

HONDURAS

SOCIAL SECTOR PROGRAM TO SUPPORT THE POVERTY REDUCTION STRATEGY

(HO-L1009)

LOAN PROPOSAL

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Electronic Links and References	
Basic socioeconomic data	http://www.iadb.org/RES/index.cfm?fuseaction=externallinks.countrydata
Status of loans in execution and loans approved	http://ops/approvals/pdfs/HOen.pdf
Information available in the RE2/SO2 technical files	http://idbdocs.iadb.org/wsdocs/getDocument.aspx?DOCNUM=814897

ABBREVIATIONS

AECOs	Asociaciones Educativas Comunitarias [Community education centers]
AIN/C	Atención Integral de la Niñez en la Comunidad [Community-based Integrated Child Care Program]
AWP	Annual work plan
BCH	Central Bank of Honduras
BEC	Basic education center
CAFTA-DR	The Dominican Republic-Central America-United States Free Trade Agreement
CCEPREBs	Centros Comunitarios de Educación Prebásica [Community Center(s) for Pre-Basic Education]
CES	Economic and Social Council
CESI	Committee on Environment and Social Impact
COHEP	Consejo Hondureño de la Empresa Privada [Private Enterprise Council of Honduras]
ENEE	Empresa Nacional de Energía Eléctrica [National Electric Company]
FHIS	Honduran Social Investment Fund
FSO	Fund for Special Operations
GDP	Gross domestic product
HDI	Human development index
HIPC	Heavily Indebted Poor Countries
IHNFA	Instituto Hondureño de la Niñez y la Familia [Honduran Institute for Children and the Family]
IMF	International Monetary Fund
INAM	Instituto Nacional de la Mujer [National Women's Institute]
INFOP	Instituto Nacional de Formación Profesional [National Vocational Training Institute]
LB	Live births
MDGs	Millennium Development Goals
MDRI	Multilateral Debt Relief Initiative
NDF	Nordic Development Fund
OML	Observatorio del Mercado Laboral [Labor Market Observatory]
PAU	Project Administration Unit
PBL	Policy-based loan
PRAF	Programa de Asignación Familiar [Family allowances program]
PRALEBAH	Honduran Youth and Adult Literacy and Basic Education Program
PRGF	Poverty Reduction and Growth Facility
PROHECO	Honduran Community Education Program
PRS	Poverty Reduction Strategy
PSS	Public social spending
SAT	Sistema de aprendizaje tutorial [Tutorial-based learning system]
SEFIN	Ministry of Finance
SGJ	Ministry of Governance and Justice

SIERP	Poverty Reduction Strategy Information System
SPPIL	Public-Private Labor Intermediation System
SSNP	<i>Red Solidaria</i> [Solidarity Safety Net Program]
STSS	Ministry of Labor and Social Security
UMCE	Unidad de la Medición de la Calidad Educativa [Educational Quality Measurement Unit]
UNAT	Technical Support Unit
UPEG	Planning and Management Evaluation Unit
UPNFM	Universidad Pedagógica Nacional Francisco Morazán [Francisco Morazán National Education University]

PROJECT SUMMARY

HONDURAS SOCIAL SECTOR PROGRAM TO SUPPORT THE POVERTY REDUCTION STRATEGY (HO-L1009)

Financial Terms and Conditions				
Borrower: Republic of Honduras			Amortization period:	40 years
Executing agency: Ministry of Finance (SEFIN)			Grace period:	10 years
			Disbursement period:	24 months
Source	Amount (in millions)	%	Interest rate:	1% during the first 10 years, 2% thereafter
IDB (FSO)	US\$27.9	100	Inspection and supervision fee:	1% of total loan amount
Local	US\$ 0	0	Credit fee:	0.5% on undisbursed amounts
Total	US\$27.9	100	Currency:	U.S. dollars or the equivalent in other currencies, except that of Honduras
Project at a glance				
<p>Project objective: The general objective of the program is to support social reforms that will make implementation of the updated 2006-2010 Poverty Reduction Strategy (PRS) more effective as a planning instrument for economic and social development, and for reducing poverty in Honduras. The specific objectives are to: (i) target the delivery of basic social services more squarely on the extremely poor; (ii) introduce the concept of comprehensiveness in PRS projects and programs; (iii) foster management by results; and (iv) protect priority PRS programs by establishing physical and financial targets.</p> <p>Special contractual conditions: Disbursement of funds is subject to compliance with the policy conditions in the Policy Matrix (see Chapter V). Release of the first tranche will also require presentation of the Sector Policy Letter and compliance with the general conditions precedent to the first disbursement (see paragraph 3.7).</p> <p>Exceptions to Bank policies: None.</p>				
<p>Project consistent with country strategy: Yes <input checked="" type="checkbox"/> No <input type="checkbox"/></p> <p>Project qualifies as: SEQ <input checked="" type="checkbox"/> PTI <input type="checkbox"/> Sector <input type="checkbox"/> Geographic <input type="checkbox"/> Headcount <input checked="" type="checkbox"/></p> <p>Procurement: None.</p> <p>Verified by CESI on: CESI reviewed the project concept document on 16 June 2006 (meeting 24-06). No follow-up action was requested.</p>				

I. FRAME OF REFERENCE

A. Macroeconomic framework

- 1.1 In recent years the Honduran economy has rebounded sharply from the modest growth rates of the 1990s, and this recovery has been relatively sustained. Between 2002 and 2005, annual growth averaged 4.3% (4.2% for the last year), while the growth forecast for 2006 is 5.1%.
- 1.2 This recovery has been bolstered by the global context (a growing world economy, favorable commodity prices,¹ and low international interest rates), and the adoption of macroeconomic policies that have served to address fiscal and external imbalances. The most dynamic sectors have been the *maquilas*, tourism, agriculture, construction, and the financial sector.
- 1.3 In February 2004, the Government of Honduras negotiated a three-year arrangement with the IMF under the Poverty Reduction and Growth Facility (PRGF).² The country has successfully passed the first three reviews under that arrangement, which is still in force and will terminate in February 2007. Currently, the IMF and the government are pursuing discussions on the fourth review of the program, but the date for the report has not yet been set. The main topic of dialogue is social expenditure to reduce poverty, within a context of fiscal discipline that will keep the macroeconomic framework solid over the medium term.
- 1.4 **Fiscal situation.** The country's fiscal situation has improved substantially since the IMF program came into effect, and the quantitative targets set in that program have been surpassed. In particular, the government achieved a consolidated public-sector deficit of 2.5% of GDP in 2005, below the 2.9% target. This reflects the favorable performance of revenues, which rose to 29.4% of GDP in 2005 from 27.4% in 2003 (before the IMF arrangement), and of expenditure, which amounted to only 31.9% of GDP (versus 32.5% in 2003).
- 1.5 There are however some causes for concern in terms of maintaining fiscal discipline in future years, in particular: (i) the financial situation of the two largest State-owned enterprises (the electricity company (ENEE) and the telephone company (HONDUTEL)); (ii) the need to adopt a public-sector wage policy that will be sustainable over the longer term; (iii) the loss of customs revenues stemming from the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR); and (iv) the cost of subsidies to cushion the impact of rising fuel prices. Clearly, resolving these fiscal policy dilemmas is important in order not to miss the opportunities created by debt forgiveness in implementing the Poverty Reduction Strategy (PRS).
- 1.6 **External sector.** Despite the heavy trade deficit (linked to the rising price of oil and the declining terms of trade), the external sector remains strong. In 2005, the

¹ The discordant note in this scenario has been the steadily rising price of oil.

² This is the facility through which the IMF grants low-interest loans to low-income countries.

current-account deficit was 2.1% of GDP (below the 2.5% guideline set with the IMF). This was more than offset by the positive balance on the financial and capital accounts, reflecting increased remittances (23% of GDP in 2005), and a stable inflow of foreign direct investment. Net international reserves of the Central Bank of Honduras (BCH) reached US\$2.3 billion, equivalent to more than five months' imports.

- 1.7 **Monetary policy and inflation.** Despite the pressures exerted by rising oil prices, the government has succeeded in stabilizing inflation within the band agreed under the PRGF. Cumulative inflation to the end of 2005 was 7.7%, and to the end of August the year-on-year increase was 4.8%, representing the lowest year-on-year rate in the last 15 years. At the same time, the BCH has kept the exchange rate stable, recording year-on-year depreciation of 3% in 2004 and 2005, with a target of 1% for 2006, despite the inflow of foreign currency represented by rising remittances.
- 1.8 **Debt forgiveness and financing needs.** In May 2005 Honduras reached the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative, thus some US\$1.5 billion in debt in nominal terms was forgiven. Of this amount, approximately US\$238 million will correspond to the period 2006-2010. Under that same initiative, the country received interim debt relief that has allowed it to earmark greater public spending for the PRS. In particular, between 2000 and 2005 public social spending rose by US\$476.2 million, of which nearly US\$293 million, or 62%, was financed through debt forgiveness. The country has obtained additional debt forgiveness under the Multilateral Debt Relief Initiative (MDRI) from the World Bank and the IMF, amounting to US\$1.185 billion in nominal terms, covering maturities to 2044, and this will have a positive impact on fiscal accounts.
- 1.9 Nevertheless, the country's financing needs have not declined. As shown in Table 1.1, estimated financing needs for the coming year are about US\$442 million, and are projected at US\$340 million in 2008. In 2007, this will amount to 44% of the fiscal deficit, a proportion that will increase to 60% in 2008, with the remainder due to debt amortization (external and domestic).
- 1.10 In this context, the Bank remains a significant source of external financing for Honduras. The present operation will help not only to improve the government's capacity to make public expenditure more effective, which is important for meeting the challenges of implementing the PRS, but will also cover approximately 28% and 44% of the government's financing gap for 2007 and 2008, respectively.

Table 1.1
Financing needs of the consolidated public sector 2007–2009 (in US\$ millions)

	2007	2008	2009
I. Uses	<u>441.8</u>	<u>338.1</u>	<u>345.6</u>
Fiscal deficit	193.1	203.5	209.8
External debt amortization	125.5	111.6	116.9
Domestic debt amortization	123.2	23.0	18.9
II. Financing sources	<u>406.2</u>	<u>293.0</u>	<u>306.9</u>
a) External	<u>283.0</u>	<u>270.0</u>	<u>288.0</u>
IDB*	129.8	83.9	88.2
World Bank	76.1	74.5	70.2
Other	77.1	111.6	129.6
b) Domestic	<u>123.2</u>	<u>23.0</u>	<u>18.9</u>
Bonds and note issues	123.2	23.0	18.9
III. Financing gap	<u>35.6</u>	<u>45.1</u>	<u>38.7</u>

Source: IMF, BCH, IDB.

