduras’ economy grew, on average, by 4.3 percent per year between 2001 and 2013 slightly below the 4.5 percent average for the six countries in the CA region (Figure 1). Growth rates remained relatively stable, oscillating between 4 and 6 percent between 2002 and 2008, below only Panama and Costa Rica among neighboring countries. However, a combination of natural shocks (a tropical depression struck on October, 2008), rising fuel and food prices, the global financial crisis, and internal political turmoil contributed to a sharp decline in gross domestic product (GDP) (around 2.4 percent) in 2009, with a recovery below pre-crisis trends (3.5 percent on average in the 2010-2013 period). Despite this decent growth track record, GDP per capita grew at just 2.1 percent annually during the same time period (2001-2013), and, at approximately $2,000 a year, Honduras GDP per capita is still 33% lower than that of Guatemala, and half that of El Salvador.

![Figure 1: Annual GDP growth in Honduras and Central America, 2001-2013](image)

Source: IMF, World Economic Outlook Database, October 2014

Despite this growth track record, limited opportunities for decent jobs for the majority of workers have resulted in stagnant poverty and inequality rates that are still among the highest in Central America. Employment in Honduras grew at around 3.8 percent per year in the 2000s, higher than population growth and in line with economic growth.\(^1\) This figure is also higher than the average for other countries in the region: in Costa Rica and Guatemala employment grew at 3 percent per year over the same period, and in El Salvador, at just 1 percent. However, most of the new jobs created between 2001 and 2011 were in low-productivity high-informality sectors such as

\(^1\) Source: (World Bank, 2012b)
agriculture (half of new jobs), and retail (one-fifth of new jobs), which employ today three-fifths of the labor force. Only a fifth of workers are formal (i.e., with social security benefits), most of them in the public sector or salaried workers in large firms. Not surprisingly almost two-thirds of the population lives below the official income poverty line, a ratio that is the same as in the early decade. Around 42.6 percent of Hondurans live in extreme poverty, a proportion that has not changed much in the past 13 years (Figure 2). Extreme poverty is predominantly higher in rural areas, with 55.6 percent of incidence (vs. 29 in urban areas) in 2013. Income poverty is the highest in the region, even surpassing levels in Nicaragua (at about 40 percent), a country with a lower GDP per capita. This is probably related to the fact that Honduras is still the most unequal country in the Central American region, measured by the Gini coefficient (Figure 3). Therefore, the country faces a major challenge to achieving its National Plan 2010-2022 target aimed at reducing extreme poverty by at least 10 percentage points by 2022 from 2010 levels (40 percent).

**Figure 2: Poverty rates in Honduras 2007-2013**

<table>
<thead>
<tr>
<th>Year</th>
<th>Poverty (%)</th>
<th>Extreme Poverty (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2007</td>
<td>58.2</td>
<td>37.5</td>
</tr>
<tr>
<td>2008</td>
<td>59.2</td>
<td>36.2</td>
</tr>
<tr>
<td>2009</td>
<td>58.8</td>
<td>36.4</td>
</tr>
<tr>
<td>2010</td>
<td>60</td>
<td>39.1</td>
</tr>
<tr>
<td>2011</td>
<td>61.9</td>
<td>41.6</td>
</tr>
<tr>
<td>2012</td>
<td>66.5</td>
<td>46</td>
</tr>
<tr>
<td>2013</td>
<td>64.5</td>
<td>42.6</td>
</tr>
</tbody>
</table>

Source: National Statistical Institute of Honduras.

**Figure 3: Income inequality in Honduras and Central America**

<table>
<thead>
<tr>
<th>Country</th>
<th>Gini Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>El Salvador</td>
<td>0.452</td>
</tr>
<tr>
<td>Nicaragua</td>
<td>0.529</td>
</tr>
<tr>
<td>Costa Rica</td>
<td>0.457</td>
</tr>
<tr>
<td>Panama</td>
<td>0.535</td>
</tr>
<tr>
<td>Guatemala</td>
<td>0.539</td>
</tr>
<tr>
<td>Honduras</td>
<td>0.540</td>
</tr>
</tbody>
</table>

Source: World Bank analysis of household surveys and calculations using standardized ADDePT software (Social Protection Module).

In parallel, progress in human development indicators has also been modest in the last decade. Table 1 shows that, with the exception of several health and nutrition indicators, the evolution of social indicators has been modest when compared with the progress made by more advanced LAC economies, neighbors in the CA region, and also a set of countries that are close comparators in terms of both the size of the economy and the size of the population (Albania, Bolivia, Bosnia and Herzegovina, Georgia, Jordan, and Paraguay). An improvement in human development outcomes is necessary to generate a virtuous circle of productivity and growth.
In education, progress has been mixed, with high levels of enrollment in primary education, but still low and inequitable coverage in all other levels (pre-primary, secondary and higher education), compounded by low quality across the board. Over the last 20 years, the educational attainment of the labor force in Honduras has increased by just 1.5 years of schooling, which is considerably less than the top LAC performers (Brazil, Colombia, Peru, etc.). Nevertheless, Honduras has been largely successful in boosting primary enrollment and completion rates (even more than in other comparable countries), although repetition and dropout rates are still large. And while progress in gross secondary school enrollment are comparable to those in other CA countries, enrollment in higher education lags quite behind, reaching just one in five youngsters in the right age group. This pales with 45 percent tertiary enrollment in the large LAC countries, 36 percent in income/population comparator countries, and 25 percent in CA neighbors. Inequality in access to education is also a concern: for instance, secondary education enrollment rates in rural areas are half of those in urban areas. In addition, the quality of schooling is also quite low. For example, according to the latest National Assessment of Learning Outcomes (2013), only 57 percent of students achieve the satisfactory standards set by SEDUC for mathematics in 6th grade (end of primary education), and only 44 percent attain satisfactory standards in mathematics in 9th grade (end of lower secondary education). Poor teacher performance appears to be one of the reasons, insofar as one-third of the teacher corps do not have satisfactory standards of subject-based knowledge to be in front of a class. But the quantity of the teacher force also seems to play a significant role: student-teacher ratio in Honduras is larger than in neighboring countries and twice as large as in comparable income/population ones.

In health, Honduras is close to achieving the 2015 child mortality and nutrition related MDGs, but maternal mortality, NCDs and violence pose additional budgetary challenges and coverage gaps persist. Infant and maternal mortality rates have declined in Honduras, though only the former is on track to reach the 2015 Millennium Development Goals. A positive result is that more women obtain prenatal care (91.7 percent, which represents a 10 percentage point increase within a decade) relative to other comparable countries although this rate is still slightly lower than the CA average. Honduras also registered important advances in lowering its undernourishment rate which is now close to the LAC average (10 percent). As with the rest of LAC, Hondurans are increasingly prone to non-communicable diseases (NCDs), which are now the main cause of death and disability in Central America (mainly cancer, cardiovascular, chronic respiratory, and digestive diseases, neuropsychiatric disorders, and diabetes). The burden of disease of NCDs will continue to increase as Honduras and the rest of Central America experience a demographic and epidemiological transition, as well as increasing urbanization, and countries need to be prepared and innovative to tackle the economic and budgetary challenges that NCDs will pose while addressing health coverage gaps which in the case of Honduras is estimated to be between 18

3 (SEDUC, 2014).
4 (Bonilla-Chacin & Marcano Vasquez, 2012)
to 25 percent. More recently, crime and violence have emerged as key development issues in the region. Honduras’ homicide rate is among the highest in the world; injuries caused by alcohol abuse and traffic accidents have also increased.

Table 1: Selected Human Development Indicators, Honduras, LAC, Central America, and Closest Income/Population Comparators, 2000-2011

<table>
<thead>
<tr>
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<tbody>
<tr>
<td><strong>Education</strong></td>
<td></td>
<td></td>
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<td></td>
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<td></td>
</tr>
<tr>
<td>School enrollment, preprimary (%) gross</td>
<td>30.5</td>
<td>41.1</td>
<td>66.1</td>
<td>82.2</td>
<td>55.3</td>
<td>59.4</td>
<td>39.3</td>
<td>39.2</td>
</tr>
<tr>
<td>School enrollment, primary (%) gross</td>
<td>111.9</td>
<td>116.5</td>
<td>113.2</td>
<td>113.2</td>
<td>111.6</td>
<td>111.9</td>
<td>105.4</td>
<td>103.5</td>
</tr>
<tr>
<td>School enrollment, secondary (%) gross</td>
<td>N/A</td>
<td>67.5</td>
<td>79.1</td>
<td>86.5</td>
<td>62.8</td>
<td>66.5</td>
<td>77.5</td>
<td>80.6</td>
</tr>
<tr>
<td>School enrollment, tertiary (%) gross</td>
<td>16.4</td>
<td>19.7</td>
<td>30.7</td>
<td>45.3</td>
<td>26.5</td>
<td>28.5</td>
<td>29.3</td>
<td>36.1</td>
</tr>
<tr>
<td>Primary completion rate, total (%)</td>
<td>81.8</td>
<td>94.5</td>
<td>99.1</td>
<td>103.7</td>
<td>83.9</td>
<td>86.6</td>
<td>96.3</td>
<td>97.2</td>
</tr>
<tr>
<td>Pupil-teacher ratio, primary</td>
<td>33.5</td>
<td>31.7</td>
<td>24.8</td>
<td>23.0</td>
<td>30.8</td>
<td>28.9</td>
<td>18.8</td>
<td>14.4</td>
</tr>
<tr>
<td><strong>Health</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pregnant women with prenatal care (%)</td>
<td>82.6</td>
<td>91.7</td>
<td>92.2</td>
<td>96.0</td>
<td>86.9</td>
<td>92.1</td>
<td>76.2</td>
<td>80.6</td>
</tr>
<tr>
<td>Undernourishment (% of pop)</td>
<td>15.3</td>
<td>10.6</td>
<td>11.7</td>
<td>9.6</td>
<td>19.1</td>
<td>16.3</td>
<td>16.2</td>
<td>18.2</td>
</tr>
<tr>
<td>Immunization, measles (% 12-23m)</td>
<td>96.2</td>
<td>97.5</td>
<td>94.9</td>
<td>94.9</td>
<td>93.8</td>
<td>93.1</td>
<td>89.9</td>
<td>92.2</td>
</tr>
<tr>
<td>Improved sanitation facilities (% of pop)</td>
<td>68.0</td>
<td>75.4</td>
<td>80.4</td>
<td>83.5</td>
<td>72.5</td>
<td>77.6</td>
<td>79.7</td>
<td>82.8</td>
</tr>
<tr>
<td>Improved water source (% of pop)</td>
<td>83.3</td>
<td>86.4</td>
<td>91.4</td>
<td>93.4</td>
<td>88.6</td>
<td>90.3</td>
<td>90.4</td>
<td>93.3</td>
</tr>
<tr>
<td>Hospital beds (per 1,000 people)</td>
<td>1.0</td>
<td>0.8</td>
<td>2.0</td>
<td>2.1</td>
<td>1.2</td>
<td>1.2</td>
<td>2.5</td>
<td>2.0</td>
</tr>
<tr>
<td><strong>Social Protection and Poverty</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Employment to population, 15+ (%)</td>
<td>59.9</td>
<td>59.9</td>
<td>58.3</td>
<td>60.6</td>
<td>58.8</td>
<td>59.1</td>
<td>51.3</td>
<td>51.1</td>
</tr>
<tr>
<td>Labor force participation, female (%)</td>
<td>42.3</td>
<td>42.9</td>
<td>52.8</td>
<td>56.1</td>
<td>47.6</td>
<td>48.3</td>
<td>47.1</td>
<td>48.3</td>
</tr>
<tr>
<td>Unemployment, total (%)</td>
<td>4.7</td>
<td>3.0</td>
<td>9.8</td>
<td>7.8</td>
<td>6.3</td>
<td>6.0</td>
<td>10.3</td>
<td>13.9</td>
</tr>
<tr>
<td>GINI index</td>
<td>58.0</td>
<td>58.0</td>
<td>54.5</td>
<td>51.5</td>
<td>52.6</td>
<td>52.2</td>
<td>46.0</td>
<td>37.9</td>
</tr>
<tr>
<td>Poverty headcount ratio, rural (%)</td>
<td>76.3</td>
<td>71.0</td>
<td>55.3</td>
<td>47.6</td>
<td>57.7</td>
<td>52.8</td>
<td>57.8</td>
<td>45.9</td>
</tr>
<tr>
<td>Poverty headcount ratio, urban(%)</td>
<td>62.8</td>
<td>58.8</td>
<td>37.6</td>
<td>26.0</td>
<td>26.5</td>
<td>25.4</td>
<td>38.5</td>
<td>27.1</td>
</tr>
</tbody>
</table>

* Argentina, Brazil, Chile, Colombia, Ecuador, Mexico, Peru
** In terms of GDP, GDP per capita, population, population density, and percentage of rural population: Albania, Bolivia, Bosnia and Herzegovina, Georgia, Jordan, and Paraguay

Despite advances in setting up a social protection system, fiscal sustainability and lack of coordination among interventions prevail, which has undermined poverty reduction efforts. Progress in social protection coverage has been positive. As in most LAC countries, Honduras has now a large conditional cash transfer program (Bono 10,000) which provides resources to poor

6 (World Bank, 2011).
families with children to incentivize their parents to invest in their human development i.e. keep them in school (primary) and take them for regular check-ups at health clinics. Still, payment cycle has been erratic, and fiscal sustainability is a concern given its large coverage extended beyond the extreme poor, and the relative generous size of benefits. In terms of social security, severe challenges persist: very few seniors (less than 10 percent) are protected by a contributory or non-contributory pension. With respect to active labor market programs (ALMPs) to equip workers to be more productive and to re-enter the job market, as with other countries in Central America, Honduras has an employer-financed training institutions, but this caters mostly to formal sector employees for the largest firms, and its curricula is not directly linked to the needs of the labor market and the unemployed unskilled workers. Overall, social protection programs are still fragmented across institutions, frequently without a clear mandate, uncoordinated, and overlapping in functions. As a consequence, and together with persistent employability challenges for the majority of the population, the increase in fiscal effort in expanding safety nets has not translated in reductions in poverty and inequality.

II. Recent Trends in Social Spending in Honduras

The ability of the Honduras government to provide social sector policies, and improve human development indicators in general, remains limited for a number of reasons. First, while overall social spending in Honduras is high per CA standards, it has declined in recent years. Unfortunately this situation is likely to remain given fiscal constraints imposed by low tax revenue collection. Second, there are still important social spending leakages due to poor targeting. Finally, many social programs/policies are weakly designed and implemented. The existing institutional arrangements also hinder the effectiveness of public spending, resulting in less-than-desired outcomes.

Overall real social public spending has declined in the last few years. In 2012, Honduras spent about 15.3% of its GDP on its social sectors. This is a higher ratio than in El Salvador, Guatemala, Nicaragua, and Panama, though lower than Costa Rica (at 20.8% of GDP, on the high end in LAC) (Figure 4). However, it is lower than in the past, down from a peak of 18.8 percent in the period 2008-2010 (Figure 5). In absolute real terms, spending per capita also fell in this period, from $651 in 2007 to $471 in 2012 (in $ of 2007) (Figure 6). The fall in social spending mirrors that of total general government spending, which dropped to 40.8% of GDP in 2012 from 47.1% of GDP over the same period (2008-2010).