* These amounts do not include the proposed operation

B. The social context

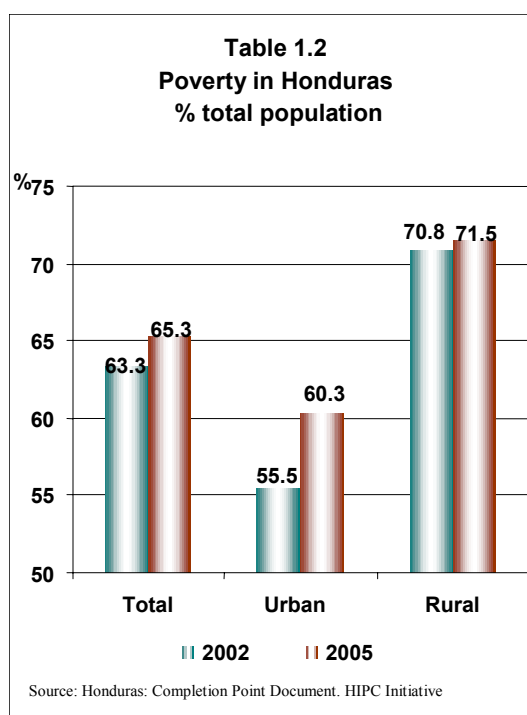
- 1.11 The social situation stands in contrast to the improved macroeconomic picture. Currently, Honduras is the third-poorest country in Latin America and the Caribbean, after Haiti and Nicaragua. Its population of around 7.1 million is growing at an annual rate of 2.5%.
- 1.12 Total poverty rose in 2005 above the levels of 2002 (Table 1.2). In all, 65.3% of the population lives in poverty, while nearly half of Honduran households are living in extreme poverty.³ This situation is one of the main factors behind the low life expectancy in the country: 68.6 years in 2004, compared to an average of 71.9 years for Latin America and the Caribbean.⁴ The country faces the challenge of combating poverty on two fronts: the extreme poverty prevalent among the rural majority, and growing urban poverty, which could erupt into problems of violence and governance. Over the last three years, the poor urban population rose by 4.8 percentage points, while the rural poor population grew by only 0.7 percentage points.⁵ In this context, the situation of women is particularly striking: 65.8% of women in urban areas and 85.9% of women in rural areas are living in poverty.

³ Honduras: Updated Poverty Reduction Strategy, September 2006.

⁴ United Nations Development Programme, *Human Development Report 2006*.

⁵ This trend is contrary to that observed in the period 1994–2002. Urban poverty declined by 7.8 percentage points, while rural poverty rose 5.7 percentage points. Economic Commission for Latin America and the Caribbean.

Poverty rates are high among the indigenous population, with 71% living below the poverty line. The largest indigenous group, the Lenca, has a poverty rate of 84%.⁶



- 1.13 Government social policies are framed by the PRS, which calls for improving the main social indicators by increasing social expenditure and reducing poverty. Despite efforts during the period 2001-2004, the objectives set for reducing poverty and extreme poverty were not met. The reasons have to do with lack of investment and inefficient social expenditure. Investment was held back because debt relief funds were not yet available, and social expenditure was inefficient because: (i) the country has no comprehensive social welfare policy; (ii) social and development programs have been run in an uncoordinated manner by various institutions, without an effective targeting and coordination system; and (iii) the key institutions for implementing social welfare projects, such as the Honduran Institute for Children and the Family (IHNFA), do not yet have the capacity for stewardship and management by results. The situation also reveals the need for greater articulation between economic growth and poverty reduction via the labor market.

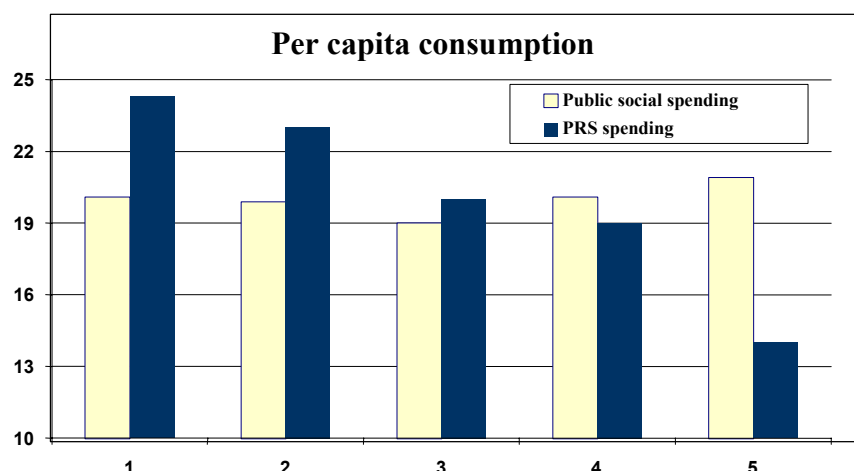
C. Public social spending and the PRS

- 1.14 Public social spending (PSS) is defined in the PRS as the aggregate of investment in: (i) human capital; (ii) social safety nets; (iii) housing; and (iv) support for the

⁶ Honduras. Poverty Assessment: Attaining Poverty Reduction, World Bank, Central America Department, Latin America and Caribbean Region, March 2006, pages 3-4.

rural sector. A recent study found that while, on average, aggregate PSS is not entirely pro-poor, its distribution is less concentrated among the rich than is the distribution of consumption.⁷ Central government outlays for social services as a proportion of per capita consumption declines for each successively higher consumption percentile. PRS-related spending is substantially more targeted than PSS as a whole. As can be seen from Table 1.3, the quintiles with the lowest consumption levels are those that receive proportionately the greatest share of PRS expenditure: of that total, 24.3% goes to the first (lowest) income quintile, and declines as per capita consumption rises. Yet the nonpoor (fourth and fifth) quintiles are still receiving a significant share of total PRS expenditure.

Table 1.3. Total expenditure by consumption quintile



- 1.15 The greatest strength of the PRS has been the establishment and official adoption of specific indicators and targets that are accepted as the State's commitment to society, regardless of political changes. Article 8 of the Poverty Reduction Fund Act of 24 April 2002 makes it mandatory for every government to update the PRS and to report progress under it. The previous administration updated the PRS with a document entitled "PRS: First Progress Report and Update," in November 2003. In the context of this legal mandate, the new government authorities have demonstrated their commitment to the PRS and, with Bank help, are preparing another update for the period 2006-2010.
- 1.16 PRS spending on poverty was financed during 2005 primarily through domestic sources (67%), loans (22%), grants (7%), and debt relief funds (5%). This financing structure⁸ does not differ markedly from 2004.

⁷ Honduras. Poverty Assessment, World Bank, June 2006.

⁸ The preliminary data for PRS-earmarked spending in 2005 show 14.130 billion lempiras, 24% higher than the amount for 2004, which represented 70.6% of total PSS according to the World Bank report, 2006.

- 1.17 The current administration is committed to lines of action that will achieve the intermediate targets for the 2006-2010 PRS, despite the lag inherited from the previous administration. The second column of Table 1.4 presents a more conservative picture of the PRS targets, considering only those that the current administration is expected to meet, without assuming any catch-up from previous lags. Monitoring achievement of these targets will require periodic assessment of a set of interrelated intermediate indicators. The targets for 2010 shown in the table are attainable in fiscal terms, but will require greater efficiency in public social spending.⁹

D. Comprehensiveness in programs under the 2006-2010 PRS

- 1.18 The distinctive feature that the current administration intends to bring to implementation of the 2006-2010 PRS is to give priority to the criterion of “**comprehensiveness**” (*integralidad*). This concept implies combining social programs with programs to make the country more competitive, and to create job opportunities. The idea is to give people the opportunity to make gains on the basis of their own efforts, by offering the majority of the poor population opportunities to engage in productive activities. This will only be possible with advances in three key areas that determine a country's labor dynamics: (i) investment in services to build human capital; (ii) investment in physical capital (infrastructure and private enterprise); and (iii) labor market organization and regulations.

Table 1.4
Social targets, considering lags and original targets, to 2010

Indicator	Actual ² 2005	Target ³ 2010	Target ² 2010
Poverty rate	65.3%	59.3%	50.0%
Extreme poverty rate	47.1%	40.3%	32.3%
Coverage, pre-basic education	34.3%	37.5%	42.0%
Net coverage, 1 st and 2 nd cycle	89.4%	93.2%	93.2%
Net coverage, 3 rd cycle	39.0%	50.2%	51.1%
Net coverage, diversified ed.	27.7%	33.4%	33.4%
Infant mort. rate /1,000 ¹	34.0	27.0	22.0
Mortality<5/1,000 l.b. ¹	45	36.5	30.0
Inf. malnutrition/1,000 l.b. ¹	32.9	27.7	22.0
Mater. mort./00000 l.b. ¹	108	93.5	82.0
Electric power coverage	64.2%	70.6%	72.8%
Pop. with access to water	84.7%	87.9%	90.0%
Pop. with sewerage service	78.2%	82.2%	85.0%
Control of the HDI for gender	0.7	0.7	0.7

¹ The 2005 column uses figures reported in 2001.

² Source: SIERP.

³ Source: Own calculation based on annual increases called for in the PRS, applied to 2005 levels.

1. Consolidating the social safety net

- 1.19 As the first step in the gradual process of consolidating the social safety net, the government has launched a new program, the *Red Solidaria* [Solidarity Safety Net Program]. It is a coordinated series of measures for gradually improving living

⁹ For a detailed description of PRS targets, the spending needed to meet them, and their financing, please see “Estrategia para la Reducción de la Pobreza: versión actualizada 2006” [Poverty Reduction Strategy. 2006 updated version], Republic of Honduras (preliminary version).

conditions and fostering the human, social and economic development of extremely poor families.

- 1.20 **Characteristics.** The Solidarity Safety Net Program (SSNP) focuses on households, offering a comprehensive set of services in four main areas: (i) social welfare (nutrition, conditional cash transfers and special measures for vulnerable groups); (ii) capacity building (education, health, bank transfers, and social workshops); (iii) income opportunities (training and technical and financial assistance), and (iv) infrastructure (water and sanitation, social and economic facilities, and improved housing). The results will be measured in terms of household achievements of a set of minimum quality-of-life benchmarks that will serve simultaneously as baseline and outcome indicators.
- 1.21 A significant percentage of the country's poorest population is not officially registered, and many have no identity documents. Without an identity document, a citizen has no access to government services, and is excluded from the rights and duties of citizenship. The SSNP therefore will coordinate with the National Civil Registry to regularize the situation of all undocumented persons in its area of influence.
- 1.22 **Targeting methodology.** The process of targeting households was developed by the Family Allowances Program (PRAF) in conjunction with National Statistics Institute (INE) and the Technical Support Unit (UNAT), with financing from the PRAF/IDB program, using models based on the 2004 Living Conditions Survey, combined with the 2001 National Population Census. The "proxy variables" method was applied to this information to construct a forecasting model for extrapolating monthly per capita spending for each rural household in the country. The coefficients from the household expenditure forecasting equation were used to estimate the incidence of extreme poverty at the village level. These incidence data were then ranked in ascending order for each municipio so as to generate a national targeting system consistent with the efficiency and activities of the country's social programs.
- 1.23 On the basis of this targeting, the Solidarity Safety Net Program will be implemented in two stages. During the first stage (September 2006 to August 2008), it will reach 80,000 households in the 100 poorest municipios in the country, which have a high proportion of indigenous persons. In the second stage, an additional 120,000 households will be served.
- 1.24 **Institutional framework for the Solidarity Safety Net Program.** The Social Cabinet is the senior social policy coordination body. A Social Welfare Office has been created under it, reporting to the First Lady, and it has representatives from each of the institutions participating in the SSNP. That Office in turn is the SSNP's political and strategic arm. The SSNP will have an Office with an Executive Director appointed by the President of the Republic, who will serve as operations coordinator. As well, the departmental technical secretaries and the promoters, community teams and local leadership groups will support SSNP activities. The

government has made great efforts to launch the SSNP, and in this initial stage the Executive Director's Office and the operational and technical units are under the PRAF. The government reports that it will continue taking the necessary steps to consolidate the SSNP as an institution.

- 1.25 Given its comprehensive nature, the following institutions participate in the Solidarity Safety Net Program: the PRAF, the National Women's Institute (INAM), the Ministry of Agriculture and Livestock, and the Honduran Social Investment Fund (FHIS). The SSNP also coordinates its work with the ministries of health, education, labor and social security, justice and the interior; and the "Healthy Schools" Program. Citizen and external donor participation will be encouraged through a tripartite social welfare roundtable at the central level, and through the creation of interagency roundtables in each of the departments and municipios, coordinated by the Social Welfare Office.
- 1.26 **Strengthening the PRAF.** The PRAF plays a key role in the Solidarity Safety Net Program, but its efficiency is compromised by the fact that government-funded programs use less rigorous methodologies than Bank-financed ones. For the sake of greater efficiency, the model financed by the Bank (which has already been through an impact assessment) should be used as the standard for the targeting and transfer methodologies, the administration models, and the monitoring mechanisms. For the PRAF, this means establishing a single overall registry of beneficiaries and a strict targeting system, and automating transfers through the banking system.
- 1.27 **Promoting social inclusion.** Another recognized need is to help marginalized people take their own development in hand. In particular, a process has been launched to strengthen the rights of indigenous peoples within the national legal framework. In primarily urban areas, the Honduran Institute for Children and the Family (IHNFA) has programs to help street children, orphans and at-risk youth. Lastly, the National Women's Institute (INAM) is defining ways to implement the National Policy for Women to promote the social and economic empowerment of women.

2. The labor market and the lack of employment and income opportunities

- 1.28 Unemployment has risen in Honduras over the last five years: in 2004 it stood at 8%, compared with an average of 5.7% from 1996 to 2000. For those who are employed, nearly 80% of their income comes from their work. Thus the possibility of earning income through employment, and the level of pay that can be earned, has a great impact on the incidence of poverty. In this respect, Honduras not only faces employment problems in terms of the number of jobs but also must address the fact that having a job does not necessarily lift a person out of the cycle of poverty. Wages are the lowest in the region, a fact that is closely related to low labor

productivity and is one of the major determinants of the country's high levels of poverty.¹⁰

- 1.29 The majority of jobs are in sectors with low productivity: informal nonfarm and traditional farming work.¹¹ Labor opportunities for women are particularly limited, and are for the most part confined to traditional spheres: paid domestic work, self-employment, and unpaid family work.
- 1.30 A review of labor reforms in Latin America by the International Labour Organization shows that the Constitution and the Labor Code of Honduras guarantee fundamental labor rights.¹² Nevertheless, a number of factors impede the exercise of those rights. For example, labor dispute resolution in Honduras still functions poorly because there is no effective, expeditious integrated system. Such disputes are currently handled by the Ministry of Labor and Social Security (STSS) and through the labor courts. There are also labor regulations in place to support integral development of women living in poverty, through measures to encourage them to participate in the labor market.¹³
- 1.31 More information is also needed on labor opportunities in the different regions of the country. Valuable initial efforts are being made in terms of labor intermediation, creating the Public-Private Labor Intermediation System (SPIL) to match work supply and demand, as well creating the Labor Market Observatory (OML) as a tool to leverage information.

3. The challenges of vocational training

- 1.32 One of the major challenges facing the government is to improve competitiveness, in order to attract foreign direct investment and boost economic growth rates. Investments in education and in vocational training are crucial to enhance worker productivity, speed technological adaptation and innovation, improve natural resources management, and ensure that the poor will benefit from economic growth.¹⁴ Length of schooling is a determinant both of the quality of employment

¹⁰ IDB, Werner Hernani and Carmen Pagés, “La Situación Laboral en Honduras” [The Labor Situation in Honduras], 2004.

¹¹ Human Development Report for Honduras, 2006.

¹² International Labour Office, “Reformas laborales y procesos de integración en los países de la Organización de los Estados Americanos (OEA): 1980-2000” [Labor Reforms and Integration Processes in the Member States of the Organization of American States: 1980-2000], Lima, 2002.

¹³ National Plan for Creating Decent Jobs, Government of Honduras, Draft.

¹⁴ World Bank 2001, 2004.

and of its capacity to generate incomes,¹⁵ and the education issue is thus of particular importance for the labor market.

- 1.33 The vocational training model used by the National Vocational Training Institute (INFOP), which is funded through payroll deductions, is considered inadequate to satisfy the type and quantity of demand in the productive sectors of the economy. In terms of the type of skills offered, formal technical and vocational training is lacking in the technological basics that the workforce needs to be efficient in the labor market. Although the supply of such training has been diversified, it has not been accompanied by curriculum reform, and it has not been articulated in a coherent and orderly manner either internally or with the other levels of education.¹⁶ In terms of the quantity of formal training available, while 70% of the economically active population needs training, INFOP is providing it for only 4%.¹⁷ A portion of the remaining population is trained by the Advisory Center for Human Resource Development (CADERH), which is highly regarded in the private sector, and by other nongovernmental organizations. It is essential that the supply of training be improved, with private sector participation.

E. Management by results

1. The PRS monitoring and evaluation system

- 1.34 The increased public spending of recent years has not had the hoped-for impact on poverty reduction. What is needed now is to target the programs with the greatest impact on PRS indicators, make each program more efficient, and bring greater transparency to the use of public funds.
- 1.35 The Technical Support Unit (UNAT)¹⁸ has a PRS Information System (SIERP) that needs intermediate indicators. These indicators must be articulated with the 2006-2009 indicators and targets established by the government and agreed with the Planning and Management Evaluation Units (UPEGs) in 46 public institutions, so that they can be regularly evaluated.¹⁹ The Information System received funding from the Strengthened Fiscal Management loan (1546/SF-HO) to reinforce it. There should be a specific budget allocation for reaching those targets to make them a

¹⁵ People earning less than the minimum wage have on average 4.2 years of schooling; those earning between one and two times the minimum wage have an average of 6.6 years, those earning between two and five times the minimum wage have 9.3 years; and those earning more than five times the minimum wage have 12.7 years of schooling. Flores Lima, R. and Bañuelos Solís, F. *Estudio Diagnóstico del Mercado Laboral y del Sistema de Empleo y Capacitación de Honduras*. Mimeograph. August 2003.

¹⁶ See the updated PRS.

¹⁷ Foundation for Investment and Development of Exports (FIDE), "Propuesta de un Consejo Nacional de Formación y Capacitación" [Proposal for a National Training and Education Council], Tegucigalpa, Honduras, August 2005.

¹⁸ The UNAT is part of the Office of the President.

¹⁹ These 2006-2009 targets referred to the presidential targets, specifically for the administration's term and they are consistent with, but not the same as, the targets in the 2006-2010 PRS.

useful instrument for assessing the performance of ministries, laying the basis for a computerized system that will support management by results.

- 1.36 At the same time, the PRAF's monitoring and evaluation system will be strengthened through an IDB technical-cooperation operation. The PRAF's new information system will provide input for a system to be designed for monitoring and evaluating the Solidarity Safety Net Program.²⁰ In order to avoid discrepancies in the presentation of outcomes and indicators and to focus more closely on the SSNP's comprehensiveness, both UNAT and the Ministry of Finance will be using the basic information generated by the SSNP.

2. Strategic planning

- 1.37 A key aspect for strengthening implementation of the PRS is to make social spending more efficient and this, in turn, is linked to various levels of strategic planning. There are mechanisms in the Municipal Act that give local bodies responsibility for strategic planning. However, in practice there are only a few Departmental and Municipal Development Councils, and local planning processes need to be strengthened. The Planning and Management Evaluation Units of the line ministries also engage in planning, but most are very weak and have no sectoral planning capacity. PRODEV²¹ is financing a technical-cooperation project, "Support for Results-based Planning, Programming and Monitoring," (HO-T1050) for gradual introduction of strategic planning for social investments, and linking this to budget formulation. The technical-cooperation project, "Support for the Social Safety Net and Strategic Planning," (HO-T1053) also seeks to enlist all levels of government in this planning and priority-setting process, so that it will be reflected properly in the budget programming and management process.

F. The Bank's strategy with Honduras

- 1.38 The Bank's strategy in support of Honduras is based on the PRS, and focuses on three areas: (i) increasing the competitiveness of production; (ii) enhancing the development of human capital; and (iii) strengthening governance. This program is designed to support basic social investment and productive infrastructure programs and to foster a better methodology for targeting scarce concessional funds at the neediest segments of the population. It also recognizes the need to improve the quality of human resources through efficient investment in health and education. This program supports the government's efforts to select those PRS programs that are most likely to achieve the PRS indicators and the Millennium Development Goals. It thus falls within the second area of action and, to a lesser extent, in the other two.

²⁰ The initial design for the Network's monitoring and evaluation system will be financed by the Department for International Development (DFID).

²¹ Program to Implement the External Pillar of the Medium-term Action Plan for Development Effectiveness.

G. Experience with policy-based loans in Honduras

- 1.39 Honduras has a good track record of working with the Bank in support of PRS implementation. Since 1999 the Bank has financed three fast-disbursing social sector loans. The first, the Transition and Social Protection Program (1041/SF-HO) protected social spending during the country's integration into the HIPC initiative. That policy-based loan (PBL) was the first of a series of operations designed to make the PRS operational by promoting institutional reforms. It succeeded in creating the Social Cabinet as the entity responsible for formulating and implementing social policies, in particular those linked to the PRS. At the same time, the Technical Support Unit was designed and strengthened as its technical arm. The process of making the PRS operational continued in 2001, with approval of the second PBL, "Reforming the Institutional Framework and Creating Instruments for Implementing the Poverty Reduction Strategy" (1087/SF-HO). Its main achievements were to provide the Social Cabinet with a tool for monitoring the PRS targets and for creating the SIERP. In addition, it supported creation of a Poverty Reduction Fund to centralize grant funds earmarked for the PRS. The program also helped to make budgetary management of loans more transparent so that the origin and use of those funds could be tracked, creating special coding in the national budget. Lastly, the program institutionalized citizen participation through the PRS Advisory Council, as an advisory body to the Social Cabinet.
- 1.40 The third PBL, approved in 2003, the "Poverty Reduction Support Program" (1532/SF-HO), promoted the review and selection of intermediate and output indicators for tracking PRS goals; incorporation of these indicators into the SIERP; and the generation of monitoring reports and dissemination of outcomes. In terms of the efficiency of public social spending, multiyear financial programming was instituted, as an essential tool for management by results, and measures were promoted to strengthen the management capacity of the major line ministries involved in the PRS, including an audit of positions and salaries, with the consequent reclassification and reallocation of eligible employees in the health and education sectors.
- 1.41 The proposed operation will build on the earlier ones, supporting the comprehensive approach in PRS projects and moving forward with steps to make public social spending more efficient. The program will support the introduction of labor intermediation systems as well as vocational training projects. Public social spending will be made more efficient by creating a new and comprehensive geographically targeted social welfare system.