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7 Throughout the document, “social sector spending” refers to public budget resources in education, health, pensions, social assistance, labor programs, and subsidies. It does not include housing, environment, sports, culture or other sectors used in other reports.
However, the trends in social spending have varied substantially across sectors. The story by sector differs: while education, health, and social security slightly reduced their share of resources, spending in social assistance, labor, and subsidies stepped up recently. Education and social security
represent the largest share of social spending, in particular the former, which at 5.9% of GDP is close to the Costa Rican level and much higher than the rest of the countries in Central America and even South American ones.

**Low revenues and fiscal deterioration pose challenges to adequately financing needed social sector expenditures.** As a percentage of GDP, government revenues in Honduras are low and declining: central government tax revenues and grants fell from 24.5 percent of GDP in 2007 to 22.8 percent of GDP in 2013 (Figure 7). While this ratio is similar to those in neighboring Central American countries, it is half the one in larger LAC economies, and a third of OECD countries. Government revenues are low even though Honduras’ tax rates are similar to those in the rest of LAC, suggesting that tax evasion may be the major problem. Moreover, the Central Government's fiscal deficit has increased in the last five years, reaching 7.6% of GDP in 2013, greater than its 2009 level when the political crisis took place, the economy contracted, and most development grants were suspended. Given limited possibilities for external financing, arrears have accumulated, reaching 2.5% of GDP in 2012, mostly on transfers to municipalities and decentralized institutions, teacher and civil servant allowances, and social security contributions. The deterioration in fiscal accounts will drastically limit the possibilities for further increases in social sector spending.

![Figure 7: Central Government Overall Balance, 2007-2013](image)

Source: IMF, World Economic Outlook Database, October 2014

**There are several challenges in the process for budget formulation and planning that do not facilitate public resource allocation to follow national priorities.** It is important to acknowledge, that in 2010 the country, for the first time, adopted a national plan called “Honduras

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8 (World Bank, 2013).

9 (ICEFI, World Bank, 2013).
Country Vision Plan 2010-2038”, which outlines strategic guide budget priorities, to be implemented under the coordination of the Technical Secretariat of Planning and Donor Coordination (SEPLAN). The Country Vision Plan has a set of performance management indicators; however, budgeting does not follow these results indicators. In addition, while formal annual reviews of the execution of the Country Vision Plan are undertaken, the review process does not properly evaluate how the budget is reaching the national goals. By law (*Ley Orgánica de Presupuesto*), budget formulation in Honduras should follow a medium-term macroeconomic and fiscal framework, including a projection of revenues but this is not happening in practice. Moreover, line ministries should formulate their budgets at the program level and according to the Country Vision plan goals; however, despite receiving periodic training from Secretary of Finance and SEPLAN, they do not follow the guidelines. Another aspect to improve relates to transparency and accountability of budget figures, which are not easily available for public scrutiny. While it is important to acknowledge progress in terms of “open government” (how the government allows public access to budget information, and feedback from citizen participation in budget preparation) by publishing partial budget information, there are several critical aspects to improve in the future for better transparency and accountability. Priorities involve the creation of formal channels for public participation in budget formulation and execution, and the organization of public audiences to discuss the guiding macro-economic framework.

**Budget execution has been decreasing in the last decade and presents important challenges, including in social sectors.** The overall budget execution has deteriorated in recent years, falling from 95 percent of allocated funds in 2007 to 88 percent in 2012 (Figure 8). In the social sectors, the major deviations from planning arise in social protection, usually due to changes in priorities towards other areas during the year, as well as due to the general tight fiscal environment. The budget execution in education has remained mostly stable in the last period, but in health it has declined importantly in the last two years.

![Figure 8: Budget Execution, 2007-2012](source: World Bank / ICEFI social spending database)
Evidence suggests that Honduras needs to significantly improve the effectiveness and efficiency of its social spending. We analyze the relationship between social outcomes and spending through the concepts of Public Sector Performance (PSP) and Public Sector Efficiency (PSE).\textsuperscript{10} PSP is assessed by constructing composite indicators based on observable socioeconomic variables that are assumed to be the output of pursued public policies.\textsuperscript{11} PSE relates PSP scores to their cost in terms of public spending.\textsuperscript{12} The overall assumption behind the assessment of public sector performance and efficiency employing PSP and PSE indicators is that the observed outcome indicators are solely the result of public spending policies. The analysis indicates that social spending is neither effective (in improving outcomes) nor efficient (“value” per dollar spent) in the education sector but effective but less efficient in the health sector, while in the social protection and labor sector, social spending is less effective but more efficient than in other sectors (Figure 9). When compared with other countries, data envelope analysis (DEA) also suggests that Honduras is far away from the LAC “production possibility frontier” (Figure 10).\textsuperscript{13} According with the DEA analysis, Honduras could increase its combined social outcomes by 10 percent with the same level of social spending.

\textsuperscript{10} We follow the methodology of Afonso, Schuknecht, and Tanzi (2005, 2010) for OECD countries, and that of Afonso, Romero, and Monsalve (2013) for LAC.
\textsuperscript{11} For education, we focus on gross secondary school enrollment and literacy rate; for health, on infant mortality rates and immunization measles; and for social protection and labor, on inequality (measured by the Gini coefficient) and extreme poverty headcount (percentage of population earning less than $1.25 a day). To obtain PSP indicators we initially assign equal weights to each sub-indicator, computed as the average of the corresponding outcome indicators over the period, each one of them normalized by its sample mean. The PSP indicator for each country is then obtained by averaging the values of all sub-indicators. Resulting PSP scores are then related to the average value of one of the normalized output indicators. Hence, countries with PSP scores in excess of one are seen as good performers, as opposed to countries with PSP values below the mean.
\textsuperscript{12} PSE weights public sector performance in each area by the amount of relevant public expenditure that is used to achieve such performance. To compute PSE scores, public spending is normalized across countries, taking the average value of one for each of the aforementioned expenditure categories.
\textsuperscript{13} The DEA methodology, developed by (Farrell, 1957), can be used to determine efficiency by comparing actual spending with the minimum necessary spending to produce the same outcome (input approach). Such a minimum is defined by the efficiency frontier computed from sample data using linear programming methods assuming convexity of the production set. Alternatively, relative efficiency can be defined by determining the highest possible level of output to be produced for a given level of spending (output-oriented approach).
Figure 9: Public Sector Performance and Efficiency in Honduras and LAC, 2010.

Overall Social Public Spending

Education Public Spending

Health Public Spending

Social Protection and Labor Public Spending

Source: World Bank SSEIR team’s, authors’ calculations using CEPAL and WDI databases
The next sections describe the main challenges in sustaining social sector expenditures while improving its effectiveness and efficiency in improving sectorial outcomes. The analysis presented so far will be expanded and complemented by more detailed expenditure and institutional analysis in each sector that reviews progress achieved, as well as main challenges that need to be addressed to improve social sector spending efficiency and effectiveness.

III. Performance and Challenges in Education

III.1 Recent Evolution of Education Public Spending

Public spending on education in Honduras is high by international standards. The education sector in Honduras accounts for the largest share of public sector spending and for roughly 40 percent of social spending, having reached US$ 1.1 billion in 2012. Public spending on education represented 5.9 percent of the GDP in 2012, but averaged 6.7 percent of GDP between 2007 and 2012, after reaching an historic high of 7.6 percent of GDP in 2009. This expenditure on education is not only high when compared to its neighbors in CA, but also by OECD standards (Figure 11). Public education spending in Comparator Countries such as Georgia and Armenia, countries with similar GDP per capita (compared here in parity purchasing power terms), account for 2.7 percent and 3.1 percent of their GDP, respectively. In the last few years, public spending in education has decreased, on average, 3 percent in real terms per annum (Figure 12) between 2007 and 2012, and as
% of GDP (Figure 13, Reference source not found.), especially after reaching a peak in 2009.

**Figure 11: Public spending on education versus GDP per capita (circa 2011)**

Source: World Bank / ICEFI social spending database for Honduras and CA, EdStats for the rest of the countries.

**Figure 12: Public Spending on Education (PPP, US$ 2007 million) 2007-2012**

Source: World Bank / ICEFI social spending database

**Figure 13: Public Spending on Education as a % of GDP 2007-2012**

Source: World Bank / ICEFI social spending database
Primary education takes up the bulk of public spending on education, but this share is expected to fall as the country develops. Primary education\textsuperscript{14} alone represents 42 percent of all educational expenditures, while, on average, a quarter of the budget is devoted to secondary education and roughly seven percent to pre-primary education. This distribution is in line with countries at similar stages of economic development, such as Guatemala and Nicaragua (Figure 14). However, countries with a higher level of economic development tend to show more balanced spending across levels, with their spending on primary education ranging between a minimum of 20 percent and a maximum of 35 percent. Therefore, as Honduras develops, international benchmarking suggests that public spending on primary education should decrease in relative importance compared to other educational levels, even if public spending on primary education increases in absolute terms.

Figure 14: Public spending on education by level, selected countries sorted by GDP per capita (circa 2011)

Not only is the total level of education spending high in Honduras, but so is per student spending. Honduras’ per student spending in pre-primary, primary and secondary education is much higher than comparator countries, such as Georgia, or Paraguay, whose per capita GDPs are comparable. Between 2007 and 2012, per student public spending in secondary education has slightly decreased in real terms, while it increased for pre-primary and primary education (Figure 15). Average per student public spending on primary education grew 2 percent annually, on average, due

\textsuperscript{14} In this report, due to reasons of consistency and comparability, primary education includes the first two cycles of basic education, and secondary education includes the third cycle of basic education (lower secondary education) and high school (upper secondary education). The Honduran educational system is structured according to the following levels: pre-primary education (ages 3 to 5), basic education (1\textsuperscript{st} cycle, ages 6 to 8; 2\textsuperscript{nd} cycle, ages 9 to 11; 3\textsuperscript{rd} cycle, ages 12 to 14), high school education (ages 15 to 17) and higher education (ages 18 to 22).
to an increase in public spending while enrollments remained stable. Average per student public spending on pre-primary education remained constant, on average, despite an average annual increase of 2 percent in enrollments. On the contrary, average per student public spending on secondary education decreased 5 percent annually, on average, facing a similar average annual increase of 3 percent in enrollments. Here, it is worth noting that per student expenditures at all levels seem to have reached a historic peak in 2009, fell through 2011 and seemed to have bounced back in 2012.

Figure 15: Evolution of real per student public spending by level, 2007-2012

Source: World Bank / ICEFI social spending database

The wage bill, accounting for 90 percent of the total public spending on education, is strikingly high when compared to similar countries. Figure 16 shows that Honduras spends considerably more on the wage bill than its neighboring CA countries or even other LAC countries with higher income, such as Chile or Colombia. The share of expenditures going to salaries is also much higher than countries with top-class education systems such as Finland and Korea. In 2012, only 2 percent of the total public spending on education went to construction, renovation, rehabilitation and/or non-routine maintenance of the facilities. Other recurrent expenditures accounted for the remaining 8 percent. This picture is quite similar for higher education. Between 2008 and 2011, the share of wages averaged 83 percent of total higher education expenditures. Nevertheless, universities devote a larger share of its budget to capital expenditures, averaging 7 percent for the same years.

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15 For a more thorough analysis of expenditure issues for higher education, see (World Bank, 2013).
A large wage bill is partly attributed to the high average level of teachers’ salaries, especially after the significant increase in the minimum wage in 2009 (by 63 percent). Evidence from both the household surveys and international benchmarking exercises suggest that average teacher salaries have increased much beyond the level required to be competitive compared to average salaries from other tertiary education graduates. While in 2007 and 2009, teacher’s monthly salaries were comparable to other tertiary education graduates, by 2011 they were 26 percent higher. Furthermore, Figure 17 shows that, in 2010 teacher salaries in Honduras, when compared with the country’s average GDP per capita, were well above the salaries in other neighboring countries. Arguably, due to these significant rates of return to the teaching profession in Honduras, there does not seem to be evidence of teacher shortages. For example, when comparing student/teacher ratios in secondary education, student-teacher ratios are in line with comparable CA countries, as illustrated by Figure 18 (national average for the student-teacher ratio is 28.9 in 2012).

Interestingly, teacher salaries and the wage bill have largely been immune to fiscal consolidation efforts partly in response to collective bargaining/teacher strikes/political economy. For instance, while between 2009 and 2012 public spending on education dropped by roughly 16 percent in real terms, the wage bill decreased only nine percent. The low elasticity of the wage bill to the overall public expenditure in education may probably be attributed to the collective bargaining power of teacher unions.
The Honduran education system has reached almost universal primary education coverage, but still faces important gaps both in secondary and pre-primary. The net enrollment rate for pre-primary education in 2013 was only 40% while the rate for primary education was near universal levels in 2013, at 86 percent (Figure 19). However, enrollment drops significantly by the start of secondary education, leading to a net enrollment rate of 44 percent in 2013 for secondary education. Even though the net enrollments for pre-primary and secondary have been increasing since 2007, they are still very low for international standards. Honduras’ net enrollment rate in primary education is comparable to the best performers internationally, but in secondary education it is well below other lower-middle income economies and Central American countries (Error! Reference source not found.).
Furthermore, there are large gaps in school enrollments in secondary education within the country, both across income and geographical areas. Urban populations and those in the richest quintiles have school attendance rates up to two times higher than rural populations and those in the poorest quintiles, leading to large gaps in school attainment within the country. The difference between attendance rates between rural and urban populations is more than 40 percentage points (Figure 21), and has remained stable since 2007. It is well established that throughout the country, groups with a higher socio-economic status also have more access to secondary education than lower status groups (Figure 22). The magnitude of the socio-economic gap is also around 50 percentage points between the richest and poorest quintiles. In post-secondary education the situation is much more dramatic for lower socio-economic status and rural populations, with almost no access to post-secondary education. In Honduras, more girls tend to enroll than boys, although this gender gap is less significant than for other characteristics. For instance, there is no evidence of a gender gap in primary education attendance, while it reaches around 12 percentage points in secondary education, and only two percentage points in post-secondary education.
The perceived lack of quality in the Honduran public education induces families to avoid the public system and attend private schools, when this option is affordable. Although the majority of students attend public education, private schools in Honduras are the choice of higher socio-economic status groups, particularly for secondary and tertiary education. While private education enrollment in urban areas is low in pre-primary (13 percent) and primary (9 percent) education, a much higher proportion of secondary (30 percent) and tertiary (38 percent) education students attend private institutions (Figure 23). Yet, there is a dearth of private schools in rural areas, especially beyond primary education (Figure 24).
Evidence strongly suggests Honduras still has a shortage of secondary schools in rural areas. Assuming that the 192 rural schools operating in 2012 are at its full capacity, some 1,079 additional schools would be required to serve all the out-of-school children population. The shortage of secondary schools is likely one of the most important factors affecting the significant drop in transition rates from 6th to 7th grade in rural areas (Figure 25). Between 2007 and 2013, rural attendance rates have only improved for 5-11 years-olds (Figure 26). There may, of course, be other factors that are behind the significant gaps in enrollment rates between urban and rural areas, like poor information of students/parents on the returns to schooling, actual reduced economic returns to education or financial constraints preventing students from being in school.16 More studies and analysis are to understand better the reasons for these patterns but policy measures that link conditional cash transfers with secondary enrollment and stronger information campaign may play a critical role. In summary, even though Honduras spends a higher percentage of GDP on education there is still a significant shortage of secondary schools in rural areas partly because of the large share of spending that goes to primary education and into the wage bill (teacher salaries). The low percentage of spending going into capital expenses will also imply distributional biases across rural and urban areas, hitting especially the poorest who tend to live in rural areas.

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16 (Lopez, 2013) Provides evidence of a decrease in the incentive to complete secondary education compared to primary education. Using data from 2011, the returns to education are higher for higher education (118 percent) than for secondary education (29 percent) and primary education (17 percent). When compared to the returns of 2007, these are 6 percentage points larger for primary education, 14 percentage points smaller for secondary education and remained almost stable for higher education.
Finally, there are serious efficiency issues in primary and secondary education, both in rural and urban areas that looking forward should be targeted as policy priorities. For instance, 62 percent of 4th graders in rural areas and 44 percent in urban areas are over-age for their grade levels. These figures increase further, and even shift magnitudes across locations, in secondary education, where 65 percent of 9th graders in rural areas and 76 percent of 9th graders in urban areas are overage. Over-age students are at higher risk of dropping out, and oftentimes experience behavioral and emotional issues. Looking forward, a more equitable education system should be prepared to offer timely and appropriate support to these vulnerable groups through a diverse portfolio of interventions ranging from financial incentives, to tutoring/mentoring programs and an attractive and diverse set of post-secondary non-academic technical tracks.17

Results from standardized tests show that there is still a long way to reach satisfactory levels of student achievement. Performance at grades 7th to 9th are particularly low, with only 37 percent-42 percent of the students reaching satisfactory levels in Reading, and just 3 percent-8 percent of the students reaching a similar level in Mathematics (Figure 27). Achieving satisfactory quality levels is a challenge both in rural and urban areas. Interestingly, according to Honduras national standardized test scores, there are no evident gaps in educational outcomes between students in rural and urban areas (Figure 28). However, since enrollment rates in rural areas are

17 (Almeida, Fitzimons, & Rogers, 2013) Conduct a review of evidence of policy options to prevent upper secondary drop outs, based on rigorous empirical evidence from both developing and developed countries.
much lower than in urban areas, the rural sample is likely biased towards those with higher motivation and efforts to remain in school. In any case, student achievement clearly remains as an overall challenge.

**Figure 27: Percentage of students by performance level, Reading and Mathematics, 7th to 9th grade, 2013**

![Graph showing percentage of students by performance level, Reading and Mathematics, 7th to 9th grade, 2013.]

**Figure 28: Percentage of students by performance level, by location, Mathematics, 7th to 9th grade, 2013**

![Graph showing percentage of students by performance level, by location, Mathematics, 7th to 9th grade, 2013.]

Furthermore, Honduran students underperform in Language, Mathematics and Science tests in comparison to those in other countries. In 2011, Honduras participated in the Trends in Mathematics and Science Study (TIMSS) and Progress in International Reading and Literacy Survey (PIRLS) international assessments. Evidence from TIMSS and PIRLS confirms the insights from the national standardized tests that Honduras students are performing at very low levels. Even though 4th grade tests were applied to 6th graders in Honduras, by recommendation of the TIMSS & PIRLS International Study Center, Honduran 6th graders ranked very low in 4th grade TIMSS Mathematics (Figure 29) and PIRLS (Figure 30) exams compared to other countries. Likewise, despite the 8th grade test was applied to 9th graders in Honduras, results in 8th grade TIMSS Mathematics were comparatively even lower (Figure 31).
These poor learning results are likely a combination of different factors, including the reduced number of effective school days (caused by teacher strikes) and the low daily actual learning time. The official school year in Honduras should last at least 200 days. However, the school year has often been disrupted, for the most part, by constant teacher strikes and demonstrations. According to data from SEDUC, schools were closed for approximately a third of the effective number of days (on average for the period from 2002-11). For instance, in 2011, 60 of the 200 school days were lost. Furthermore, there are also critical challenges in how the actual time in school is used. SEDUC (2011) found that teachers spend only 64 percent of the class time on learning activities, almost a quarter is used for class management activities, while the remaining time is spent on non-teaching activities. Although this distribution does not differ greatly from that of more developed countries in the region (e.g., Brazil or Colombia), this is still far from a good practice benchmarks (Figure 32). Therefore, even though Honduras spends a huge share of its high education expenditures on teacher salaries (see share of the wage bill in Figure 16) in response to collective bargaining/teacher strikes/political economy – and yet learning outcomes and the number of days in school are still quite low.

In addition, instructional time varies across municipalities, across schools and even across classrooms. In Honduras, there are large disparities across schools and regions in how teachers use their time. Part of this variation could be driven by differences across regions / municipalities in their level of human development. For instance, one could conjecture, that in more developed and richer regions teachers are more committed and involved. To assess this, we proxy the municipalities’ level of development with its Human Development Index and relate it with instructional time. Our findings show that differences across regions in their human development index do not explain how efficiently class time is used. In addition, data also shows large differences in average instructional time across schools (Figure 33). Furthermore, there is also significant variation in instructional time within schools, across classrooms. In Figure 34, schools are grouped in quintiles according to their average time spent on learning activities. The chart shows that schools within a specific quintile can have classrooms performing at very different levels. In fact, classrooms in schools with lower instruction time may do better than classrooms in schools with higher average instructional times.

Source: (Bruns & Luque, 2014)
Honduras Social Expenditure and Institutional Review

(Figure 35). However, society perceptions of both public and private schooling are among the lowest in the LAC region, along with Chile, Guatemala, Dominican Republic and Bolivia.

**Figure 35: Average perception of public education versus private education, selected countries, 2011**

Note: Results correspond to question “From one to ten, how do you evaluate your country’s public and private education?” Source: World Bank SSEIR team’s, authors’ calculations using Latinobarometro 2011.

**III.3 Institutional Arrangements**

The provision of public educational services in Honduras is disorganized and fragmented. The national education system is structured around two subsystems: formal education and non-formal education (Figure 36). Each subsystem has its own set of rules and institutions. Formal education comprises the pre-primary, primary, secondary and higher education levels. The Ministry of Education (Secretaría de Estado en el Despacho de Educación or SEDUC) is in charge of all formal education levels, except higher education which is the responsibility of the National Autonomous University of Honduras (Universidad Nacional Autónoma de Honduras or UNAH). The non-formal subsystem is under the responsibility of two institutions: the National Institute of Vocational Training (Instituto Nacional de Formación Profesional or INFOP), and the National Commission for the Development of Alternative Non-Formal Education (Comisión Nacional para la Educación Alternativa No Formal or CONEANFO). Even though all these institutions should be under the umbrella of the National Education Council, to date this entity has never been operational. In addition, there are other government institutions that provide a wide support functions to the education sector ranging from school meals to conditional cash transfers that link social assistance to school attendance.

**Figure 36: Institutional Framework of the Education System**
The Fundamental Law of Education, approved in January 2012, provides cohesion to this disarray of institutions, by reforming and upgrading all the by-laws that govern formal and non-formal education. The approval of the Fundamental Law of Education in 2012 represented a landmark achievement in Honduras Education sector which until then was governed by the 1966 Organic Law of Education. Nevertheless, the reform process has been somewhat slow. As of early 2014, only four by-laws have been approved and delivered to SEDUC who is responsible to issue the decree enacting them: 1) Fundamental Law of Education’s General by-law, 2) Pre-basic Education, 3) Basic Education, and 4) High school Education. Other 16 by-laws have been drafted and submitted to the Attorney’s General Office (Procuraduría General de la República or PGR) for its review and are being socialized within both central and departmental branches of SEDUC. It was expected that most by-laws would be enacted by the end of 2013, in order to be implemented gradually, starting from the 2014 school year onwards. However, the process is taking longer than expected, and it is unclear when all the by-laws will be in effect.

The wide scope of the Fundamental Law of Education has led several actors to express great concern over the feasibility of its implementation. Fundamental Law of Education contains core mandates that will prove to be very challenging for SEDUC to enforce: i) extending compulsory from 1-6 to K-12; ii) from 2018 onwards, all new incoming teacher should hold an undergraduate degree obtained/validated by the National Pedagogical University; iii) adopting English as a second language in all schools; iv) institutionalize intercultural bilingual education and literacy programs; v) decentralizing financial and human resources management to departmental branches of SEDUC; and vi) drafting and enacting new laws for: Higher Education, Educational Infrastructure, and Educational Quality Assessment, Accreditation and Certification. As good as they may be, these dispositions call for many more financial and human resources than what is now available, for instance, the expansion of compulsory education is estimated to cost US$0.7 billion per year (approximately 0.2 percent of GDP), half the current budget for higher education. In addition, teacher salaries will need to be significantly revisited to entice prospective teachers to invest 4 more years of education before starting to work. On the other hand, as of today, there are not enough teachers that speak English or that are certified to teach English as a second language, and, based on rough estimations, as many as 8,000 extra English teachers would be needed.

The government has envisaged administrative and financial decentralization coupled with stronger community participation as the most important institutional strategy to improve the quality of service delivery in the education sector. The passing of FLE in February 2012 set the legal foundations for transferring several functions to the departmental branches of SEDUC. The Fundamental Law formalized the GoH’s strategy envisioned in the 2010 “A Vision for a Country and a Plan for a Nation” Law (Ley

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21 The by-laws are approved by the Attorney General’s Office (Procuraduría General de la República or PGR).
de Vision de País y Plan de Nación or VCPNL) and the 2013 Territorial Decentralization Policy, which sets the principles and parameters under which the decentralization of public services to municipalities is expected to take place, with citizen and community participation as the essential ingredient for an effective decentralization reform. The LFE also comes to complement prior sectoral laws and by-laws that paved the way for the formal decentralization process, like the passing of the Law for Strengthening Public Education and Community Participation in March 2011, its regulation in July 2011, and the Regulation for the Functioning of Rural School Networks in Honduras in December 2011.

In the absence of approved by-laws for the LFE, however, the decentralization strategy is still to be fully mapped, especially because there is still some ambiguity and a few inconsistencies within the legislation. While both the VCPNL and the Territorial Decentralization Policy talk about the devolution of educational functions to municipal governments, the LFE merely outlines the deconcentration of functions to departmental and district directorates of SEDUC. Considering that the VCPNL sets the goals Honduras is expected to achieve in the next two to four decades, it would be reasonable to have educational laws and regulations be consistent with these goals; this, however, is clearly not the case now. Even though the government envisions a municipal decentralization, the current educational laws do not give municipal governments decision-making power. As of now, two basic questions about the decentralization process do not have clear answers: i) what responsibilities will be transferred from SEDUC to lower levels in the departments and municipalities/districts; and ii) to which level each of the sectoral responsibilities will be transferred. Without a clear blueprint of the decentralization model that will be implemented, the whole process is bound for failure since the lack of coherence and the unresolved ambiguities may threaten the effective implementation of reforms.

Pending a final operational blueprint for the educational decentralization in Honduras, some important steps have already been taken. In fact, and following the mandates of the LFE, the most notable of these efforts is the full decentralization of financial and human resources management to 5 departmental branches of SEDUC in 2013, process which is expected to be generalized for the remaining 13 departments in 2014. This was a major achievement in the continuous improvement in one core management area: the management of human resources. Still, much more remains to be done and regulated. With a new administration having taken over on January 27, 2014, renewed hope of sorting out inconsistencies and taking a more decisive direction in the path of improving the delivery of educational services is heavily expected.

IV. Performance and Challenges in Health

IV.1 Recent Evolution of Health Public Spending

Honduras’ public spending on health is lower than Central America and LAC regional averages and generally lower than a number of countries with similar
incomes/characteristics. Its public spending on health represented 3.3 of Honduras’ GDP in 2012, averaging 3.4 percent between 2007 and 2012. In 2012, this figure was also lower than averages for Central America (3.8 percent) and developing countries in LAC (3.8 percent) but higher than the average (1.4 percent) for lower middle income countries (LMICs) worldwide (Figure 37). Although public spending on health as a share of GDP is greater in Honduras than lower middle income countries like Albania and Georgia’s, Figure 38 shows that per capita public spending on health in Purchasing Power Parity\textsuperscript{22} terms (97) is less than a fifth of the spending per person in these two comparator countries (565 and 565, respectively), and significantly lower than the averages for CA (352), LAC (428), and LMICs (162). In addition, among all the Central American countries, Honduras has the lowest share of public spending on health in relation to total public expenditures even though it reached 8.8 percent in 2012 and peaked at 9.7 percent in 2009 and 2010 (Figure 39).

\textsuperscript{22} Purchasing Power Parity (PPP) or international dollars refer to currencies adjusted across countries to make the value of purchased goods and services comparable.
Between 2007 and 2012, several indicators that measure public spending on health increased but real PPP public per capita spending declined over that same period. From 2007 to 2012, both public spending on health as a share of GDP and public spending as a share of total public expenditures increased by 6.4 percent and 4.7 percent, respectively. Increases in nominal and real public total expenditures on health were more significant: 64 percent and 19 percent, respectively over the same period. However, real PPP per capita public expenditures on health decreased by 13.5 percent (Table 2). Decreases in real PPP per capita spending during this period have been attributed mainly to the political instability that occurred in the country in 2009 which affected subsequent sector expenditures (Figure 40).

**Table 2: Changes in Public Expenditures on Health (percent shares of GDP and TPS, total and per capita) in Nominal and Real Terms**

<table>
<thead>
<tr>
<th>Spending Category</th>
<th>2007</th>
<th>2012</th>
<th>percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent public spending on health/GDP</td>
<td>3.1</td>
<td>3.3</td>
<td>+6.4</td>
</tr>
<tr>
<td>Percent public spending on health/Total public spending (TPS)</td>
<td>8.4</td>
<td>8.8</td>
<td>+4.7</td>
</tr>
<tr>
<td>Percent public spending on health/Total public social spending</td>
<td>18</td>
<td>22</td>
<td></td>
</tr>
<tr>
<td>Total public spending on health, US$ (current)</td>
<td>384M</td>
<td>598M</td>
<td>+55.7</td>
</tr>
<tr>
<td>Total public spending on health, US$ (constant 2007)</td>
<td>394M</td>
<td>433.4M</td>
<td>+10%</td>
</tr>
<tr>
<td>Per capita public spending on health, US$ (current)</td>
<td>54</td>
<td>55</td>
<td>+1.85%</td>
</tr>
<tr>
<td>Per capita public spending on health, PPP constant 2007</td>
<td>118</td>
<td>102</td>
<td>-13.5%</td>
</tr>
</tbody>
</table>

Source: World Bank SSEIR / ICEFI social spending database

**Figure 40: Trends in per capita public spending on health in PPP, constant 2007 prices**

Source: World Bank SSEIR / ICEFI social spending database

Two public institutions (the Ministry of Health and the Honduras Social Security Institute/IHSS) provide majority of the health services in the country. The MOH offers health care to the entire population, although its estimated regular coverage is approximately 60 percent; followed by the IHSS which caters to its affiliates...
and their beneficiaries who, in total, represent close to 18 percent of the population. The third provider of health public services, the Military, covers a significantly smaller share of the total population, providing care to its employees and the national police force and their families, as well as retired officials. The private sector, represented by for-profit and nonprofit service providers, is estimated to account for 5 percent of health services. Despite the increase in health facilities from 2005 to 2012, health coverage gap estimates range from 18 percent (2011/12 Demographic Health Survey/ENDESA) to 25 percent (Ministry of Health). The 2011/12 ENDESA also confirms that most of the population tends to consult public providers (67 percent), and that the poorest tend to consult public providers the most (88 percent).