H. Relationship to other Bank operations

- 1.42 This program will complement activities under other social investment programs such as: Improvement of Health Conditions in Honduras (1619/SF-HO); National Education Reform Program (Third-level Basic Education) (1069/SF-HO); Family Allowances Program, Phase II (1026/SF-HO); Comprehensive Social Safety Net Program (1568/SF-HO); Integrated Development of Indigenous Peoples

(1689/SF-HO); Support for Indigenous and Black Communities (1090/SF-HO); Support for Strengthened Fiscal Management (1546/SF-HO); and the Secondary Education and Job Training Program (1552/SF-HO). This last program covers issues relating to labor training, public-private intermediation, and strengthening the STSS. The proposed operation will complement another specific poverty reduction program, "Poverty Reduction and Local Development, Phase II" (1478/SF-HO). In June 2006 the Public Management Reform Program (1748/SF-HO) was approved; it will lay the institutional and instructional bases for gradual implementation of management by results.

I. Relationship with operations of other external donors

- 1.43 The PRS is an effective framework for coordination with the rest of the international community, including the World Bank and bilateral cooperation agencies. In December 2005, the international community had operations amounting to US\$690 million pending disbursement in the coming years in support of the PRS. Among these, the strategic areas of rural and urban poverty reduction, investment in human capital, and strengthening the social safety net for specific groups account for US\$434 million in pending disbursements. There has been ongoing contact with these institutions and countries during project preparation in order to coordinate efforts and support the PRS more effectively.

J. Program strategy and rationale

- 1.44 The program strategy is to consolidate support for the comprehensiveness of the updated 2006-2010 PRS. Upon completion of the program, the country is expected to be implementing the PRS in a comprehensive manner that will improve human capital (education, health and nutrition) and expand opportunities for using the factors of production (labor intermediation, incentives for further study, and occupational training). The country will have generated planning and monitoring mechanisms for linking its sectoral policies with the achievement of annual intermediate targets reflecting progress against the overall poverty reduction goals, in a culture of management by results. This will require, among other things, sound coordination between strategic planning and budget programming. There will also be improved targeting and protected financing for social programs related to the targets in the updated 2006-2010 PRS, and to the completion point under the HIPC initiative. In this respect, the specific nature of the policy measures by which the program will support these improvements, and the current government's determination to implement them, justify use of the policy-based loan approach (CS-3633), in this case structured in two tranches (see paragraphs 2.30 and 4.1).
- 1.45 In the context of an economic program that seeks to reduce fiscal imbalances, access to the proposed financing will support the government's efforts to protect and increase the social spending needed to meet the poverty reduction targets set in the PRS. As noted in paragraph 1.10, the amount of financing (US\$30 million) represents a significant percentage (28% and 44%) of the government's financing gap for 2007 and 2008, respectively (Table 1.1).

II. THE PROGRAM

A. Objective

- 2.1 The general objective of the program is to support social reforms that will make implementation of the updated 2006-2010 Poverty Reduction Strategy (PRS) more effective as a planning instrument for economic and social development, and for reducing poverty in Honduras. The specific objectives are to: (i) target the delivery of basic social services more squarely on the extremely poor; (ii) introduce comprehensiveness into PRS projects and programs; (iii) foster management by results; and (iv) protect priority PRS programs by establishing physical and financial targets.

B. Structure and description

- 2.2 This program would use a policy-based loan, implemented in two tranches. The program Policy Matrix describes specifically the policy actions and institutional reforms that will constitute conditions for release of funds. The means of verification are described in the Means of Verification. Following is a description of the policy measures:

1. Stable macroeconomic setting

- 2.3 The objective of this policy condition is to maintain macroeconomic stability and to sustain equitably distributed economic growth that will favor the execution of poverty reduction programs. This requirement is relevant to the program's development objectives, as a policy to forestall the contingencies that affect the most vulnerable families. The condition for the first and second tranches is to maintain a stable macroeconomic framework consistent with the program objectives and the Sector Policy Letter.

2. Comprehensiveness in programs under the updated 2006-2010 PRS

- 2.4 This program will introduce the concept of comprehensiveness into PRS projects and programs. Comprehensiveness entails a set of synergistic measures for human development that will begin with *protection* (typically, conditional cash transfers); will continue by generating *capacities*, offering access to documentation and to human and financial capital formation; will then generate *income opportunities* through local development efforts; and finally, will meet basic social *infrastructure* needs. The program will support the initiative to institutionalize the Solidarity Safety Net Program so that it can address and coordinate all the above-mentioned aspects in rural areas. Other actions under the SSNP will produce the necessary reform of its member institutions so that they can deliver their services more efficiently. Actions complementary to the SSNP, consistent with the PRS, will also be considered, with the reform of institutions that are active primarily in urban areas, and actions to improve the functioning of the labor market and the vocational training mechanism.

a. Actions to consolidate the social safety net

- 2.5 **Action a.1. Solidarity Safety Net Program.** The program will consolidate the Solidarity Safety Net Program in order to bring greater efficiency and transparency to the government's social welfare activities. The operation will strengthen the SSNP, by establishing an institutional framework that will encourage coordination, eliminate duplications, generate more cost-effective activities, and provide for the measurement of results.
- 2.6 **Disbursement conditions.** For the **first tranche** these include: (i) creation of the Solidarity Safety Net Program; (ii) creation of the Social Welfare Office; (iii) presentation to the Social Cabinet of the proposed organizational, operational and institutional structure for the SSNP; (iv) a draft of the Operating Manual for the SSNP; and (v) an Action Plan for the SSNP approved by the Social Cabinet. For the **second tranche**: (i) draft legislation to establish the SSNP as a permanent institution; (ii) the organizational, operational and institutional structure for the SSNP approved by the PRAF Senior Council and the Social Cabinet; (iii) approval and implementation of the SSNP's Operating Manual; and (iv) the SSNP is providing services to at least 80,000 families in the country's poorest communities.
- 2.7 **Action a.2. Solidarity Safety Net Program monitoring and evaluation system.** The SSNP will include a monitoring and evaluation system for properly supervising its implementation, evaluating its impact and thus contributing to the institutional policy of transparency and accountability.
- 2.8 **Disbursement conditions.** The following systems will be designed, complementary to those announced for the Family Allowances Program. **First tranche**: (i) Action Plan for the creation of the monitoring and evaluation system for the SSNP; and (ii) Action Plan for use and adaption of the PRAF single registry of beneficiaries for the SSNP. **Second tranche**: implementation of the systems designed in the first tranche.
- 2.9 **Action a.3. Transformation of the PRAF.** The PRAF is expected to play a vital role in Solidarity Safety Net Program activities. That institution requires reform that will standardize its systems so that the PRAF can function with a single system for delivering education and health subsidies, and for strengthening its execution capacity.
- 2.10 **Disbursement conditions.** For the **first tranche**: (i) a work plan for authorizing standard operational and technical methodologies for the PRAF/IDB, so that the PRAF will function as a single system for delivering education and health subsidies, approved by the Senior Council; (ii) Single Registry Unit of beneficiary households created and incorporated into the PRAF structure, with the corresponding budget for 2007, funded from domestic sources; (iii) a consultant hired to prepare the exit strategy and design the pilot project; (iv) Monitoring and Evaluation Unit created within PRAF and included in the 2007 budget, with local resources; and (v) operating regulations for the Certification System for Health and Education Services, which must include minimum specifications for services and

implementation procedures, approved by the Senior Council. For the **second tranche**: (i) operating regulations approved by the PRAF Senior Council and a single education and health subsidies system implemented; (ii) single registry of beneficiary households for the education and health subsidies, in operation; (iii) exit strategy approved and implemented in a pilot project in 15 communities; (iv) monitoring and evaluation system designed and approved by the Senior Council, with a module for education subsidies and for nutrition and health subsidies; and (v) a health and education services certification system implemented.

b. Actions to promote social inclusion

- 2.11 **Action b.1. Reforming the Honduran Institute for Children and the Family (IHNFA) and the National Women's Institute (INAM) and protecting indigenous peoples.** In the short term, IHNFA will be restructured in order to reinforce its regulatory role. Similarly, INAM will expand its functions at the local level, taking advantage of the economies of scale available through community networking. It will also engage in consultation and consensus-building to reinforce indigenous rights within the country's legal framework.
- 2.12 **Disbursement conditions.** For the **first tranche**: (i) presentation of proposed reforms to the legal framework governing indigenous peoples' rights and approval of the institutional process and plan for monitoring and coordinating the reform; (ii) approval of the plan for preparing and approving the Integral Development Strategy for Indigenous Peoples; and (iii) approval of the plan for the gradual decentralization of IHNFA's child daycare centers. For the **second tranche**: (i) progress in implementing the institutional plan for monitoring and coordinating the reform of the legal framework governing indigenous peoples' rights, and consensus built on the proposed reform to the legal framework; (ii) progress on implementation of the plan to prepare and approve the Integral Development Strategy for Indigenous Peoples and the draft strategy; (iii) entry into force of the provisions regulating the IHNFA statute; and (iv) presentation of evidence that INAM has implemented the guidelines of the National Policy on Women.
- 2.13 **Job creation, labor market information, and skills development.** Reforms have been undertaken, within existing political constraints, to establish an institutional and regulatory framework for creating job opportunities, improving access to labor market information, and enhancing skills development opportunities.
- 2.14 **Action b.2. Job creation.** Anticipating a national plan to create more and better jobs as a way of combating poverty, social exclusion and inequality in the country, this program must support analysis of labor legislation aspects that could allow for more equitable labor market participation by women and other vulnerable groups.
- 2.15 **Disbursement conditions.** For the **first tranche**: approval of the National Plan for Creating Decent Jobs in Honduras agreed to with the Economic and Social Council (CES), through an executive decree making the plan government policy. For the **second tranche**, evidence of progress in two of the lines of action under this Plan. These have to do with labor conciliation and gender equity—priority areas for the

- government. Specifically, the conditions call for: (i) creation and implementation of at least two labor conciliation and arbitration units under the Labor Bureau,²² and (ii) issuance of regulations to the existing law on equal opportunity for women, in order to strengthen social dialogue.²³
- 2.16 **Action b.3. Labor market information.** The program will support labor intermediation, for matching labor supply and demand, with mechanisms for surveying demand and transmitting market priorities to training institutions. The Ministry of Labor and Social Security (STSS) will implement the Public-Private Labor Intermediation System (SPPIL) and the Labor Market Observatory (OML). These two tools for disseminating and using labor market information are essential for promoting employment policies consistent with the objectives of the National Plan for Creating Decent Jobs.
- 2.17 **Disbursement conditions.** For the **first tranche**: (i) the OML will be created through an agreement signed by workers federations, the Private Enterprise Council of Honduras (COHEP) and the government, coordinated by the STSS; and (ii) the SPPIL will be consolidated and in operation in the STSS and COHEP via the STSS website. For the **second tranche**, it has been agreed to move forward with key operational aspects of these two initiatives. The specific conditions are: (i) the OML system of labor indicators approved by the STSS and operating on the OML web page under the National Plan for Creating Decent Jobs; and (ii) opening and functioning of the SPPIL in at least seven offices of the STSS nationwide.
- 2.18 **Action b.4. Skills development.** According to Article 2 of its charter, the National Vocational Training Institute (INFOP) is responsible for *directing, controlling, supervising and assessing* vocational training activities. Government authorities plan to create a *National Vocational Training System* to regulate vocational training, with specific standards, certification, accreditation, and evaluation of vocational training. This will require building a national consensus among the different stakeholders (who are fully agreed on maintaining INFOP as the lead agency in the Vocational Training System), and assessing the role that each institution involved in vocational training will play in the system, providing for private sector participation.
- 2.19 **Disbursement conditions.** As an interim measure, and as a policy condition for the **first tranche**, regulations to Article 25 of the Decree-Law creating INFOP will be approved, to strengthen the incentives for businesses to provide training for workers in accordance with their own needs. Responsive and flexible mechanisms will be established to help firms broaden the range of worker training offered, using part of the worker contributions to cover a percentage of the costs of vocational training courses (within guidelines issued by INFOP). As a policy condition for the **second tranche**, a document will be approved by the INFOP board and submitted to the

²² This will help to improve the business climate, which is of particular importance within the PRS.