However, for inpatient services, regardless of the income level, majority of the population went to public hospitals for inpatient services.

Source: World Bank SSEIR team’s analysis of household surveys, authors’ calculations using standardized ADePT software (Health Module)

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(23) Bermúdez-Madriz, Sáenz, Muiser, & Acosta, 2011
The Honduras Social Security Institute (IHSS) covers significantly fewer Hondurans but tends to spend more per person than the Ministry of Health. The MOH and the IHSS account for almost all of total public expenditures on health, with IHSS spending usually much more than the MOH in per capita terms. The combined expenditures from both institutions represented at least 98 percent of public expenditures on health from 2007 to 2012. From 2007 to 2010, as shown in Figure 43, IHSS spent significantly more than the MOH even though its estimated coverage is less than a third of the MOH’s estimated coverage. However, its per capita spending dropped lower than the MOH’s spending in 2011, then picked up again in 2012, this time slightly exceeding the MOH’s per capita spending on health.
Among expenditure categories, the MOH and IHSS spent the most on salaries. On average, from 2007-2011, the wage bill accounted for 60 percent of total MOH health spending, followed by materials and supplies (including medicines) at 23 percent (Figure 44). The MOH’s average wage bill share is higher than the average share of wages out of total health spending in middle income countries (52 percent) as reported by Clements et al. (2010). In terms of CA countries, the share of health spending on salaries is similar to Nicaragua’s\(^\text{24}\) and higher than the reported averages for El Salvador (57.4 percent)\(^\text{25}\) and Guatemala (48 percent)\(^\text{26}\). The IHHS also allocated the largest share of its health expenditures to personnel (48 percent) followed by transfers (22 percent), then materials and supplies (16 percent) over the same period (Figure 46). Although IHSS’s five-year average personnel spending share is lower than that of the MOH, its annual share increased from 41.6 percent in 2007 to 52.5 percent in 2011.\(^\text{27}\)

**Figure 43: Per Capita Spending: IHSS* and MOH, 2007 to 2012**

Source: World Bank SSEIR / ICEFI social spending database

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\(^24\) (World Bank, 2008)

\(^25\) (Ministerio de Salud Publica, El Salvador, 2013)

\(^26\) (Ministerio de Salud Publica y Asistencia Social, 2012)

\(^27\) Analysis based on IHSS data from (Dinarte, 2011)
In terms of programs, hospitals absorbed the largest share of total public health expenditures in Honduras. From 2007 to 2012, 52 percent of total public spending on health went to hospitals, while 24 percent went to primary public health and ambulatory services. Figure 46 shows that Honduras allocated a larger share of its public spending on health to hospitals than three other countries in Central America. In 2012, its share of total public health spending going to hospitals rose to 56 percent. This share is in line with the average share of hospital spending in most countries although it does not seem to be aligned with the Government’s strategy of prioritizing cost-effective health promotion and prevention services.
Figure 46: Hospital Expenditures Share of Total Public Expenditures on Health: Average 20012 (percent)

Source: World Bank SSEIR / ICEFI social spending database, disaggregated spending for CR was not available.

The MOH increased its expenditures on primary care related services, although it spent significantly more on hospitals An analysis of MOH program expenditure trends (Figure 47) from 2005 to 2011 shows that its expenditures on hospitals increased the most, followed by spending on primary health oriented programs such as Integrated Family Care, Extension of Coverage, and Environmental Sanitation and Health Promotion.

Figure 47: MOH Expenditures on Main Programs: 2005-2011 (constant 2000 lempiras)

Source: MOF Honduras
IV.2 Performance of Health Indicators

The increased spending on primary health care has contributed to positive results. Increased spending on primary care related services such as integrated family care, decentralized health facilities and environmental sanitation and health promotion services have improved coverage for certain services and contributed to better outcomes. Based on the 2011/2012 Demographic Health Survey, coverage rates of various health services have improved. For example, overall immunization rate for children 12 to 23 months receiving all the required vaccines increased from 74.9 percent in 2005/06 to 84.5 percent in 2011/2012 and the percentage of women having deliveries attended by doctors have increased from 66.5 percent in 2005/06 to 79 percent in 2011/2012. During the same period, chronic malnutrition in children less than 5 years old decreased from 30 percent to 22.8 percent. The MOH’s Accelerated Reduction of Maternal and Child Mortality Initiative (RAMNI) 2008-2013 has helped reduce under-5 mortality rates from 24 in 2011 to 23 per 1000 live births in 2012 (Figure 48). In addition, HIV prevalence in the 15-49 age group decreased to 0.5 in 2011 and was at par with the 2011 LAC average.

Figure 48: Under-Five Mortality Rate, per 1,000

Source: ENDESA 2011/12; WDI 2012

Despite notable improvements in several key indicators, maternal mortality and communicable diseases remain higher than LAC averages, income and rural/urban disparities persist, and NCDs have emerged as the leading cause of deaths in the country. The estimated maternal mortality rate (MMR) remains unchanged at 100 per 100,000 live births and the country is not on track to reach its MDG goal for reducing MMR (WB Indicators 2012) (Figure 49). On the other hand, TB incidence has decreased from 114 in 2000 to 54 per 100,000 people in 2012, but remains higher than the 2012 LAC average of 46. In addition, for certain indicators, significant differences persist between urban and rural areas and across income quintiles. For
example, while overall chronic malnutrition (stunting) has decreased, it remains higher for children in rural areas (28.8 percent) compared to those who live in urban areas (14.6 percent). Also, the stunting rate for children in the lowest quintile is 42.8 percent compared to 8 percent for children in the highest income quintile (ENDESA 2011/12). Moreover, non-communicable diseases/NCDs have emerged as the leading cause of deaths (77.4 percent) and a large portion of disabilities (61.6 percent) in the country (WHO 2008 and 2011 cited in WB 2012).

Figure 49: Maternal Mortality Rates, per 100,000

Source: WDI 2012

Access to certain services also remains a challenge especially for the poor and those who live in rural areas. While the gap in a number of health services such as vaccination coverage between urban and rural areas (82.1 percent and 86.5 percent, respectively with rural children faring better) and across income quintile quintiles (86.2 percent for lowest income quintile and 87.4 percent for the highest income quintile) have significantly narrowed between 2005/06 and 2011/12, coverage gaps still exist for certain services such as prenatal care provided by a doctor (Figure 50) and assisted deliveries by a health professional (ENDESA 2011/12) (Figure 51). This underscores the need to further strengthen the link between improving health service provision (supply side) and programs that encourage service utilization such as conditional cash transfers (demand side).
Insurance coverage is low throughout the country and lowest for the poorest and those who live in rural areas, resulting in high out of pocket payments. Approximately 18 percent of the population is insured with the Social Security Institute and even fewer have access to private insurance. Only 19 percent of individuals in urban areas have access to some type of health insurance compared to only 5 percent in rural areas. Although access to insurance is significantly higher for individuals in the highest quintile relative to those in the lowest quintile, it is still less than 40 percent (Figure 52). Since health facilities in Honduras are allowed to charge user fees and insurance coverage is limited, out-of-pocket payments' share of total private expenditures is higher in Honduras (89 percent) than the averages for CA and LAC (Figure 53).

To address this issue, the Government recently drafted a social security law proposing various health insurance mechanisms to cover different population groups. This law would require further review and discussion to minimize fragmented health provision and financial protection systems that could contribute to disparities in access, and that would further tax IHSS’ limited capacity.
The poorest are less likely to seek health care, largely due to lack of funds. Household survey data from the 2011/12 ENCOVI found that only 46 percent of individuals who reported that they were ill during the past 30 days went for a medical consultation. Those in the poorest income quintile were the least likely to seek health care when ill (Figure 54). Across all income quintiles the most frequently cited reasons for not consulting a health professional was that they considered the illness to be “minor” and that they already knew why they were sick. The third most frequently cited reason by those in the poorest quintile was lack of funds (25 percent) which was only cited by 6 percent in the richest quintile, followed by distance (22 percent) to the health care provider which was only mentioned by one percent of the richest quintile (Figure 55).
Figure 54: Consultation of health providers when ill in the last 30 days, by income level (percent)

Source: World Bank SSEIR team’s analysis of household surveys, authors’ calculations using standardized ADePT software (Health Module)

Figure 55: Reasons for not consulting health provider, by income quintile (percent)

Source: World Bank SSEIR team’s analysis of household surveys, authors’ calculations using standardized ADePT software (Health Module)
IV.3  Institutional Review: Progress and Challenges

The health system in Honduras is comprised of public and private institutions that generally function in a fragmented manner.\textsuperscript{28} As shown in Figure 56, there are a number of institutions involved in the provision and financing of health services in Honduras. There have been some efforts to coordinate certain activities between the MOH and IHSS, for example, both jointly procured drugs for the first time in 2013. In addition, there are performance agreements signed between some nongovernmental institutions and the MOH through the decentralized PHC delivery program, as well as contractual arrangements between a number of private health service providers and IHSS. However, to a large extent, the sector institutions function in an uncoordinated fashion leading to duplication of functions and services, particularly in the case of the MOH and IHSS.\textsuperscript{29}

Figure 56: Institutional Overview: Health Sector Service Provision and Financing in Honduras

*Adopted from Bermudez-Madriz et al. 2011; the Ministry of Health and IHSS boxes are lined in bold as the two major health institutions in Honduras

\textsuperscript{28} Article 5 of the Health Code states that the health sector in Honduras is comprised of the Ministry of Health, The Ministry of Governance and Justice, the Ministry of Labor, the Ministry of Education, the Ministry of Natural Resources, the Ministry of Planning, Coordination and Budget, the Social Security Institute, the National Autonomous Service of Aqueducts and Sewage, municipalities, local and international public and private organizations who are authorized to develop activities and collaborate on public health matters.

\textsuperscript{29} For example, both continue to operate largely independently of each other even though they frequently tend to provide services in the same geographical areas. Both procured their drugs separately until late 2013; both have separate storage facilities. IHSS also has its own list of medicines which is not linked with the Set of Basic Medicines List (Cuadro Basico de Medicamentos) established by the MOH (Bermudez-Madriz et al. 2011).
More active civil society involvement has contributed to improving transparency in the sector and in implementing recent health reforms. Since 2008, civil society organizations have increasingly played an active role in calling for the Government to improve its response to security and social sector issues, particularly in health and education. These organizations especially Transformemos Salud have been instrumental in highlighting drug procurement issues, supporting the investigation of the central warehouse, and calling into question health worker strikes which impact on the delivery of health services. These organizations have also questioned and influenced the selection of major health decision-makers such as the Minister of Health and the Director of the Hospital Escuela (Teaching Hospital). Civil society representatives are now included as members of the Oversight Board for the procurement of medicines. In addition, stakeholders from academia have increasingly played a more active role in the health sector. In particular the Autonomous University of Honduras (UNAH) performs an important function in two ongoing health reforms: (1) managing the transition of the Teaching Hospital to University Hospital, in which it has been assigned the administrator role for 15 years and (2) implementing a new model of primary care which involves an integrated social service model at the family and community levels. This model is being implemented in the municipality of San Jose in Colinas, Santa Barbara, providing services through health teams composed of university students representing the following fields: medicine, dentistry, nursing, psychology, social work, and microbiology. It is expected to be eventually expanded nationwide.

The MOH has increasingly moved away from historical budgeting toward results-based budgeting, facing some budget and capacity constraints during the process. Since 2008, the MOH has progressively moved toward assigning budgets based on the volume of planned activities linked with targets for each of its management units. It is currently implementing its 2011 to 2014 Institutional Strategic Plan based on programming-budgeting for results. Although budget preparation and monitoring have improved, results have not been as expected because of limitations caused by unstable budgetary allocations provided by MOF. For example there have been reported budget cuts of up to 20 percent during implementation. In addition, the MOH still faces challenges in terms of the availability and quality of information to inform the planning and budgeting process (e.g. in accounting for production), as well as the fairly limited management planning and oversight capacity at all administrative levels.

The number of public sector health facilities has increased but coverage gaps persist which the Government aims to minimize as it implements the National Health Plan (NHP) 2014-18. By 2012, the number of MOH facilities increased by 129 percent since 1990 and by 15 percent since 2005 (Table 3). Although the number of MOH hospitals has remained unchanged since 1999, the number of its ambulatory facilities, especially rural health centers, has increased since the 90s. IHSS had two hospitals and 18 ambulatory establishments, and also contracted other hospitals and private clinics; while the private sector (including NGOs) administered 108 hospitals and 820 ambulatory facilities in 2012. Despite the increase in the number of facilities, the 2005 and 2012 Demographic Health Survey results show that the percentage of Hondurans that do not have access to basic health services remains unchanged at 18 percent. The MOH estimates the number to be greater: that two million Hondurans or approximately 25 percent of the population do not have access to health services. The Government’s NHP 2014-18 proposes to close these gaps by
deploying Primary Health Care Teams (EAPS in Spanish), decentralized management of health services in 104 of the poorest municipalities, and by establishing Integrated Health Service Networks (RISS in Spanish) comprised of both public and private providers in all the Regional Health Departments, create a National Health Fund to finance the coverage of the basic package of health services for the poor by 2018. The Government is in the process of working out the operationalization and financing of these proposed strategies.

### Table 3: Trends in MOH Facility Expansion, 1990 to 2012

<table>
<thead>
<tr>
<th>Facility</th>
<th>1990</th>
<th>1999</th>
<th>2005</th>
<th>2010</th>
<th>2012</th>
<th>percent change since 2005</th>
<th>percent change since 1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Hospitals</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Regional Hospitals</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Area Hospitals</td>
<td>7</td>
<td>16</td>
<td>16</td>
<td>16</td>
<td>16</td>
<td>0</td>
<td>128</td>
</tr>
<tr>
<td>Subtotal, Hospitals</td>
<td>19</td>
<td>28</td>
<td>28</td>
<td>28</td>
<td>28</td>
<td>0</td>
<td>47</td>
</tr>
<tr>
<td>Urban Health Center</td>
<td>177</td>
<td>241</td>
<td>266</td>
<td>394</td>
<td>444</td>
<td>66.9</td>
<td>150.8</td>
</tr>
<tr>
<td>(CESAMO)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rural Health Center (CESAR)</td>
<td>516</td>
<td>867</td>
<td>1058</td>
<td>1048</td>
<td>1044</td>
<td>1.3</td>
<td>102</td>
</tr>
<tr>
<td>Mother and child clinics</td>
<td>0</td>
<td>15</td>
<td>50</td>
<td>61</td>
<td>68</td>
<td>36</td>
<td>680</td>
</tr>
<tr>
<td>CLIPERS (peripheral clinics)</td>
<td>0</td>
<td>3</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>0</td>
<td>300</td>
</tr>
<tr>
<td>Subtotal, ambulatory</td>
<td>693</td>
<td>1126</td>
<td>1377</td>
<td>1507</td>
<td>1587</td>
<td>15.25</td>
<td>129</td>
</tr>
<tr>
<td>facilities</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: (MOH, 2012). *(Health centers with doctor and dentist; Rural Health Center)*

The quality of health services in the public sector also remains a concern and the MOH plans to address this through various measures including expanding results-based management to other types of facilities. Figure 57 shows that Honduras has the second lowest satisfaction rate in Central America—next to Guatemala which has the lowest satisfaction rate of 42 percent—although it is higher than the rest of LAC (44 percent). The MOH also estimates that approximately 90 percent of the country’s health infrastructure has deteriorated from lack of maintenance. There have been reports of health facilities having insufficient personnel and drug stocks. The reported serious drug shortages in health facilities have forced the Government to declare a state of emergency twice since 2012 (these will be discussed in the HR and drug management sections). At present, results based management is being only implemented in the decentralized primary care facilities managed by community based organizations, NGOs, or mancomunidades (groups of municipalities). Various studies have shown that these facilities perform better than “traditional” health facilities, i.e. those that are managed by the MOH and which do not have performance agreements. In order to address quality issues, the MOH 2014-18 plan aims to expand results-based management agreements to other facilities such as to all the 28 hospitals by 2018. It also aims to continue to improve HR and drug management (discussed further below).

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30 (Garcia-Prado & Lao-Pena, 2010) and (MOH and Measure Evaluation, 2009)
Expanding primary health care service coverage via decentralized facilities that operate based on performance based agreements is yielding positive results although the sustainability of these facilities remains an issue and health coverage gaps persist. Since 2005, the MOH has continued to support the implementation of community-based models which are managed by community based organizations (CBOs), nonprofit NGOs such as foundations, and groups of municipalities known as mancomunidades. These decentralized models have the following characteristics: (1) they operate in areas that fulfill a set of socio-economic criteria including poverty level, access to health and education services, and health indicators; (2) they provide a basic package of health services oriented toward prevention and health promotion and basic curative care, prioritizing young children and reproductive age women; (3) they are paid based on a formal management agreement between their management entity and the MOH. The MOH monitors and evaluates the management entity and its facilities using a set of quality and, mainly, production indicators. By 2013, there were 269 health facilities operating under this arrangement in 13 out of the country’s 18 regional health departments. These facilities have more than doubled in number since 2008, constituting approximately 15 percent of public ambulatory health facilities in the country. Evidence exists that they are more productive and provide quality services compared to MOH facilities. However, the extent to which they can be expanded to other parts of the country depends on the availability and interest of capable management entities, as well as resources because, so far, their financing has been predominantly financed by external resources. Moreover despite the expansion of these types of facilities, coverage gaps remain and estimates of the population that do not have access to regular health services range from 18 percent to 25 percent remain.

31 These are primary level care facilities comprised of 172 rural health centers or CESAR, 68 urban health centers or CESAMO, 28 maternal and child clinics, and 1 adolescent clinic.
The Government has been implementing a new model to expand coverage of primary health care, and it would be important to track and take stock of its performance before scaling it up. In order to further reduce health coverage gaps, the MOH launched in 2013 a new model of primary care involving municipalities with participation of the Faculty of Medical Sciences of the Autonomous University of Honduras (UNAH). It would be important to monitor and evaluate the performance of this new model and consider lessons learnt from its initial implementation phase prior to expanding it. In addition, it would be useful to clearly define the role of the decentralized/alternative facilities discussed above relative to the implementation of this new model.

The MOH has taken steps to improve human resource/HR management primarily by strengthening monitoring and by making more HR information publicly available. Since 2007, the MOH has taken steps to improve staff management by implementing a National Plan for the Development of Human Resources in Health 2007-2015 as part of the Call for Action in Toronto and CA regional targets included in the Regional Human Resource Observatory (UNAH and PAHO, 2009). The MOH reactivated the National Commission of Human Resources in Health of Honduras in 2012, which is comprised of government and academic institutions and civil society organizations. It also officially launched the Observatory of Human Resources in Health under the leadership of the Vice Minister of Sectoral Policy and the Department of Human Resource Development of the MOH. Nowadays, SIAFI (Financial Administrative Information System) provides information about the location and salaries of public employees and the MOH has a database of permanent health staff available on its website which identifies health workers by name, position, department, municipality and type of health unit; some municipalities also list the annual salary received by each health staff. The MOH annual statistics also include service data on community volunteer staff such as midwives, guardians, and health monitors in their annual statistics report although the data provided does not indicate in which departments/areas these personnel volunteer. These databases, however, do not include contractual staff whose numbers have reportedly increased since 2008. The MOH has also been tracking staff location through a payment mechanism that requires workers to report to their assigned workplace; unexcused absence of three consecutive days results in non-payment. Nonetheless, despite efforts to control where staff work and receive their pay, there have been reports of staff being registered in one facility but receiving pay from another department. There are recent attempts, however, to address this situation as in the case of the Teaching Hospital or Hospital Escuela which has been “returning” staff not officially designated to it to their “home” institutions. This experience is expected to serve as a pilot that will be extended to all hospitals and regional health departments in the country (Melendez, 2013)

Human resources, however, have hardly increased relative to population needs. Honduras has the second lowest health personnel to population ratio (13.8 per 10,000 inhabitants) in Central America (Figure 58). This figure is almost half the required ratio per WHO guidelines. Figure 59 shows that between 2005/06 and 2011/12, the doctor to population ratio increased from 8.2 to 10/per 10,000 while the increase in professional nurse to population ratio was even lower. Nursing assistants who bear the increased workload in primary care reported no growth. The ratio of dentists to population (per 10,000) remained unchanged, as well.
The disproportionate distribution of health personnel is also an issue. Most of them (especially doctors) prefer to work in urban areas and large cities to rural areas (Figure 60). The Government is trying to address the latter issue by establishing incentive payments based on work zones (location). In particular, incentives are now being provided to health workers who agree to provide services in remote areas such as Gracias a Dios (La Mosquitia).
Centralized HR management, the lack of competition for certain positions and contracting of personnel with insufficient funds to pay for salaries remain as major HR challenges. Health staff management in the public sector is still largely centralized except in the case of the decentralized health centers that have management contracts with the MOH where HR decisions are made by their management entity (a CBO, NGO or group of municipalities). The Medical Statute also limits the extent to which public sector health facility managers can (a) fire non-performing staff; (b) transfer physicians because the statute allows physician to choose where to work, taking their post with them; and (c) increase working hours for physicians since it mandates a six-hour work day. Moreover competition for positions has largely not taken place due to syndicates protected by statutes especially for doctors (Melendez 2013). In addition, the number of workers on contracts increased from 2000 in 2008 to 3000 by 2012 representing a substantial increase in salaries to be paid by the MOH. However, a number of appointments were made without sufficient funds to pay for salaries, delaying payments as long as six months which resulted in health worker strikes. This issue combined with the shortage of drugs lead to the Government declaring twice a state of emergency in the health sector: in July 2012 and June 2013.

**Drug procurement and management issues persist, requiring stronger measures to promote transparency and accountability.** Throughout the years, procurement of medicines in Honduras has been subject to frequent allegations of corruption. The Government has tried various procurement modalities for medicines including the use of UNDP as a procurement agency, as well as the establishment in 2006 of the Inter-institutional Committee on Drugs (CIM in Spanish) to promote transparency in drug procurement. Nevertheless, these efforts have not been sustained. For example the CIM was questioned in 2007 for approving direct contracts to 13 pharmaceutical firms that did not meet bidding requirements. In addition, although 70 to 80 percent of procurement of materials and supplies including drugs are supposed to be done centrally to promote transparency through public bidding, a recent analysis undertaken by the civil society organization called Transformemos Salud estimates that, since 2010, the Government has lost approximately 300...
million lempiras each year through corrupt practices in the procurement of medicines; no one has been held legally accountable for these losses (Transformemos Salud, 2014). In addition, its 2011 analysis notes that from 2005-2010, 57 percent of the contracts awarded by the MOH were made through direct contracting or restricted tenders. During this period, only five providers accounted for 52 percent of the total value of these awarded contracts (Transformemos Salud, 2011a). The study also found that the MOH purchased 152 items in 2009 that were US$1.6 million higher than international prices set for these items by Management Sciences for Health and WHO. In the case of IHSS, the Superior Tribunal of Accounts (STA) reported that it found expired drugs worth at least US$1.2M in the IHSS central storage facility that have not been distributed to facilities which reflected poor programming of both purchases and distribution. The STA also found information system registration errors in the amount of available medicines, materials and inputs, as well as poorly updated entry and exit records of medicines, medical equipment and furniture (La Tribuna, 2012). Furthermore, in 2013 the Ministry of Health was accused of procuring drugs at overvalued prices, of purchasing expired drugs, and of mismanaging drug supplies. The serious drug shortage in 2013 led the Government to make emergency purchases of medicines to meet the pressing needs in major health centers and hospitals which, in turn, lead to a Government investigation of the MOH's central warehouse. The investigation revealed serious internal control issues including falsification of supply requests and records, and of stocks of expired medicines that were not distributed in a timely manner to health facilities. The Government immediately took concrete actions to improve internal controls including the establishment of an automated system for tracking supplies, the replacement of the Minister of Health, and the appointment of an Oversight Board comprised of representatives from international organizations, state institutions, civil society, and religious organizations. In February 2014, the Government introduced a new scheme for the acquisition, storage and distribution of drugs in public hospitals, which excludes public sector officials from participating in procurement processes of medicines to discourage conflict of interests. The scheme, through which it intends to initiate a purchase of millions of lempiras worth of drugs calls for the participation of representatives from international organizations such as PAHO, UNFPA, the UN Office on Drugs and Crime (UNODC), civil society, and churches. In addition, Congress recently approved the Procurement Law which would allow reverse auction schemes to be used in drug procurement, allowing bidders to compete based on price. Finally, in order to make the drug procurement process more transparent, civil society organizations have established a website called “medicamentos abiertos” or open medicines to monitor most of the MOH’s drug purchases. This site currently includes 2005-2013 information on contracts awarded as well unit prices of medicines. The Government estimates that its 2014 expenditures on drugs significantly decreased, i.e. 300M lempiras relative to the 750M lempiras usually spent annually on drugs).33

The IHSS health insurance regime has been operating at a deficit since 2007 and suffered a financial crisis in 2013, underscoring the need for a major reorganization review and stronger accountability measures. After taking steps to improve its financial situation, the IHSS health insurance regime generated surpluses from 2002 to 2004 and in 2006. However, since 2007, it has been operating at a deficit mainly because of unpaid Government and private sector appropriates.33 (Secretaría de Salud Honduras, 2014).
Honduras is now making important advances towards developing a social protection and labor (SPL) system. The SPL system in Honduras is still incipient, with a wide range of social security, social assistance, non-contributory pensions, and active labor market programs coexist, meaning that many key elements are in place. In recent years, the Government has not only allocated more resources to social assistance programs, but also has engaged in institutional reform with the goal of protecting and promoting the poor into improved livelihoods.

Overall SPL spending has oscillated in recent years, but its resource allocation between contributory and non-contributory components has significantly changed. The SPL system is composed of both contributory (e.g. pensions) and non-contributory (social assistance, labor,
subsidies) programs. Overall SPL spending has evolved in the neighborhood of 6-8 percent of GDP for the past five years; still, its composition has changed during this period (Figure 61). Taken as a whole, SPL spending is relatively high in regional terms, only below Costa Rica in Central America (Figure 62). Contributory pensions still absorb a large share of SPL spending, but though this share has declined in recent years, from 6.2 percent of GDP in 2007 to 4.6 percent in 2012. In contrast, spending on non-contributory social assistance has increased over time, rising from 1.1 percent of GDP in 2007 to 1.5 percent in 2012 (except for the transitory stand-off in 2009 during the political crisis).

**Figure 61: Social Protection and Labor Spending: as a % of GDP, 2007-2012**

![Social Protection and Labor Spending: as a % of GDP, 2007-2012](image)

Source: World Bank SSEIR / ICEFI social spending database

**Figure 62: Social Protection and Labor Spending: as a % of GDP: Honduras and Central American countries, 2012**

![Social Protection and Labor Spending: as a % of GDP: Honduras and Central American countries, 2012](image)

Source: World Bank SSEIR / ICEFI social spending database

### V.2 Social Security

Despite relatively high spending, social security coverage is quite low. Social security expenses, mostly through pay-as-you-go contributory systems, accounted in 2012 for 4.6 percent of GDP. This ratio is, only behind Costa Rica and Panama in the region, but it benefits a much lower proportion of the population: only 12.8 percent of the elderly aged 65 years or more benefit from
Honduras Social Expenditure and Institutional Review

pensions (versus 68 percent in Panama and 62 percent in Costa Rica) (Figure 63).  

The main pension system is under the responsibility of the Honduran Social Security Institute (IHSS), which covers health, old-age pensions, and professional risks for employees of private enterprises. Contributions to the IHSS are made by less than 20 percent of the labor force, compared with 70 percent in Costa Rica and 61 percent in Panama, and it has not changed much in the last decade. There are two other public pension systems: the Professional Teachers’ Union (IMPREMA) and the National Institute of Retirement and Pensions for Public Officials and Government Employees (INJUPEMP), covering public employees. In terms of benefits, there are large disparities among these two systems: the average pension paid in by IHSS was only $47 a month in 2009, compared with the substantially more generous public pension systems ($253 for INJUPEPE and even $410 for teachers in IMPREMA). The Family Allowance Program (PRAF) also implements a non-contributory (social) pension scheme for extreme poor elderly (Bono Tercera Edad), with very low benefit (just $32 a year) and coverage (23,000 individuals in 2012), with a budget of just 0.01 percent of GDP. Its expansion is constrained by fiscal resources: a poverty-targeted social pension that covers the minimum income required for pensioners to escape extreme poverty would need resources equivalent to 1.6 percent of GDP.

Figure 63: Coverage of Social Security, 2007-2013

Source: World Bank SSEIR team’s analysis of household surveys, authors’ calculations using standardized ADePT software (Social Protection and Labor Modules)

V.3 Social Assistance and Subsidies

Source: World Bank SSEIR team’s analysis of household surveys

World Bank SSEIR team’s analysis of household surveys

(Marques, 2010).