²³ See objective 5.2, PRS update, which calls for greater gender equity.

Economic and Social Council for review, to create the National Vocational Training System, with INFOP as the lead agency.

3. Management by results

- 2.20 **Action c.1. Consolidating the SIERP.** To support introduction of management by results, a management system will need to be developed that can accurately quantify the quality of public spending, and thereby lead to greater efficiency, efficacy and equity, and support decision-making. This system will cover programs associated with the PRS.
- 2.21 **Disbursement conditions.** For the **first tranche**: (i) creation of a management-by-results system; (ii) intermediate indicators and annual targets for the PRS presented to the PRS Advisory Council and approved by the Social Cabinet for the following four years; and (iii) approval of the action plan to reinforce the measurement of success indicators such as maternal-child mortality and malnutrition among children under 5. For the **second tranche**: (i) implementation of the management-by-results system; (ii) success indicators for the 2006-2009 PRS in the SIERP, including specific targets relating to women and indigenous peoples, updated annually or semiannually, as appropriate; and (iii) progress with the action plan for strengthening measurement of success indicators.
- 2.22 **Action c.2. Strategic planning.** The new administration has identified four steps to strengthen strategic planning, and these will be incorporated as conditions of this operation. These steps embrace strengthening the UPEGs and UNAT, developing a local planning methodology, strengthening the local councils, and linking them to the central agencies.
- 2.23 **Disbursement conditions.** For the **first tranche**: (i) a plan to strengthen and develop the role of the UPEGs and the UNAT to coordinate and articulate national planning; and (ii) at least six sectoral roundtables in place. For the **second tranche**: (i) strengthening plan approved and being implemented; and (ii) at least three sectoral plans made publicly available in at least 10 departments.
- 2.24 **Action c.3. Budget formulation.** To strengthen strategic planning, the annual work plans (AWPs) prepared by the UPEGs will have to identify targets and the budget needed to meet them. To achieve this objective, it has been agreed that the government will move forward gradually, beginning with the ministries of education and health. Together, they account for more than 35% of total budgetary spending, and about 60% of spending under PRS programs.
- 2.25 **Disbursement conditions.** For the **first tranche**, the AWP for the ministries of health and education need to be prepared, setting targets and the budget needed to meet them. For the **second tranche**, the institutional targets will be laid out in the AWP prepared by the ministries of education and health.

4. Protection of priority programs under the updated 2006-2010 PRS

- 2.26 Public social spending in programs classified as priorities within the 2006-2010 PRS will be protected by establishing physical and financial targets.²⁴
- 2.27 **Action d.1. Updating the portfolio of 2006-2010 PRS activities, projects and programs.** This will establish a methodology for classifying programs and projects in the updated 2006-2010 PRS and ranking them in terms of their impact on PRS targets.
- 2.28 **Disbursement conditions.** For the **first tranche**, the government will establish and approve the criteria for prioritizing government projects and programs under the updated PRS. For the **second tranche**, the government will present evidence that the trimmed portfolio of government projects and programs under the PRS has been updated and is reflected in budget programming for 2008.
- 2.29 **Action d.2. Meeting physical and financial targets.** The objective of this subcomponent is to set and achieve physical and financial targets for priority programs under the control of Solidarity Safety Net Program institutions (health, education, PRAF and FHIS), and that are financed either with domestic funds or through loans and grants. The [Physical and Financial Targets](#) for the priority programs of the updated 2006-2010 PRS are available for consultation.
- 2.30 **Disbursement conditions.** For the **first tranche**, the government will present the list of priority projects and expenditures in health, education, PRAF and FHIS, for 2007 and 2008. The government will also demonstrate that the 2007 Budget Act identifies the amounts earmarked for priority programs. As a condition for the **second tranche**, the government will submit: (i) an evaluation showing that the physical and financial targets of the list of priority projects and programs have been met or surpassed in 2007 and 2008; and (ii) evidence that the physical and financial targets for priority programs and projects have been updated and that the necessary budgetary modifications have been made in the event that there are new resources or programs.

C. Financing

- 2.31 The program will be financed with a policy-based loan in the amount of US\$27.9 million from the Fund for Special Operations, to be disbursed in two tranches, the first for US\$10 million and the second for US\$17.9 million. This approach is justified because the activities to be supported involve primarily legal and regulatory reforms.
- 2.32 The reforms under each tranche are regarded as sequential and thus as necessary for the complete, if gradual, implementation of the updated PRS. In the first tranche, priority will be given to planning, while the second tranche (programmed for at

²⁴ The four pillars for execution of specific PRS policies, programs, and projects are: (i) expanding skills; (ii) creating competitiveness and job opportunities; (iii) access to and modernization of the social and economic infrastructure; and (iv) reducing the risk level of the poor.

least 12 months after the first tranche) will support implementation of the regulations and reforms, with clear process and outcome indicators, and their related impact indicators. The resources will therefore be backloaded in the second tranche. Moreover, the size of the tranches will assure the country considerable financing if the fiscal gap turns out to be greater than foreseen at this time, particularly in light of rising oil prices, an exogenous variable that has major repercussions for the country.

III. IMPLEMENTATION

A. Borrower and executing agency

- 3.1 The borrower and guarantor will be the Republic of Honduras. The Ministry of Finance (SEFIN) will be the executing agency for the program.

B. Execution and administration

- 3.2 SEFIN will be responsible for program administration and monitoring. It will therefore oversee compliance with the disbursement conditions for both tranches of the policy-based loan. The executing agency will work closely with the President's Office, given its important role in providing technical support to the Social Cabinet. The Social Cabinet will also have the lead with respect to regulation and other changes indicated in the Policy Matrix.
- 3.3 The Social Cabinet and the Social Welfare Office will have a key role in guiding social welfare measures and in interagency coordination for implementing them.
- 3.4 The executing agency, SEFIN, will establish a Project Administration Unit (PAU) to oversee compliance with the PBL conditions and prepare progress reports when so requested by the Bank and prior to each disbursement. Pursuant to the agreements to be signed, the PAU will have a simple management structure, with a coordinator responsible for keeping the operation running smoothly. The PAU will be responsible for the following activities: (i) serving as the main technical interlocutor for the government with the Bank, and representing the government in the administration missions scheduled during program execution; (ii) supervising the work of the sectoral institutions participating in the program, relating in particular to the policy conditions for disbursement of the two loan tranches; (iii) preparing progress reports for the authorities and the Bank; (iv) holding regular evaluation and discussion meetings with the PRS executing agencies so that appropriate decisions can be taken for meeting the targets on time; (v) working with the participating agencies to measure the degree of compliance with the Policy Matrix conditions; and (vi) preparing documentation and reports as specified in the loan contract, and certifying compliance with the contractual obligations.

C. Support for policy implementation

- 3.5 While this operation was being prepared, technical assistance was provided, and will continue to be offered, to help ensure that the conditions for the first and second tranches can be met.²⁵ This technical assistance is designed to ensure timely fulfillment of: (i) *Action a.1: Consolidating the Solidarity Safety Net Program*, by

²⁵ During preparation of the operation, administrative funds were used to hire high-level consultant services (HO-N1031) to prepare guidelines for the updated PRS and to assist in its subsequent implementation. Technical-cooperation operation ATN/SF-9995-HO supports fulfillment of the conditions for the first tranche with respect to the Solidarity Safety Net Program and strengthening the UPEGs, and technical-cooperation operation ATN/SF-10035-HO will support fulfillment of the second tranche conditions regarding the monitoring and evaluation system for the Solidarity Safety Net Program and PRAF.

financing a study for the SSNP's conceptual framework, its operating structure, the targeting of its interventions, and shared responsibility for delivery of the package of basic services; (ii) *Action a.2: Solidarity Safety Net Program monitoring and evaluation system*, by designing a system to identify and monitor outcomes and impacts of programs in beneficiary groups; (iii) *Action b.2: Job creation*, by financing the development of tools for introducing alternative dispute settlement mechanisms in the STSS; and draft regulations to the existing law on Equal Opportunity for Women; (iv) *Action b.3: Labor market*, by financing the design of a proposed labor indicators system for the Labor Market Observatory, including an assessment of international experience; (v) *Action b.4: Skills development*, by financing preparation of draft regulations to Article 25 of Decree-Law 10 creating INFOP, and (vi) *Action c.2: Strategic planning*, preparation of a proposal to strengthen and develop the UPEGs so they can support the planning-by-results system that the government wants to adopt.

D. Disbursement period and schedule

- 3.6 The disbursement period will be up to 24 months from the effective date of the contract. During this time, the funds will be disbursed in two tranches. While the operation would be approved on 15 November 2006, it will have still to be ratified by the Legislative Assembly. All conditions precedent to the first disbursement will have to be fulfilled before the loan proposal is put to the Bank's Board of Executive Directors. Release of the first tranche, in the amount of US\$10 million, is expected in the first quarter of 2007; the second tranche, of US\$17.9 million, is estimated for disbursement in mid-2008.

E. Conditions for processing disbursements

- 3.7 According to the sector loan guidelines in document GN-2001-2, release of each tranche will require the borrower to satisfy the Bank that it has made the policy changes specified in Chapter II and in the Policy Matrix (Chapter V) of this document. In addition, **presentation of the Sector Policy Letter and fulfillment of the general conditions will be conditions precedent to the first disbursement.**
- 3.8 The project team will evaluate the information presented by the Honduran authorities on fulfillment of the agreed policy changes and will prepare reports for the Bank's management and Board of Executive Directors in order to request authorization for disbursements.

F. Program monitoring and evaluation

- 3.9 It has been agreed with the Honduran authorities that the program will be monitored via two meetings each year, based on reports reflecting progress with the policy changes in the matrix, identifying problems and risks, and proposing measures to deal with them. The government will submit the list of projects and priority expenditures together with a clear coding of the budget items that are to be monitored, to confirm spending under each of the protected budget lines.

- 3.10 For the final evaluation of the program, a set of indicators has been agreed with the government for measuring performance, as shown in the [Outcomes Matrix](#). This set of indicators will also serve as the basis for the project completion report. To this end, the analysis mission established a baseline for a set of indicators selected from the Outcomes Matrix. The authorities will cover the costs of monitoring the indicators as part of the externally financed investments in the sector.
- 3.11 Consistent with Bank policies and procedures, the government was consulted about its willingness to conduct an ex post evaluation of the program. The Honduran authorities have undertaken to keep the necessary information on the performance indicators in the Outcomes Matrix, and to make this available to the Bank so that, if necessary, it can carry out an ex post evaluation of the program.

G. External audits

- 3.12 The Bank reserves the right to request financial reports from the borrower on use of the loan proceeds, audited by independent auditors previously accepted by the Bank. The borrower undertakes therefore to: (i) maintain separate accounting records and supporting documentation for use in any external audit or verification of the use of resources; and (ii) maintain a separate bank account for loan proceeds.