(Acosta, Leite, & Rigolini, 2011)
Non-contributory social assistance, labor market programs, and subsidies rose in latest years, mainly through the launching of the first national conditional cash transfer (CCT) program, Bono 10,000. The non-contributory components of the SPL system, namely the wide range of social assistance, labor market programs, and subsidies, have sharply increased in the past few years, now accounting for of 1.5 percent of GDP (Figure 64). As a share of resources, these components surpass all countries in Central America except El Salvador, which has also stepped up spending in social assistance since 2009 (Figure 65). This expansion is mostly driven by Bono 10,000, a CCT program that incentivizes child health monitoring (0-5 year old) and school attendance (primary level), with the aim of covering most of the poor population in the country, and with resources currently amounting to 0.6 percent of GDP. An additional 0.5 percent of GDP is absorbed by electricity, gas and transport subsidies; 0.2 percent of GDP is accounted for other social assistance interventions, including school feeding, that represents 0.1 percent of GDP (benefiting 1.4 million children in 2012), and other programs of limited scale; and a further 0.2 percent by active labor market policies, the majority of them training courses managed by the public training agency, the National Institute for Professional Training (INFOP).

**Figure 64: Social Assistance and Labor spending in Honduras as a % of GDP, 2007-2012**

**Figure 65: Social Assistance and Labor spending in Honduras and CA countries as a % of GDP, 2012**

Source: World Bank SSEIR / ICEFI social spending database

Bono 10,000 CCT is the main social assistance program in Honduras, absorbing 0.6 percent of GDP and covering around 20 percent of the population. Until 2009, the government had a CCT program managed by PRAF which provided income transfers to extreme poor rural households through two different versions, one to stimulate health check-ups for infant children...
Honduras Social Expenditure and Institutional Review

(Bono Solidario) and another to stimulate primary school enrollment for children aged 6-13 years (Bono Escolar). In its last phase, the program covered 132,000 households through the provision of $10 a month. The limited coverage and budget, the low size of the transfer, and limited enforcement of co-responsibilities, kept the impact of the program low. From these lessons, the government launched a national consolidated CCT program called Bono 10,000 in 2010 (with financial and technical support from the World Bank, the Inter-American Development Bank, and the Central American Bank for Economic Integration). The new CCT (Bono 10,000) has been executed by PRAF under overall coordination with the Secretaries of Education, Health and Social Development. The program eligible population are extreme and moderate poor families with children aged 0-59 months, children in primary school (Grades 1-6), and pregnant mothers, conditional on regular health check-ups, as well as enrollment and attendance to school.

Bono 10,000 CCT has expanded rapidly and absorbs a large proportion of resources; but pressures for coverage expansion and over-generous benefits undermine its fiscal sustainability. Program benefits are up to $500 per year, quite large per international standards in CCT programs. Honduras’s CCT spending as percentage of GDP is higher than the CA average, 0.6% compared to 0.14% (Figure 66). The program expanded rapidly, from 150,000 registered beneficiary households in 2010 to 315,000 in 2013, in both rural (80 percent of total) and urban areas (20 percent). In 2013, 75.1% of its beneficiaries were extreme poor. While the Government aims to further increase coverage to respond to demand-side pressures (given that it currently covers 23 percent of the population, in a country with 45 of the population in extreme poverty), the actual rate of expansion will depend on the rate at which implementation capacity can be scaled up and on financing availability. Moreover, as of today 90 percent of Bono 10,000 resources are financed through international development loans, and with the country experiencing a tight fiscal situation (with an estimated 7 percent fiscal deficit in 2013), the viability of further expanding the program is questioned. At current coverage and benefit levels, the Program is fully funded through external credits only until the end of 2014.

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38 (Caldes, Coady, & Maluccio, 2006).
39 With the new Government administration in 2014, the social protection institutional framework has been streamlined, consolidating social government programs under a new Secretary of Development and Social Inclusion (SEDIS). SEDIS is responsible of developing and implementing the Government’s social development strategy called Estrategia Vida Mejor (“Better Lives Strategy”) and providing a comprehensive package of services to the extreme poor. The CCT Program (now called Bono Vida Mejor) is the core intervention of Estrategia Vida Mejor, and the former Program executing agency, Programa de Asignacion Familiar (PRAF), has been absorbed into SEDIS.
40 Given that school dropouts are large for grades 7 and beyond, as seen in the Education section, the Government is analyzing extending conditionalities to lower secondary education as well, which are even more relevant in urban areas.
Source: For beneficiaries: World Bank SSEIR team’s analysis of household surveys, authors’ calculations using standardized ADePT software (Social Protection Module). For spending: LAC SP database

**Bono 10,000 has shown proven impacts on development outcomes, though they could be improved by revising conditionalities and payment mechanisms.** A recent impact evaluation in rural areas suggests many important impacts thanks to the program: (a) poverty among beneficiaries fell by 3 percentage points (in contrast to an increase in poverty nationwide), while per capita consumption increased by 7 percent; (b) school enrollment in primary increased by 2.8 percentage points; and (c) visits to health centers for children aged 0-3 increased by 2.6 percentage points. However, the evaluation did not find significant effects of the program on nutritional outcomes, or vaccinations, or prenatal controls, perhaps due to limited enforcement of these health program responsibilities. Program impact could surely improve once its many implementation challenges are resolved. For instance, as of today none of the beneficiary families has received the official benefits level (Lps 10,000 or $500) in a given year, as stipulated by the program due to operational weaknesses (management information system, MIS, still under development) and payments delays.

**Honduras also spends an important amount of resources in poorly targeted subsidies, mainly for electricity consumption.** Around 0.5 percent of GDP is spent on subsidies, covering electricity, gas, transport, and housing. Electricity is by far the most important, accounting for 62 percent of total subsidy envelope in 2012. It started as “Bono 80” since it used to reimburse in the electricity bill from the National Electricity Company (ENEE) 80 percent of the minimum allowed consumption to all households connected to the grid and which consumed less than 100 kWh. Since 2005, this subsidy became more complex, with different reimbursement rates for all households consuming less than 300 kWh. In 2009, due to the increase in fuel prices that translated into higher

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41 (NORC-University of Chicago, 2013)
electricity tariffs, the subsidy covered 100 percent of minimum allowed to those consuming less than 150 kWh. In practice, this has meant that 62.5 of all households connected to the grid in 2011 received a subsidy. The latest reform came in December 2013, when the subsidy for households consuming between 75 and 150 kwh per month was reduced substantially, and that for households with consumption of up to 75 kwh was replaced by a reimbursement of US$ 6 per month. These measures were expected to reduce the Government’s subsidies by 0.2 percent of GDP.

**Bono 10,000 CCT is relatively well-targeted compared with other social assistance programs and subsidies, though there is still substantial room for improvement given that social assistance coverage gaps among the extreme poor are still high.** In terms of both beneficiary and benefit incidence with respect to income groups, Bono 10,000 is relatively well targeted to its intended population, the moderate and extreme poor. Estimates for 2013 show that 68.2 of beneficiary households belong to the first two income quintiles (pre-program transfer) and as such are extreme poor, while an additional 17.5 percent belong to the third income quintile, and as such are moderate poor (Figure 67). The errors of inclusion (14.4 percent of beneficiaries in the top two quintiles) are thus in line with other CCT programs in the region, and contrasts with other social assistance programs (21.6 percent for school feeding, and 31.5 percent for energy subsidies). There is still room to improve targeting of both Bono 10,000, given coverage pressures for the extreme poor (just 30 percent of families in extreme poverty are Bono beneficiaries), as well as for other social assistance programs and subsidies (only Bono 10,000 is explicitly targeted to the poor per program rules).

![Figure 67: Beneficiary incidence of major social protection programs in Honduras, 2013](image)

Source: World Bank SSEIR team’s analysis of household surveys, authors’ calculations using standardized ADePT software (Social Protection Module)

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42 The new administration has announced recently the intention that Bono 10,000 should prioritize only the extreme poor, and to reach about 400,000 families in that condition. For that, a revision of its targeting formula is underway, as well as efforts to collect updated census information in areas identified as poorest with the latest poverty map.
Note: Beneficiary incidence is defined as the number of individuals in the group who live in a household where at least one member receives the transfer, in proportion of the total number of direct and indirect beneficiaries.

V.4 Labor Market Policies and Programs

A large majority of the population has persistent employability challenges, with difficulties in retaining a formal job. As stated above, just one in five workers contribute to the social security system or are employed in a medium-large firm, thus qualifying as “formal worker”. In fact, many youngsters enter into salaried jobs but as they age most are not able (or not willing, depending on the interpretation) to retain this status and transition into self-employment activities by adulthood (Figure 68).

Figure 68: Type of Employment by Age Group, Honduras 2013.

Source: World Bank SSEIR team’s analysis of household surveys, authors’ calculations using standardized ADePT software (Labour ILO Module).

Unemployment has also become a worrying factor, especially for youth living in urban areas, and for those with some secondary or tertiary education. In general, unemployment is in single digits in Honduras, a similar fact than in many other Central American countries. However, the trend is increasing sharply among youngsters (6.4 percent in 2007 to 9.8 in 2013) (Figure 69), and in urban areas (from 4.9 percent in 2007 to 8.6 in 2013), (Figure 70). Among the latter, the situation is much worse for those who have relative higher education, with a peak among those with complete secondary education, for whom the unemployment rate rose from 6.4 to 13 percent between 2007 and 2013 (Figure 71), while also striking is the double in unemployment rate among those holding a tertiary degree (from 3 to 3.2 to 6.5 percent over the same period). In fact, previous evidence has shown that returns to education seem to have declined significantly in the last decade.43 All these

43 (Gasparini, Galiani, Cruces, & Acosta, 2011)
evidence point out that the skills provided by the formal education sector may not be those necessarily demanded by the productive sector, and also a reflection of low educational quality.

Figure 69: Unemployment rates (%) by age groups, Honduras 2007-2013

![Unemployment rates by age groups](image)

Source: World Bank SSEIR team’s analysis of household surveys, authors’ calculations using standardized ADePT software (Labour ILO Module).

Figure 70: Unemployment rates (%) by location, Honduras 2007-2013

![Unemployment rates by location](image)

Source: World Bank SSEIR team’s analysis of household surveys, authors’ calculations using standardized ADePT software (Labour ILO Module).

Figure 71: Unemployment rates (%) by level of education, Honduras 2007 and 2013

![Unemployment rates by level of education](image)

Source: World Bank SSEIR team’s analysis of household surveys, authors’ calculations using standardized ADePT software (Labour ILO Module).
In this context, coverage of active labor market program is low and not well targeted to priority groups. Typical labor market interventions in middle-income countries provide employment services through job market information; labor market training; incentives for formalization through apprenticeship programs that reduce labor costs for labor market entrants and for those with low skills; and temporary employment programs that combine workfare with social and community services. Honduras has limited experience in these areas. Spending on active labor market programs (ALMPs) in Honduras accounts for around 0.2 percent of GDP. The majority of these resources are allocated to programs that focus on training employed adults through the National Training Institute (INFOP), that offers training courses in agricultural, industrial, and service areas under several modalities, including center-based, enterprise-based, or both, as well as certification of labor skills for enterprises. As with similar institutions in the region, INFOP’s resources come from a one percent payroll tax on enterprises. Its budget in 2012 reached 0.16 percent of GDP, spent on over 10,000 courses to 170,000 individuals, most of them already employed (Figure 72). In contrast, very few resources go to programs for training out-of school youth (Figure 73). Training programs available for the unemployed are also limited: data for 2007 show that barely 4.7 percent of the unemployed had taken a training course in the previous three years. Despite unemployment rates being twice as large for youth compared with adults, the government allocates less than 0.1 percent of GDP to ALMPs on youth training. Among others is Mi Primer Empleo, managed by the Ministry of Labor, and more recently in exploratory conversations to coordinate with INFOP. The new administration has announced a plan to expand on-the-job training opportunities and labor market insertion, called “Con Chamba Vivis Mejor”, aimed at creating 25,000 new jobs per year.

Figure 72: Spending of Public Training Institutions in Central America, 2012

Source: World Bank SSEIR / ICEFI social spending database

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44 (World Bank, 2012b)
45 (Marques, 2010)
Other labor market interventions involve low-coverage labor intermediation services, but not emergency employment responses. The Secretary of Labor manages an employment service called Empleate, which is implemented across the country in regional employment offices. Each regional and employment office collects information on job openings and posts job opportunities online for job seekers to apply for, matching the labor demand needs of the private sector with a registry of unemployed persons. So far, these employment offices have captured labor demand needs of formal firms, but not of informal small and medium enterprises, given legal restrictions. As a consequence, the current labor intermediation system has primarily served the population with secondary or university education, and is still limited in coverage. Therefore, less educated individuals still face serious information constraints when looking for a job, and they do not generally access counseling and job search assistance programs. Another limitation is the lack of employment of last resource mechanisms to activate in time of emergency. The Social Investment Fund (FHIS) executes projects that are usually small, community-driven, and labor-intensive, and have occasionally been used in the past to offer employment over a relatively short period. However, such a scheme not yet been used as a proper workfare intervention for periods of economic slowdown or natural disasters.

Labor market regulations in Honduras are relatively strict for regional standards and do not protect the poor but rather a small minority of workers. Labor markets in Honduras are highly regulated in relation to those in other countries in the region, in particular in terms of pay legislation. Honduras has a relatively high legal minimum wage, at around $213 a month in rural areas and $290 a month in urban areas –both much higher than the average wage found in the labor market. The real minimum wage increased by an accumulated 32 percent in 2000-2008 – the same pace as in Nicaragua – but three times faster than in Costa Rica, Panama, and El Salvador (Figure 74). In 2009, the minimum wage in Honduras nearly doubled despite the economic crisis and with inflation in low
The recent negotiations between employers, unions, and Government for a new minimum salary has introduced a three years period of subsequent increase, which is an interesting breakthrough on the overall approach to salary increases. This has been introduced to contain further rises above inflation. However, it seems that minimum wage raises are not helping to raise pay or living standards of the most vulnerable population. From 2007 to 2013, wages declined for all educational levels, especially for those with less than secondary education, by approximately 30% (Figure 75).

Figure 74: Evolution of Real Minimum Wages in Honduras and Central America, 2000-2011

Figure 75: Change in wage pay by Educational Level, 2007-2013

Source: World Bank SSEIR team’s analysis of household surveys, authors’ calculations using standardized ADePT software (Labour ILO Module).
To ease restrictions for hiring of temporary workers, the Government has enacted legislation that will facilitate compliance with labor regulations. In 2010, the Government enacted an emergency temporal regulation called Employment per Hour Law, with the objective of creating temporary jobs in the country and as such mitigating the rise in unemployment. The law allows hiring workers for a limited period of time or for specific purpose/tasks by hour or day. The worker that signs this type of contract had access to most labor benefits, such as severance payment against unjustified termination of employment, and compensation against accidents. Firms can hire up to 40 percent of its payroll under this modality, with a fixed 5 percent quota for social vulnerable groups (elderly without pension benefits, disabled, youngsters that faced deportation, ex-convicts or former gang members, and war veterans). Their pay is subject to the equivalent hour rate per legal minimum wage in the industry/service of reference. The Government has reported that thanks to this regulation, since 2010 177,369 new temporary jobs were created, 33 percent of them in commercial activities, 26 percent in financial businesses, and 18 percent in manufacturing. However, no proper evaluation of the law has taken place yet, and it is uncertain how many jobs would have been created without the legislation. Nevertheless, the new administration has confirmed the continuation of this law.