H. Inspection and supervision

- 3.13 The Bank will establish such inspection procedures as it deems necessary for satisfactory execution of the PBL. Through the executing agency, the borrower will cooperate fully and will provide all assistance and information required for these purposes. The project team will work closely with the Country Office in Honduras in supervising program execution. Administration and technical supervision missions will be conducted as necessary for optimal program execution, at the request of the Country Office.

IV. FEASIBILITY AND RISKS

A. Technical and institutional feasibility

- 4.1 With respect to the technical feasibility of the measures established as conditions for the two tranches, all have been agreed on with the institutions responsible for fulfilling them. The government is strongly committed to making the necessary efforts to fulfill them, as reflected in the Sector Policy Letter.
- 4.2 The institutional aspects of this program have been thoroughly analyzed in the Country Financial Accountability Assessment,²⁶ the Country Procurement Assessment Report,²⁷ and in the course of the loans in execution, some of which are financing activities needed to implement the policy reforms stipulated in the matrix of conditions. In terms of institutional feasibility, both the Ministry of Finance (SEFIN) and the other line ministries and institutions involved in the program (e.g. PRAF, FHIS) have the capacity to coordinate and fulfill the tranche release conditions. SEFIN's leadership will ensure good coordination among the institutions participating in the program.

B. Social and environmental impact

- 4.3 **Environment.** As a policy-based loan, the proposed program will have no direct environmental impact. Budgetary protection of investment programs intended to broaden the coverage of basic services relates to existing programs that have been evaluated in accordance with the country's environmental policies and those of the international financial agencies.
- 4.4 **Gender.** The operation will provide monitoring for the physical and financial targets of programs and projects that for the most part focus on delivering services to women and children. As an integral part of the results-based management system, moreover, the country will develop gender indicators for monitoring the Poverty Reduction Strategy. The program will also assist women in preparing themselves and finding jobs in the labor market through the regulations to the existing law on Equal Opportunity for Women. The program will promote the social and economic empowerment of women by making the National Policy for Women operational.
- 4.5 **Indigenous and Afro-descendant population.** The program will promote development and coordination of the Strategic Plan for Integral Development of Indigenous Peoples under the Integrated Development of Indigenous Peoples program (1689/SF-HO), and will give continuity to the coordination process for strengthening the legal rights of indigenous and black peoples, initiated by the Program to Support Indigenous and Black Communities (1090/SF-HO). In monitoring the Poverty Reduction Strategy, the program will also support

²⁶ Country Financial Accountability Assessment, IDB/World Bank, updated February 2006.

²⁷ Country Procurement Assessment Report, IDB/World Bank, Draft, September 2004.

development of indicators for applying the management-by-results system to the situation of indigenous peoples. Lastly, the Solidarity Safety Net Program will be of direct benefit to indigenous and black peoples, targeting its interventions on extremely poor communities, which coincide to a large extent with indigenous and black territories. This direct benefit will be measured through the Solidarity Safety Net Program Registry of Beneficiaries, which will record the enticity of beneficiaries on the basis of self-identification. Solidarity Safety Net Program activities will focus initially on western Honduras, which is home to the Lenca population and has the highest level of extreme poverty.

C. SEQ and PTI classification

- 4.6 This operation qualifies as a social equity-enhancing project as described in the paper for the Eight Replenishment (document AB-1704). Despite the program's orientation towards reducing poverty as part of the PRS, it is a PBL and therefore is not eligible for classification as a poverty-targeted investment.

D. Expected benefits and outcomes

- 4.7 The expected benefits include: (i) greater equity in distributing the fruits of economic growth, and improved quality and accessibility in social services; (ii) the regulatory measures and actions to further enhance the protection of vulnerable groups, increase productivity and competitiveness for low-income groups, and expand labor market access for minorities and the poor; (iii) greater capacity on the part of the government to monitor and guide public policies for poverty reduction, make further progress in reorganizing the social safety net, update the PRS operations portfolio, and strengthen intersectoral coordination; (iv) assured budgetary provisions for critical social programs to meet the established targets; and (v) implementation of management by results in the social sector.

E. Risks

- 4.8 Another risk is that, because the Solidarity Safety Net Program is comprehensive in nature, it requires coordinated participation by various institutions. To minimize this risk, ministerial orders will be issued formalizing the commitments that participating agencies must accept. As well, the operation seeks to make citizen participation a key ingredient for the success of the PRS, through the sector roundtables.
- 4.9 Given the government's financial situation, one of the main risks is that further fiscal constraint could affect the allocation of needed social funds and compromise the intermediate targets. To mitigate this risk, the program protects physical and financial targets in the most important PRS programs.
- 4.10 The sound macroeconomic performance of the Honduran authorities is backed by the continuing economic program with the IMF. On this point, the government has declared its intention to maintain the existing arrangement until its expiry in February 2007, and has indicated its desire to negotiate a new arrangement with the IMF.

V. POLICY MATRIX

Objective	Conditions for the first tranche	Conditions for the second tranche
1. Stable macroeconomic setting		
Maintain macroeconomic stability and sustain equitably distributed economic growth that will favor the execution of poverty reduction programs.	A stable macroeconomic framework is maintained, consistent with the program objectives and the Sector Policy Letter.	A stable macroeconomic framework is maintained, consistent with the program objectives and the Sector Policy Letter.
2. Comprehensiveness in programs under the updated 2006-2010 PRS		
a. Consolidate the social safety net		
a.1. Solidarity Safety Net Program		
Design and begin implementation of a comprehensive social safety net, with measures to achieve gradual improvement in living conditions and human development for extremely poor families, targeting nutrition, health, education, social and economic infrastructure, and productive projects.	<ul style="list-style-type: none"> (i) Creation of the Solidarity Safety Net Program. (ii) Creation of the Social Welfare Office. (iii) Presentation to the Social Cabinet of a proposed organizational, operational and institutional structure for the SSNP. (iv) Proposed draft of the SSNP's Operating Manual. (v) SSNP Action Plan approved by the Social Cabinet. 	<ul style="list-style-type: none"> (i) Preliminary draft legislation to establish the SSNP as a permanent institution (ii) Executive decree published in the Official Gazette (iii) Organizational, operational and institutional structure for the SSNP approved by the Social Cabinet and the PRAF Senior Council. (iv) Approval and implementation of the SSNP's Operating Manual. (v) The SSNP is providing services to at least 80,000 families in the country's poorest communities.
a.2. Solidarity Safety Net Program monitoring and evaluation system		
Undertake close monitoring of the strategy's implementation and evaluate its outcomes and impact.	<ul style="list-style-type: none"> (i) Action plan for creating a Solidarity Safety Net Program monitoring and evaluation system. (ii) Action plan for use and updating of the PRAF single registry of beneficiaries for the SSNP. 	<ul style="list-style-type: none"> (i) The SSNP monitoring and evaluation system is operational. (ii) A single registry of Solidarity Safety Net Program beneficiary households is in place covering at least all beneficiaries from the first stage.

Objective	Conditions for the first tranche	Conditions for the second tranche
a.3. Transformation of the PRAF		
Standardize the targeting and benefit-delivery systems so that conditional subsidy delivery functions in accordance with the operating regulations agreed with the Bank. Improve institutional execution capacity.	<ul style="list-style-type: none"> (i) A work plan for standardizing operational and technical methodologies, so that the PRAF will function with a single system for delivering education and health subsidies, approved by the Senior Council. (ii) Single Registry Unit of beneficiary households created and incorporated into the PRAF structure, with the corresponding budget for 2007, funded with domestic resources. (iii) Contracting of a consultant to prepare the exit strategy guidelines and design the pilot project. (iv) Monitoring and Evaluation Unit created within PRAF and included in the 2007 budget, with domestic funding. (v) Operating regulations for the Certification System for Health and Education Services, which must include minimum specifications for services and implementation procedures, approved by the PRAF Senior Council. 	<ul style="list-style-type: none"> (i) Operating regulations approved by the PRAF Senior Council and a single education and health subsidies system implemented. (ii) Single registry of beneficiary households for the education and health subsidies, in operation. (iii) Exit strategy approved and implemented on a pilot basis in 15 communities. (iv) Monitoring and evaluation system designed and approved by the PRAF Senior Council; a module for education subsidies and for nutrition and health subsidies, implemented. (v) Health and education services certification system implemented.
b. Promoting social inclusion		
b.1. Reforming IHNFA and INAM and protecting indigenous peoples		
Restructure IHNFA in the short term to strengthen its regulatory role. INAM needs to expand its functions at the local level, taking advantage of the economies of scale available through community networking.	<ul style="list-style-type: none"> (i) Proposed reform to the legal framework on the rights of indigenous peoples and definition of the institutional process and plan for monitoring and coordinating that reform. (ii) Plan for preparing and approving the Integral Development Strategy for Indigenous Peoples. (iii) Approval of the plan for gradual decentralization of IHNFA's daycare centers. 	<ul style="list-style-type: none"> (i) Progress in implementing the institutional plan for monitoring and coordinating the reform, and proposed reform of the legal framework coordinated. (ii) Progress in implementing the plan to prepare and approve the Integral Development Strategy for Indigenous Peoples and the draft strategy. (iii) Entry into force of the executive decree regulating the IHNFA statute. (iv) INAM puts into effect the guidelines of the National Policy on Women.

Objective	Conditions for the first tranche	Conditions for the second tranche
b.2. Job creation		
Create more and better jobs as a way of combating poverty, social exclusion and inequality in Honduras.	National Plan for Creating Decent Jobs agreed with the Economic and Social Council, approved by the Executive Branch.	Evidence of progress under the National Plan for Creating Decent Jobs, via: (i) Creation and implementation of at least two labor conciliation and arbitration units or services under the Labor Bureau, and (ii) Issuance of regulations to the Law on Equal Opportunity for Women.
b.3. Labor market information		
Expand the information available on the labor market and create channels for participation in it.	(i) Creation of the Labor Market Observatory (OML) through an agreement signed by workers federations, COHEP and the government, coordinated by the STSS. (ii) The electronic marketplace—the Public-Private Labor Intermediation System (SPPIL)—linking STSS and COHEP is operating on the STSS website.	(i) The OML system of labor indicators approved by the STSS and operating at the OML website under the National Plan for Creating Decent Jobs. (ii) Launch and functioning of the SPPIL in at least seven offices nationwide.
b.4. Skills development		
Promote institutional changes in the vocational training system, with INFOP acting exclusively as the lead body.	Approval of regulations to Article 25 of the Decree Law creating INFOP, to strengthen the incentives for businesses to provide worker training in accordance with their own needs.	Document approved by the INFOP Governing Council and submitted to the Economic and Social Council for review, to create the National Vocational Training System, with INFOP as the lead agency.
3. Management by results		
c.1. Consolidating the SIERP		
Establish intermediate PRS targets for the next four years. Establish an action plan to strengthen success indicators such as maternal-child mortality, malnutrition in children under 5, program impact assessment, etc.	(i) Creation of a management-by-results system. (ii) Intermediate indicators and annual targets for the PRS presented to the PRS Advisory Council and approved by the Social Cabinet for the following four years.	(i) Implementation of the management-by-results system. (ii) Success indicators for the 2006-2009 PRS in the SIERP, including specific targets relating to gender and to indigenous peoples, updated annually or semiannually.