V.5 Institutional Arrangements

The institutional setting of the SPL sector is quite complex in Honduras, though the new administration is taking step in reorganizing it under a new coordinating leadership. The SPL sector in Honduras has been up to date comprised by several institutions, including: a) executing institutions, such as PRAF, FHIS, IHSS, and the Secretaries of Labor and Social Security, Education, Health, Presidency, and Agriculture and Livestock, among others; b) the Secretary of Social Development (SDS), created in 2006 to provide oversight to the SPL system, but with weak mandate and resources; and c) the Social Protection Sector Roundtable, which has the participation of the government, civil society, and donors. All these institutions have mixed competencies in different parts of the sector, and are not necessarily working in a well-coordinated fashion. However, the new administration that came into government in January 2014 has announced a major reorganization of the state administration that will include seven Sectoral Cabinets, including the Social Inclusion and Development Cabinet that will be chaired by the Secretary of Social Inclusion and Development (former SDS), and composed also by the Secretaries of Education, Health, Water and Sanitation, PRAF, and other executing institutions, with a much stronger mandate than in the past (previous “Social Cabinets” were merely functioning as dialogue convening meetings called by the President). This new Cabinet will lead the implementation of the “Vida Mejor” strategy (that will include Bono 10,000), an umbrella framework for social policy by providing a social protection floor and prioritizing the 835,000 families in extreme poverty. The Secretary of Labor and Social Security and INFOP will be included in the also new Economic Development Cabinet.

The Government is already taking steps to better integrate the SPL sector and improve the impact of interventions through legislation. Another milestone for the sector is the recently sanctioned Social Protection Policy, aimed at creating a well-developed social protection system comprising interventions in social security, social assistance, and labor market policies. Still, its full
implementation would require a redefinition of roles and responsibilities across actors, and those
matched by resource allocation. The new administration is also aiming at strengthening execution of
social interventions at subnational levels (*Mancomunidades*) through social protection roundtables at
the local level (*Mesas de Protección Social*), and as such SDS has been providing training and
dissemination workshops in the use and data uploading of different management instruments, as
well as seeking agreements on institutional and operational arrangements.

**Honduras is also developing a registry of beneficiaries of social program that will help to avoid duplication of beneficiaries and target better social interventions.** Also, in an attempt to avoid duplication and improve program targeting, in 2010 the Secretary of Social Development started the development of a national beneficiary registry (*Registro Único de Beneficiarios*, RUB) under its new IT platform (*Centro Nacional de Informacion del Sector Social*, CENISS). The RUB database composed of beneficiaries of most social programs (including Bono 10,000 beneficiaries) is expanding, reaching 1.9 million beneficiaries by end of 2012, but still its use has been limited due to limited enforcement and visibility of the instrument, as well as financial constraints to complement the database with a census of non-beneficiary households through a single registry instrument (*Ficha Socioeconomica Unica*). The planned program recertification of beneficiaries on Bono 10,000 (to start in 2014), as well as the upcoming country population census will present opportunities to complete the RUB and start its full implementation.

**Honduras is also improving its monitoring and evaluation mechanisms of SPL.** The latest administration has not only put effort in creating and consolidating the RUB, but also the identification and geographical mapping of social protection interventions (*Registro de Oferta Institucional*, ROI) as well as a system to track and follow key management and performance indicators of interventions (*Sistema Único de Evaluación de Políticas Públicas Sociales*, SUEPPS), both part of CENISS within SDS. The new administration has announced that CENISS and its key instruments (RUB, ROI, and SUEPPS) would be placed under Presidency, which is not recommendable given that the overall coordination of the social sector is now under the new Secretary of Social Inclusion and Development, and those instruments are essential to guarantee coordination and appropriate linkages between policy formulation and execution of programs.

**VI. Conclusion and Policy Recommendations**

Honduras has experienced moderate economic growth in the past decade, in line with the rest of the region. Despite this growth track record, limited opportunities for decent jobs for the majority of workers have resulted in stagnant poverty and inequality rates that are still the highest in Central America.

In parallel, progress in human development indicators has also been mixed in the last decade. In education, while primary enrollment has increased, low coverage of secondary and tertiary education, inequalities in access and low quality persist. In health, Honduras is close to achieving the 2015 child mortality MDGs and has made progress in reducing chronic malnutrition, but maternal mortality, NCDs, and violence pose additional challenges. And despite advances in setting up a
social protection system, fiscal sustainability and lack of coordination among interventions prevail, undermining poverty reduction efforts.

The ability of the Honduras government to expand safety nets, provide quality public education and health services, engage in active labor market policies, and improve human development indicators in general, remains limited for a number of reasons. First, overall real social public spending has been on the decline in the last few years. Second, low revenues and fiscal deterioration pose challenges to adequately financing needed social sector improvements. Third, challenges in budget formulation and execution (mainly due to institutional factors) also diminish the impact of social spending. But more importantly, Honduras needs to significantly improve the effectiveness and efficiency of its social spending.

Moving forward Honduras should prioritize three main aspects: a) rationalize and increase effectiveness of social public spending by better targeting available to the poor; b) reallocate spending from wages/salaries to capital investment (e.g., school infrastructure); and c) continue strengthening information systems tools, legislation, etc., to consolidate programs into fewer and higher impact interventions. Several sector specific policy recommendations aligned to these broad objectives are synthetized below. A summary snapshot table is presented in the Annex.

### VI.1 Education

In Honduras, a high relative level of public spending by international standards still favors primary education and the wage bill, with little resources allocated to either pre-primary, secondary education or to capital expenditures. This naturally creates challenges in access to these two levels of education – pre-primary and secondary – as well as in more remote rural areas where availability of schools remains a problem. In addition, the sector is affected by a significant quality problem. Today, Honduran school children still severely underperform in standardized tests. This is driven by a reduced number of effective school days and the reduced actual learning time. Finally all these challenges are compounded by significant institutional challenges. Despite the momentum gained over the last 2 years with the enactment of the Fundamental Law of Education, the institutional framework supporting a greater administrative and financial decentralization of the education system has not yet fully materialized. Based on these challenges, we summarize below the main policy recommendations for the education system in the country.

**A strong policy focus is needed in finalizing the 2015-2018 Education Strategy defining the GoH's top priorities and conducting a thorough costing exercise.** In the short term, this creates, first and foremost, urgency for developing a clear roadmap for the implementation of the FLE and the LSESCP guiding the full operationalization of this substantial institutional reform; and (ii) developing a detailed framework for addressing the annual financing gaps for different intervention. The expectation, under the new administration, is to have all the legislations/regulations defined under these important Laws by the end of 2014. In addition it is also critical to have a clear timeline for the implementation process of this law, and continue supporting the decentralization process of
the financial management of human resources for selected departments. In the medium term (i.e. over a 3- to 5-year horizon), the GoH could design a plan to quickly adapt the skills of staff who currently work in institutions that will become core elements in the newly decentralized system (e.g. departmental or municipal branches of SEDUC), given that most of these positions will now require both an educational background and managerial skills consistent with the new organizational structure. The GoH will also have to steer and accompany the deployment of new core institutions (e.g. Municipal Councils for Educational Development or COMDEEs), balancing their responsibilities and capacity, and supporting these new institutions in acquiring and developing the skills required to accomplish their mission.

**There is also strong need for a stronger focus on the quality of the educational spending.**

Given the high levels of spending in education by international standards, and the strong focus of spending still in primary education, a series of policy levers are needed to progressively rebalance the spending thus making it more efficient and equitable. In the short term, it is imperative for the GoH to prepare a medium-term plan, creating fiscal space within SEDUC’s budget. Assuming that fiscal space could be created at a 2 percent annual rate in the next 4 years, these savings could make a significant difference in fostering more quality enhancing inputs into the system. Special attention should be given to continue containing the teacher’s wage bill until this sizeable component of SEDUC’s budget gets to a more reasonable number and frees up resources for quality-enhancing inputs. In this sense, a thorough analysis of teacher pay in Honduras, together with the publication of teacher salary levels would help demystify the idea that teachers are poorly paid, especially when compared with professions of similar educational background.

In the medium term, it is also critical to progressively rebalance spending in two ways. First, by decreasing the relative weight of primary education – level of education where Honduras has reached almost universal coverage – in favor of both pre-primary and secondary education, consistent with the new mandates of the LFE in regards to compulsory education, and also consistent with international benchmarking. Secondly, by decreasing the relative share of recurrent expenditures, especially the wage bill, in favor of capital expenditures, whose participation in the budget has been declining steadily since 2009, forcing international donors’ money to chip in in order to avoid the collapse of the system’s infrastructure. In addition to the steady “shifts” in expenditure, a healthy measure to improve the efficiency of spending would be to establish/create an Impact Evaluation Team/Unit in SEDUC. Such a unit would be highly technical and in charge to conduct systematic analyses of the cost-effectiveness of the different programs that SEDUC is undertaking. These assessments are critical to justify scaling-up/maintaining programs or abandoning them. Finally, it would also be important to establish incentive mechanisms for SEDUC’s line units to promote monetary savings. For example, if a line unit saved 15 percent or more during a given year, it would be automatically eligible for retaining these funds and SEDUC could match 100 percent this investment. These additional funds could then be used on innovative programs improving the quality of service delivery within the scope of work for that unit.

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46 Examples may include English language program, alternative programs for extending the provision of secondary education in rural areas.
Addressing the access and quality issues for pre-primary and secondary education, especially in rural areas, arises also has critical issues to insuring more equitable and efficient spending. While developing a higher quality for educational services is critical across all levels of schooling and geographic locations, access is still an issue for pre-primary and secondary levels and especially for those in rural areas and with lower income. In the short term, to address inequalities across urban and rural areas in the access to compulsory education, it is urgent to develop an infrastructure plan to address capacity constraints. SEDUC completed in 2013, the Census of School Infrastructure, which surveyed the whole educational system and has now updated information on the status of school infrastructure in the country. However, a complementary study needs to be carried out to document the barriers to enter/remain in pre-primary and secondary education and ascertain where the areas with the largest potential demand for schooling remain unattended due to a lack of an adequate supply. In terms of quality, the most critical area is that of the quality of teachers. Roughly a third of Honduran teachers do not yet have the required basic skills for teaching. While designing an aggressive campaign to recruit better teachers is important, it is highly necessary to start an equally aggressive campaign of targeted teacher training to significantly upgrade the skills of the teacher corps, especially those that need it the most. In the medium term, more strategic policies for increasing coverage and quality are needed. First, it is fundamental to assess the cost effectiveness of alternative programs fostering attendance at the secondary education level promoted by SEDUC for some time now. This focus on results will promote a more informed decision as to whether to scale these programs. To achieve this, SEDUC could create an Impact Evaluation Unit. In a similar vein, piloting and evaluating new approaches to foster coverage at the secondary level, including targeted financial incentives could also be a longer-term alternative. Second, increasing the number and scope of high quality and well-evaluated early childhood development (ECD) services nationwide would be smarter investment for the future, even if the kindergarten year is the only one compulsory for now. Finally, a new strategic plan for the professionalization of the teaching career, aiming at recruiting and retaining the most talented, is critical for SEDUC to promote further education quality. This plan could include a comprehensive review of the profile of Honduran teachers, the characteristics of teacher training schools and students, a holistic review of the teacher compensation package, and a new set of incentives for pro-poor deployment policies.

VI.2 Health

Progress made in several key indicators despite resource constraints but challenges in outcomes, access, quality, and efficiency persist. Despite relatively low public spending on health, Honduras has made notable progress in outcomes and in increasing coverage rates for

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47 This study would follow UNICEF (2014)’s assessment of educational exclusion from primary education. The objective would be to complete a similar analysis and geographical profiling of the most excluded groups from pre-primary and secondary education, making a rigorous identification of the reasons preventing them from enrolling and/or staying in school.
certain services. Nonetheless maternal mortality remains high while non-communicable diseases have emerged as the major causes of morbidity and mortality. Also, overall service coverage gaps remain, with estimates ranging from 18 to 25 percent. Utilization rates are also significantly lower for the poor and those who live in rural areas. Quality of care also remains an issue and underscores the need to further improve distribution and management of human resources, as well as strengthen drug management. While there is a need to increase the resources allocated to health, there are also several opportunities for improving the efficiency of health spending particularly in drug procurement and the management of the Honduras Social Security Institute (IHSS).

In moving forward, the Government of Honduras could consider the following health sector recommendations:

**Channel more resources to cost effective preventive interventions and ensure their sustainability.** It is recommended that the Government (MOH and IHSS) strive to invest more resources on cost-effective prevention and promotion activities that focus on child and maternal health and nutrition including AIN-C, and prevention of costly non-communicable diseases. In increasing access to health promotion and prevention activities (supply side), the Government could also strengthen the link between these supply side interventions and demand side interventions such as CCTs to encourage health seeking behavior especially among the poor.

**Undertake a process evaluation of the first phase implementation of the Government’s new PHC model that involves integrated multidisciplinary health teams working in collaboration with local governments.** It is recommended that this assessment be done before investing more resources in scaling up the implementation of this model. Based on the process evaluation’s results, Government can then decide whether to expand it or not, and whether adjustments would need to be made. The role and funding of existing decentralized/alternative health centers in the context of implementing this new PHC model would also need to be clarified.

**Implement human resource management strategies to better address inequities and improve results.** Human resource management in the sector could be strengthened by (i) looking into the feasibility of offering non-monetary incentives (e.g. housing allowance, special training) to complement recently established monetary incentives to attract staff to work in rural and remote areas; (ii) undertaking a feasibility study of applying m-Health and the use of cellular phones at primary and secondary service delivery levels (as a way to address HR and physical access constraints); (iii) establishing a consolidated human resource data base for permanent and contractual staff to be tracked by department, municipality and by facility; it is recommended that this list be periodically verified by a random staffing audit; (iv) implementing measures to prevent/control the hiring of staff without a confirmed budget to pay their salaries in a timely manner, and (v) implementing a standardized and transparent process of evaluating staff performance with well-defined incentives and sanctions that are systematically applied. An HR strategy that attracts and retains health workers in the public sector is needed. This strategy could include concrete actions (including a communications strategy) to encourage more individuals to

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48 M-health is the practice of medicine and public health with mobile devices.
pursue a career in the health sector, to improve their distribution across departments, as well as to retain them; any changes in training should be coordinated with the MOE.

**Improve resource availability and capacity to implement resource based management/RBM in the sector.** Expanding RBM in the health sector to the Regional Health Departments and hospitals would require more resources and capacity. While some funds could be reallocated based on efficiency gains (for example, possible savings from improvements in drug procurement), additional funds would still be needed to improve service coverage and quality. The MOH is proposing to establish a National Fund for Health financed by National Funds and taxes from tobacco, alcohol, and other gaseous beverages, municipal funds and 25 percent of OABI resources. Generating additional resources would be a welcome step because insufficient resources has often been cited as a major bottleneck in implementing RBM. It would be important to estimate the cost of proposed health system improvements (including infrastructure, health MIS and RBM training) based on operationalizing priorities in the NHP 2014-18 and whether this proposed financial mechanism would be sufficient or would need to be improved and/or complemented by other sources.