Objective	Conditions for the first tranche	Conditions for the second tranche
	(iii) Action plan to reinforce the measurement of success indicators such as maternal-child mortality and malnutrition in children under 5.	(iii) Progress with the action plan to strengthen measurement of success indicators.
c.2. Strategic planning		
Centralize technical planning activities on the basis of management by results, including local planning. Establish the necessary rules so that planning considers the costs and available resources for implementation.	(i) Plan to strengthen and develop the role of the UPEGs and the UNAT to coordinate national planning. (ii) At least six sector roundtables launched.	(i) Strengthening plan approved and being implemented. (ii) At least three sectoral plans put to the public in at least 10 departments.
c.3. Budget formulation		
The AWP prepared by the UPEGs should be consistent with budget formulation.	AWPs for the ministries of health and education prepared, setting targets and the budget needed to meet them.	Institutional targets set forth in the AWP prepared by the ministries of education and health.
4. Protecting priority programs under the updated 2006-2010 PRS		
d.1. Updating the portfolio of 2006-2010 PRS projects and programs		
Establish guidelines for classifying PRS programs and projects and ranking them in terms of their impact on meeting the minimum conditions set by the SSNP.	Criteria for prioritizing government projects and programs under the PRS updated, established and approved.	Revised portfolio of government projects and programs from the PRS updated and reflected in the 2008 budget program.
d.2. Meeting physical and financial targets		
Agree on a set of priority programs under the control of the institutions in the SSNP and ensure that the funds needed to meet specific goals are budgeted.	(i) Health, education, PRAF and FHIS programs and projects under the SSNP, prioritized and their physical and financial targets set for 2007 and 2008, and agreed with the Bank. (ii) The draft Budget Act for 2007 identifies amounts earmarked for priority programs agreed with the Bank.	(i) Physical and financial progress with priority programs in the SSNP is consistent with targets agreed with the Bank. (ii) Update of the physical and financial targets for priority programs and their budgetary amendments, and any new resources or programs incorporated.

**SOCIAL SECTOR PROGRAM TO SUPPORT THE POVERTY REDUCTION STRATEGY
(HO-L1009)**

POLICY MATRIX AND MEANS OF VERIFICATION

Problem	First tranche		Second tranche	
	Conditions	Means of verification	Conditions	Means of verification
1. Stable macroeconomic setting				
While the Honduran economy has recovered strongly, there are still fiscal challenges such as the financial situation of ENEE and HONDUTEL and public-sector wage policy.	A stable macroeconomic framework is maintained, consistent with the program objectives and the Sector Policy Letter.		A stable macroeconomic environment is maintained, consistent with the program objectives and the Sector Policy Letter.	
2. Comprehensiveness in programs under the updated 2006-2010 PRS				
a. Consolidate the social safety net				
a.1. Solidarity Safety Net Program				
Overlapping of functions and beneficiaries among IHNFA, PRAF, INAM, Office of the First Lady, and ministry of labor, health, education and culture programs. At the same time there are needy people who still receives no social assistance.	(i) Creation of the Solidarity Safety Net Program. (ii) Creation of the Social Welfare Office. (iii) Presentation to the Social Cabinet of a proposed organizational, operational and institutional structure for the SSNP. (iv) Preliminary draft of the Operating Manual for the SSNP.	(i) Executive decree published in the Official Gazette. (ii) Executive decree published in the Official Gazette. (iii) Proposal document submitted and evidence that it has been received by the Social Cabinet. (iv) Document containing the draft Operating Manual for the SSNP.	(i) Preliminary draft legislation to establish the SSNP as a permanent institution. (ii) N/A (iii) Organizational, operational and institutional structure for the SSNP approved by the Social Cabinet and PRAF Senior Council. (iv) Approval and implementation of the Operating Manual for the SSNP.	(i) Document containing the preliminary Bill. (ii) N/A (iii) Decision of the Social Cabinet and PRAF Senior Council approving the organizational, operational and institutional structure for the SSNP. (iv) Operating Manual approved by the PRAF Senior Council and progress report on implementation of the SSNP's Operating Manual.

Problem	First tranche		Second tranche	
	Conditions	Means of verification	Conditions	Means of verification
	(v) SSNP action plan approved by the Social Cabinet.	(v) Minutes recording Social Cabinet approval of the SSNP action plan.	(v) The SSNP is providing services to at least 80,000 families in the country's poorest communities.	(v) Report from the SSNP monitoring and evaluation system.
a.2. Solidarity Safety Net Program monitoring and evaluation system				
To contribute to institutionalizing a national policy of transparency and accountability.	(i) Action plan for creating a Solidarity Safety Net Program monitoring and evaluation system	(i) Presentation of the action plan and the terms of reference for technical assistance.	(i) The SSNP monitoring and evaluation system is operational.	(i) Report on the SSNP monitoring and evaluation system
	(ii) Action plan for use and updating of the PRAF single registry of beneficiaries for the SSNP.	(ii) Presentation of the action plan	(ii) A single registry of SSNP beneficiary households is in place covering at least all beneficiaries from the first stage.	(ii) Audit report for system confirmation, with verification in the field using a random sample.
a.3. Transformation of the PRAF				
PRAF has at least two operating and technical methodologies functioning simultaneously, one financed by the Bank and the other by the government. The government-financed sector exhibits weaknesses in execution capacity.	(i) A work plan for standardizing systems and operational and technical methodologies, so that the PRAF will function with a single system for delivering education and health subsidies, approved by the PRAF Senior Council.	(i) Decision of the PRAF Senior Council approving the work plan for standardizing methodologies	(i) Operating regulations approved by the PRAF Senior Council and a single education and health subsidies system implemented.	(i) Decision of the PRAF Senior Council approving the operating regulations and a random sample, audited, from the final payment schedule for school and health subsidies.
	(ii) Single Registry Unit of beneficiary households created and incorporated into the PRAF structure, with the corresponding budget for 2007, funded with domestic resources.	(ii) Decision of the PRAF Senior Council creating and defining the Unit and the Operating Processes, and copy of the PRAF budget, with its budgetary allocation.	(ii) Single registry of beneficiary households for the education and health subsidies, in operation.	(ii) Report from the auditing firm certifying the system, operating processes, and implementation of the single registry of beneficiary households, from reconciliation of a random sample of the payment schedule and the single registry of beneficiaries, verified in the field.

Problem	First tranche		Second tranche	
	Conditions	Means of verification	Conditions	Means of verification
	<p>(iii) Contracting of a consultant to prepare the exit strategy guidelines and design the pilot project.</p> <p>(iv) Monitoring and Evaluation Unit created within the PRAF and included in the 2007 budget, with domestic funding.</p> <p>(v) Operating regulations for the Certification System for Health and Education Services, which must include minimum specifications for services and implementation procedures, approved by the PRAF Senior Council.</p>	<p>(iii) Signed consultancy contract.</p> <p>(iv) Decision of the PRAF Senior Council creating and defining the Unit and the Operating Processes, and copy of the PRAF budget, with its budgetary allocation.</p> <p>(v) Decision of the PRAF Senior Council approving the operating regulations for the certification system.</p>	<p>(iii) Exit strategy approved and implemented on a pilot basis in 15 communities.</p> <p>(iv) Monitoring and evaluation system designed and approved by the PRAF Senior Council; a module for education subsidies and for nutrition and health subsidies, implemented.</p> <p>(v) Health and education services certification system implemented.</p>	<p>(iii) Decision of the PRAF Senior Council approving the pilot implementation strategy and document.</p> <p>(iv) Decision of the PRAF Senior Council approving the design of the system; and periodic reports generated by the corresponding module for the education and the health/nutrition subsidies in the monitoring and evaluation system.</p> <p>(v) Technical evaluation report certifying that the certification system is operating, with a field audit based on a random sample.</p>
b. Promoting social inclusion				
b.1. Reforming IHNFA and INAM and protecting indigenous peoples				
The national legal framework does not provide protection for indigenous peoples.	(i) Proposed reform to the legal framework on the rights of indigenous peoples and definition of the institutional process and plan for monitoring and coordinating that reform.	(i) Documented proposal for reforms from the National Advisory Workshop to be submitted to the National Coordination Roundtable; and Institutional Plan for Monitoring and Coordination of the Reform approved by the Ministry of Government and Justice (SGJ).	(i) Progress in implementing the institutional plan for monitoring and coordinating the reform and proposed reform of the legal framework coordinated.	(i) Progress report on compliance with the Institutional Plan for Monitoring and Coordination of the Reform and proposed reform of the legal framework coordinated.

Problem	First tranche		Second tranche	
	Conditions	Means of verification	Conditions	Means of verification
<p>By its charter, IHNFA is supposed to play a policy role and not to be an executing agency, but at the present time its function has been reversed.</p> <p>INAM needs to put into effect the institutional commitment to women.</p>	<p>(ii) Plan for preparing and approving the Integral Development Strategy for Indigenous Peoples.</p> <p>(iii) Plan for gradual decentralization of IHNFA's child daycare centers designed and approved by its Governing Council.</p>	<p>(ii) Plan for preparation and approval of the Integral Development Strategy for Indigenous Peoples approved by the SGJ.</p> <p>(iii) Presentation of the resolution of the Governing Council approving the gradual decentralization plan.</p>	<p>(ii) Progress in implementing the plan to prepare and approve the Integral Development Strategy for Indigenous Peoples and the draft strategy.</p> <p>(iii) Entry into force of the executive decree regulating the IHNFA statute.</p> <p>(iv) INAM puts into effect the guidelines of the National Policy on Women.</p>	<p>(ii) Progress report on implementation of the plan and the draft Integral Development Strategy for Indigenous Peoples.</p> <p>(iii) Executive decree published in the Official Gazette.</p> <p>(iv) INAM report on specific measures taken to make the policy operational.</p>
b.2. Job creation				
<p>The updated Poverty Reduction Strategy entails the need to create more and better jobs, with social inclusion and equity.</p>	<p>National Plan for Creating Decent Jobs agreed with the Economic and Social Council, approved by the Executive Branch.</p>	<p>Decision of the Economic and Social Council approving the National Plan for Creating Decent Jobs.</p> <p>Executive decree approving the National Plan for Creating Decent Jobs and making it official government policy.</p>	<p>Evidence of progress with the National Plan for Creating Decent Jobs, via:</p> <p>(i) Creation and implementation of at least two labor conciliation and arbitration units or services under the Labor Bureau, and</p> <p>(ii) Issuance of regulations to the Law on Equal Opportunity for Women.</p>	<p>Ministerial Resolution creating at least two labor conciliation and arbitration centers, and a list of qualified and trained staff assigned to those centers.</p> <p>Executive decree regulating the Law on Equal Opportunity for Women.</p>

Problem	First tranche		Second tranche	
	Conditions	Means of verification	Conditions	Means of verification
b.3. Labor market information				
The poor and in general the most vulnerable groups have little access to labor market information.	(i) Creation of the Labor Market Observatory (OML) through an agreement signed by workers federations, COHEP and the government, coordinated by the STSS.	(i) Tripartite agreement in force for creating the OML.	(i) The OML system of labor indicators approved by the STSS and operating at the OML website under the National Plan for Creating Decent Jobs.	(i) Ministerial Resolution approving the System of Labor Indicators for the OML. Printed version of the OML Web page, containing information on the System of Labor Indicators approved by the STSS.
	(ii) The electronic marketplace—the Public-Private Labor Intermediation System (SPPIL)—linking STSS and COHEP is operating on the STSS website.	(ii) STSS–COHEP agreement signed; and design of the SPPIL in Web format functioning, confirmed by a printed version of registration forms of job seekers and a report of vacancies presented by the firms within the SPPIL in Web format.	(ii) Launch and functioning of the SPPIL in at least seven offices nationwide.	(ii) Certification of the Ministerial Memorandum creating the SPPIL in at least seven offices nationwide. Updated report containing information for the last available quarter on functioning and operation of labor intermediation services.
b.4. Skills development				
Occupational training for the Honduran workforce does not fully satisfy the demands of the productive sector.	Approval of regulations to Article 25 of the Decree Law creating INFOP, to strengthen the incentives for businesses to provide worker training in accordance with their own needs.	Resolution of the INFOP Governing Council approving the regulations for the mechanism to provide training incentives for businesses.	Document approved by the INFOP Governing Council and submitted to the Economic and Social Council, to create the National Vocational Training System, with INFOP as the lead agency.	Resolution of the INFOP Governing Council approving creation of the National Vocational Training System and designating INFOP as its lead agency. Proof that the document on creation of the National Vocational Training System, assigning INFOP the role of lead agency, has been presented to the Economic and Social Council.