**Support recent measures taken to improve drug procurement with other actions to ensure access to and availability of drugs at competitive prices.** The establishment of an Oversight Board comprised of non-Government members for drug procurement to minimize conflict of interest, the use of joint procurement between the MOH and IHSS to obtain better prices through economies of scale, as well as reverse auctions to purchase drugs in lieu of resorting to direct purchases are welcome measures to improve transparency and obtain better prices. At the same time these measures would need to be accompanied by other actions aimed at improving planning, logistics management and monitoring to ensure that drugs are distributed on time to facilities, tracked, and that purchase requests are made ahead of time to avoid shortages that could lead to unnecessary emergency procurement and direct contracting. External audits could also be undertaken to ensure that procurement processes are handled transparently and the Government is obtaining the best prices. Information on Government procurement transactions should also be made consistently available to the public. At present, although the law requires this information to be publicly disclosed, both the IHSS and the MOH do not systematically post all the required information on their websites. Although there are established sanctions for non-publication, these have not been systematically applied. The open medicines website established by civil society organizations is a promising undertaking and would need to be complemented by other actions to ensure that improvements in procurement and management of drugs are consistently implemented and sustained over time.

**Conduct a more in-depth review of the draft law social protection.** Although well intentioned, the draft law could contribute to fragmentation in terms of access to financial protection and benefit packages by different segments of the population because it proposes various insurance regimes whose benefit packages would eventually need to be aligned and adequately financed if the law’s ultimate goal of universal access is to be achieved. The law also assigns more responsibilities to IHSS which is already dealing with serious management and financial issues. It is recommended that the review of this law also consider (a) options on how to progressively work toward an integrated
health system from the outset instead of having different insurance regimes for various segments of the population that might be more difficult to align in the future and (b) institutional arrangements, particularly actions to strengthen IHSS including payment of the Government’s longstanding debt to the institution, together with measures to minimize the likelihood of it being mismanaged again.

**Implement stronger accountability measures to support sector reforms.** The MOH’s advances in results-based budgeting, decentralization, and transparency need to be accompanied by stronger accountability measures via: (a) clarifying roles and responsibilities, lines of authority and reporting channels through a revised Manual of Organization and Functions, especially in view of the envisioned separation of functions and redefinition of the role of the MOH; (b) more training on management, planning, and budgeting for Regional Health Departments, as well as municipal and facility level staff; (c) an integrated information system to guide planning and budgeting and to track performance at all administrative levels and health facilities including hospitals; (d) a supervision system that includes external technical and financial audits; and (e) the systematic implementation of sanctions and remedial actions (for example, holding legally and publicly accountable those persons responsible for the mismanagement of IHSS and the misprocurement of drugs in the public sector).

**VI.3 Social Protection and Labor**

Despite increased fiscal efforts in expanding the SPL spending in Honduras, the limited gains in poverty reduction suggests that there is plenty of room to improve its effectiveness. Despite achieving a decent growth performance in the 2000s, even surpassing the regional average, Honduras has achieved limited progress in terms of poverty reduction and creating income generation opportunities for the majority of the population. As a consequence, the current Government administration increased spending in SPL with the intention of poverty alleviation and a clear target to reduce extreme poverty. Still, poverty rates did not decline in the past four years, which calls for a thorough revision of current SPL interventions to increase their effectiveness. Given the current difficult fiscal context, further expansion of SPL spending is not advisable; instead, this is an opportunity to debate SPL sector portfolio allocation and impact.

**Honduras needs to put in place a more comprehensive and consolidated social protection system through institutional reengineering.** A wide range of social assistance, non-contributory pensions, and active labor market programs, executed by a wide range of institutions, coexist in Honduras, meaning that all the key elements of a social protection system are in place. Nonetheless, with the exception of the Bono 10,000 CCT, these programs have limited coverage and are poorly integrated each other. The recently adopted Social Protection Policy goes in this direction, but it is not enough. Effective implementation of its mandate requires institutional reform of the sector. The recently announced “Vida Mejor” strategy and the institutional reorganization that combines policy and execution is an excellent opportunity to improve overall coordination and improve targeting and rationalize interventions, provided that its counts with the appropriate instruments. A reformed institutional setting should also ensure the effective implementation of key instruments such as the
RUB and SUEPPS, that can help consolidate existing programs aiming and reduce inclusion and exclusion errors.

For the sake of fiscal responsibility and equity concerns the expansion of Bono 10,000 needs to be contained, its benefits and corresponsibilities revised, and its operational performance strengthened. Bono 10,000 program is proving a fairly well-targeted intervention with already demonstrated impacts in development outcomes. However, the natural pressure for program expansion, to include currently excluded extreme poor households is simply not feasible. Its priority should be to revise eligibility criteria among current beneficiaries, targeting exclusively the extreme poor (not the moderate poor), in particular in rural areas (with highest incidence of extreme poverty). Its benefit levels could also be revised down, given that they are already among the most generous in the region; this reform could also allow for higher coverage without expanding its current fiscal allocation. Current program corresponsibilities should also be analyzed in light of the recent evidence on program impact: for instance, condition on school attendance in urban areas could be shifted to secondary rather than primary education. Finally, it is important to tackle serious bottlenecks to program operation, namely its inefficient payment system, its means to verify corresponsibilities, and its grievances and complaints mechanisms.

Bono 10,000 could also help to consolidate and target to the poor other existing interventions with limited or unknown impact. Honduras could reduce or better target expensive and inefficient subsidies in electricity and others, which are representing a large amount or resources (0.5 percent of GDP) and are based on consumption thresholds and prone to fraud, rather than on living conditions. As international experience has shown, these could be integrated into or replaced by CCT benefits such as Bono 10,000. Similarly, given the low coverage of pension systems, there is an opportunity to link the current social pension program to the CCT structure, as in other Latin American countries (Mexico, El Salvador), and in that way save on administrative costs and ensure a more effective implementation. Single payment mechanisms of all benefits and subsidies are also recommended, through for instance a unified card system.

Active labor market policies should also be revamped and made more relevant for the unemployed population and labor market entrants. Among the priorities to consider, the labor intermediation services offered by Empleate should be expanded in terms of coverage and quality. These are useful to tackle information failures by facilitating the match between the demand and supply of labor through labor intermediation, by identifying demand for job qualifications and ideally complementing training services. Typically, low-skilled workers are not properly served by these interventions, which focus only on formal jobs for the high-skilled. It is also critical to complement services to include self-employment promotion and mentoring activities. In terms of training, targeted programs are required for young people who currently have low educational levels or will be likely to drop out of school, to complement education sector policies. However, as of today, public training programs (in particular those managed by INFOP, an institution with the experience and resources to guarantee sustainability of interventions) have focused mainly on employed and unemployed adults. Programs like Mi Primer Empleo, which represents a prototypical model of a multiservice intervention to improve youth employability and human capital, should thus be scaled up to ensure meaningful national coverage. The country could put in place proper
workfare programs to mitigate the risk of unemployment in temporary economic downturns. While Honduras channels a large proportion of its resources to community infrastructure, it could benefit from a toolkit of workfare programs, with respective operational guidelines, to be implemented in short order in times of economic crisis and natural disaster, especially in urban areas. The model of the El Salvador Temporary Income Support Program (PATI) could be explored for the Honduras case.

Finally, income policies, in particular wage policies, should be compatible with efforts to maintain the competitiveness of the economy so it can grow and create more and better jobs. The minimum wage in Honduras is quite high and could be hampering the prospects of further employment creation in the formal economy since its evolution has been divorced from that of labor productivity. Increases in minimum wages above the affordability of most employers, though popular politically, may lead to the closure of firms and job losses, particularly for small firms in labor-intensive sectors. It may also raise noncompliance with the law, increasing the informality of the economy. A direct consequence has been the unsustainable increase in wages for public sector workers, which aside from perpetuating inequities, demand a significant share of the government budget that could be freed up to spend more effectively on priority groups. More flexible labor market regulations would also help support employment creation in the formal sector of the economy, as such the Employment per Hour law is promising, but needs to be properly evaluated as an effective mechanism to create employment.
### Annex

**Matrix of Short and Medium Term Policy Reform Options**

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<th>Short-term options</th>
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<td>embedded in the FLE</td>
<td>(e.g. Municipal</td>
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<tr>
<td>• Prepare the</td>
<td>Councils for</td>
</tr>
<tr>
<td>“2014-2017</td>
<td>Educational</td>
</tr>
<tr>
<td>“2014-2017</td>
<td>Development or</td>
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<tr>
<td>Education Strategy”</td>
<td>COMDEs), evaluate</td>
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<tr>
<td>• Continue the</td>
<td>and balance</td>
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<tr>
<td>decentralization</td>
<td>responsibilities/capacity,</td>
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<tr>
<td>of the financial</td>
<td>and prepare a plan</td>
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<tr>
<td>management of HR</td>
<td>for upgrading the</td>
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<tr>
<td></td>
<td>skills of new staff.</td>
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<td></td>
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<tr>
<td>• Improve the</td>
<td>• Progressively</td>
</tr>
<tr>
<td>quality of the</td>
<td>rebalance spending</td>
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<tr>
<td>educational</td>
<td>decreasing the</td>
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<tr>
<td>spending</td>
<td>weight of primary</td>
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<td></td>
<td>education and of</td>
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<td>recurrent</td>
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<td>expenditures in</td>
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<td></td>
<td>favor of capital</td>
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<td></td>
<td>expenditures.</td>
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<tr>
<td>• Prepare a medium-</td>
<td>• Establish incentive</td>
</tr>
<tr>
<td>term plan for</td>
<td>mechanisms within</td>
</tr>
<tr>
<td>creating fiscal</td>
<td>SEDUC to promote</td>
</tr>
<tr>
<td>space within</td>
<td>savings of up to</td>
</tr>
<tr>
<td>SEDUC’s budget at a</td>
<td>5 percent in all line</td>
</tr>
<tr>
<td>2 percent</td>
<td>units each year.</td>
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<tr>
<td>annual rate.</td>
<td>• Establish an Impact</td>
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<tr>
<td>• Contain the</td>
<td>Evaluation Team/Unit</td>
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<tr>
<td>expansion of the</td>
<td>in SEDUC to</td>
</tr>
<tr>
<td>teacher’s wage</td>
<td>systematically</td>
</tr>
<tr>
<td>bill and make</td>
<td>assess cost-</td>
</tr>
<tr>
<td>teacher salaries’</td>
<td>effectiveness of</td>
</tr>
<tr>
<td>publicly available</td>
<td>programs.</td>
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<td>in an effort to</td>
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<td>combat the idea</td>
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<tr>
<td>that teachers are</td>
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<td>poorly paid.</td>
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<td>• Progressively</td>
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<td>rebalance spending</td>
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<td>favor of capital</td>
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<td>expenditures.</td>
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<tr>
<td>Address access and quality issues for compulsory education (K-12).</td>
<td>Develop an infrastructure plan to address infrastructure/capacity gaps to significantly increase access in rural areas, especially for secondary education.</td>
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<td>Develop a study with a thorough assessment of the barriers to enter/remain in pre-primary and secondary education by region.</td>
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<td>Develop a plan to upgrade the skills of the teacher corps to meet the newly defined and measured competencies.</td>
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<td>Health</td>
<td>Prepare a new strategic plan for the professionalization of the teaching career, aiming at recruiting and retaining the most talented through a new compensation system with clear accountability guidelines.</td>
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<td>Prioritize cost effective preventive interventions</td>
<td>Increase public coverage of high quality and well-evaluated early childhood development services nationwide.</td>
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<td>Pilot and evaluate alternative approaches to increase attendance at the secondary education level, including financial incentives targeted to the poorest groups in rural areas (e.g. CCTs).</td>
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<td>Prepare a costed 2014-2018 strategic and action plan, investing more resources on prevention of maternal health, nutrition, and non-communicable diseases. To better inform the costing and implementation of this plan, undertake a facility inventory and mapping exercise to update the physical and operational status of health facilities.</td>
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<td>Evaluate pilot experience with local governments collaborating with multidisciplinary PHC teams prior to expanding this decentralized PHC strategy.</td>
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<td>Given the proposed separation of functions in the health sector and to support decentralization, clarify roles and responsibilities, lines of authority and reporting channels through a revised Manual of Organization and Functions.</td>
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<td>If positively evaluated, consider expanding decentralized integrated PHC model based on recommendations of the assessment of the pilot experience.</td>
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<td>Expand resource based management to Regional Health Departments and hospitals based on efficiency gains (e.g., improvements in drug procurement).</td>
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<td>Implement stronger accountability measures to support sector reforms via: (a) more training on management, planning, and budgeting; (b) an integrated information system to guide planning and budgeting and to track performance; (c) a supervision system that includes external technical and financial audits; and (d) the systematic implementation of sanctions and remedial actions.</td>
</tr>
</tbody>
</table>
| Implement human resource management strategies to better address inequities and improve results | • Pilot non-monetary incentives to complement salaries for health personnel in rural and remote areas.  
• Undertake a feasibility study of applying m-health such as the use of cellular phones at primary and secondary service delivery levels to address HR constraints.  
• Establish a consolidated human resource data base for permanent and contractual staff to be tracked by department, municipality and by facility  
• Implement measures to control the hiring of staff without a confirmed budget.  
| Design an HR strategy to attract and retain personnel (communication strategy, training)  
• Implement a standardized and transparent process of evaluating staff performance with well-defined incentives and sanctions that are systematically applied.  |
| Review the proposed Social Security Law which includes Health Financial Protection mechanisms in order to minimize disparities in access and coverage | • Undertake an in-depth review of the Government’s proposed health financial protection strategy and consider options to move away from establishing various insurance regimes that might be difficult to align toward a more integrated health service and financial protection system from the outset. Complement the results of this review with the results of the institutional and financial assessment of IHSS  
| Develop a budgeted and phased strategy to progressively move toward an integrated health system in order to reduce disparities in access to services and health financial protection.  
• Develop and start implementing a time-bound action plan for the Government to pay its longstanding debt to IHSS  |
| Social Protection |  |
| Consolidate SPL interventions | • Finalize construction of RUB and SUEPPS  
• Reform SPL institutional sector for better accountability and coordination  
| Fiscal and subsidy reform  
• Reform social security (revise pension benefits for public workers, incentivize coverage expansion).  |
| Improve effectiveness of Bono 10,000 CCT Program | • Stop budget expansion  
• Revise targeting (extreme poor only) and benefits (down)  
• Move to alternative payment mechanisms  
• Finalize management information systems  
• Setup grievances and complaints mechanisms | • Revise program conditionalities in urban areas  
• Invest in school and health infrastructure in rural areas  
• Increase program domestic finance and reduce reliance on external funds |
| Revamp Labor Market Policies and Programs | • Contain minimum wage increases and evaluate experience of Empleo por Hora  
• Expand coverage of employment services with public-private arrangements and with municipalities  
• Continue financing youth employment programs such as Mi Primer Empleo or similar | • Reform INFOP to increase incentives to train unemployed youth  
• Design and finance emergency public employment programs |
Bibliography


Honduras Social Expenditure and Institutional Review


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