Problem	First tranche		Second tranche	
	Conditions	Means of verification	Conditions	Means of verification
3. Management by results				
c.1. Consolidating the SIERP				
The PRS information system (SIERP) has no intermediate indicators. Implementing the PRS is a complex process that must be improved through linkages between planning, costs and revenues.	<ul style="list-style-type: none"> (i) Creation of a management-by-results system. (ii) Intermediate indicators and annual targets for the PRS presented to the PRS Advisory Council and approved by the Social Cabinet for the following four years. (iii) Action plan to reinforce the measurement of success indicators such as maternal-child mortality and malnutrition among children under 5. 	<ul style="list-style-type: none"> (i) Executive decree creating the system published in the Official Gazette. (ii) Proof that the intermediate indicators have been presented to the PRS Advisory Council. Minutes of the Social Cabinet approving the intermediate indicators and annual targets for the PRS. (iii) Action Plan signed by the Minister of Health and approved by the Social Cabinet. 	<ul style="list-style-type: none"> (i) Implementation of the management-by-results system. (ii) Success indicators for the 2006-2009 PRS in the SIERP include specific targets relating to gender and to indigenous peoples, updated annually or semiannually, as appropriate. (iii) Progress with the action plan for measuring success indicators. 	<ul style="list-style-type: none"> (i) Latest available report from the system. (ii) Latest updated report from the SIERP with specific targets for vulnerable groups. (iii) Progress report on implementation of the action plan prepared by the Ministry of Health.
c.2. Strategic planning				
Honduras has no tools for proper planning over the short, medium and long terms, taking into account local planning processes and those of the Planning and Management Evaluation Units (UPEGs).	<ul style="list-style-type: none"> (i) Plan to strengthen and develop the role of the UPEGs and the UNAT to coordinate national planning. (ii) At least six sector roundtables launched. 	<ul style="list-style-type: none"> (i) Strengthening plan designed. (ii) UNAT report certifying that the sector roundtables have been established. 	<ul style="list-style-type: none"> (i) Strengthening plan approved and being implemented. (ii) At least three sectoral plans put to the public in at least 10 departments. 	<ul style="list-style-type: none"> (i) Report from the President's Office on actions taken to strengthen the UNAT and the UPEGs. (ii) Report from the President's Office.
c.3. Budget formulation				
The annual work plans (AWPs) prepared by the UPEGs do not always correspond to the budget formulation.	AWPs for the ministries of education and health prepared, setting targets and the budget needed to meet them.	Official notes transmitting the AWP for health and education to SEFIN identifying the targets and the needed budgets.	Institutional targets set forth in the AWP prepared by the ministries of education and health.	SEFIN report on consistency between the institutional targets, the health and education AWP, and budgetary allocations in the preliminary draft budget for 2008.

Problem	First tranche		Second tranche	
	Conditions	Means of verification	Conditions	Means of verification
4. Protecting priority programs under the updated 2006-2010 PRS				
d.1. Updating the portfolio of 2006-2010 PRS projects and programs				
The government budget contains programs that could be more efficient and better targeted.	Criteria for prioritizing government projects and programs under the updated PRS, established and approved.	Social Cabinet report approving the updated 2006 PRS.	Revised portfolio of projects and programs under the updated PRS, reflected in the 2008 budget program.	Updated list of PRS programs and projects with their 2008 budget allocation.
d.2. Meeting physical and financial targets				
There are many programs and little execution capacity.	<ul style="list-style-type: none"> (i) Health, education, PRAF and FHIS programs and projects under the SSNP, prioritized and their physical and financial targets set for 2007 and 2008, and agreed with the Bank. (ii) The draft Budget Act for 2007 identifies amounts earmarked for priority programs agreed with the Bank. 	<ul style="list-style-type: none"> (i) Matrix of physical and financial targets for SSNP priority programs for 2007 and 2008. (ii) Draft Budget Act for 2007. 	<ul style="list-style-type: none"> (i) Physical and financial progress under the SSNP is consistent with targets agreed with the Bank. (ii) Update of the physical and financial targets for priority programs and their budgetary amendments, and any new resources or programs incorporated. 	<ul style="list-style-type: none"> (i) Presentation of a document demonstrating that the targets have been met. (ii) Amendments to the budget allocations for projects included in the SSNP.

MINISTRY OF FINANCE
REPUBLIC OF HONDURAS

CP-DGN-987/06
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Tegucigalpa, 19 October 2006

Mr. Luis Alberto Moreno,
President,
Inter-American Development Bank,

Dear Mr. Moreno:

I am pleased to advise you that the Government of Honduras, under President Manuel Zelaya Rosales, has undertaken the task of updating the Poverty Reduction Strategy (PRS) for 2006-2010.

It is doing so pursuant to Article 8 of the Poverty Reduction Fund Act of 24 April 2002, which requires each successive administration to update the PRS.

In this context, the Government of Honduras has been working with the Inter-American Development Bank on a loan, called the Social Sector Program to Support the Poverty Reduction Strategy (HO-L1009), for updating the PRS and for reporting progress under it.

The Government of Honduras hereby requests the IDB to provide a loan for up to the amount of US\$27.9 million to finance this program, to be disbursed in two tranches.

In the context of the legal mandate, the principal purposes of this operation are to give priority to the criterion of comprehensiveness (*integralidad*) in implementing the 2006-2010 PRS. This concept means combining social programs with programs to improve the country's competitiveness, and to create job opportunities.

In support of this request, the present letter provides further information on the planned activities, and will describe:

1. The Economic Program of the Government of Honduras under the framework of the 2004-2006 Poverty Reduction and Growth Facility (PRGF) arrangement with the IMF. This program covers fiscal policy, external borrowing, and exchange rate and monetary policy.
2. A summary of the PRS Progress Report for 2005, which reviews the use and financing of poverty spending.
3. Proposals for execution of the requested loan, which can be grouped under four [sic] headings as previously negotiated and agreed: (i) comprehensiveness in the programs under the updated 2006-2010 PRS; (ii) management by results; and (iii) protection of PRS expenditure.
4. Conclusions

1. Policy framework and macroeconomic goals

Since 2004 the government has had in place an arrangement with the IMF under the Poverty Reduction and Growth Facility, which will run until February 2007.

The main components of the program are:

- A medium-term macroeconomic framework consistent with higher and sustained growth and with achieving the targets of the updated Poverty Reduction Strategy.
- A fiscal reform that will limit spending on wages and salaries and will strengthen income generation measures so as to permit a steady increase in spending to combat poverty.
- A wide-ranging reform of the financial system to make it more sound.
- Improvements in governance and transparency.

Progress under the PRGF program is reflected in the following indicators. In 2005 the economy grew by 4.2%, led by the textile industry, tourism, construction, and the telecommunications sector. Even with the steady increases that have been recorded in international prices for oil derivatives, inflation stood at 7.7%. Reflecting the combined impact of improved tax collection, restraint on wage spending, and low rates of program and project execution, the target for the consolidated public-sector deficit has been sharply reduced to 1.5% of GDP, well below the 2.5% agreed in the program, while the Central Government deficit was 2.7% of GDP, edging down by 0.4% of GDP. The wage bill reached 9% of GDP, which is below the target agreed with the IMF.

PRS spending exceeded the goal, amounting to 9.6% of GDP. Capital spending continued to be financed through loans and grants and, to a lesser extent, through resources freed up through debt relief under the HIPC initiative.

The IMF mission that visited Honduras in early May 2006, for the fourth PRGF review, found that macroeconomic indicators have improved in recent months. For 2006, economic growth is expected to exceed 5%, thanks to the strong performance of coffee and *maquila* exports and better results in the construction and financial sectors.

For 2006, the government is committed to maintaining fiscal discipline, improving project execution, and implementing a sustainable wage policy in order to keep a healthy balance in public finances.

With respect to debt sustainability, it is very important to note that, in March and April 2005, the Executive Boards of the IMF and World Bank approved the completion point for Honduras under the HIPC initiative. As a condition for that approval, the government had to fulfill the commitments established in the economic program with the IMF, which included following a sustainable debt policy, with the minimum requirement that all new external borrowing carry at least a 35% element of concessionality in terms of net present value.

Significant progress was made in 2005 in the forgiveness of bilateral and multilateral external debt, as noted above. The HIPC completion point opened the way for Paris Club creditors to consider a debt reduction, which produced the following results:

- Cancellation of US\$206 million in nominal terms, thereby meeting the parameters for achieving sustainability in the country's debt, as established in the decision point document for Honduras under the HIPC initiative.
- The majority of creditors agreed to additional relief for Honduras on the balance of its stock of debt to them; this will be reduced (once all the bilateral agreements are signed) by the equivalent of US\$855 million in nominal terms.

In addition to the foregoing, the Executive Boards of the World Bank and the IMF agreed in June 2005 to cancel the debts owed to those two institutions by 18 countries, including Honduras. This translates into relief of approximately US\$1.3 billion (World Bank and IMF combined) for Honduras, which will help our country achieved the Millennium Development Goals more quickly.

Effective monitoring of domestic and external debt relies on the Debt Management and Financial Analysis System (DMFAS), the software developed by the United Nations Conference on Trade and Development (UNCTAD) and now in use in more than 60 countries. This has made for more efficient and transparent management of the public debt, and was an indispensable tool for reconciling the various creditor positions during the recent external debt renegotiations under the HIPC initiative and the Paris Club.

2. Summary of progress under the PRS. Fourth report 2005

1. In the fourth quarter of 2005, a total of 13,956.9 million lempiras was executed in programs under the PRS, amounting to 8.8% of GDP. This represents an increase of 22.9% over the same period in the preceding year. It was financed to the extent of 66.1% from domestic resources (9,225.8 million lempiras), 21.9% from reimbursable resources, and the remaining 7% from grants and 5% from debt relief.
2. Clearly, spending financed through debt relief is not displacing the national effort, which has in fact been growing. Indeed, PRS spending has increased faster than non-PRS spending.
3. Investment in human capital is the program area to which the most resources have been devoted, 7,969.1 million lempiras (57.7% of the total), earmarked primarily for expanding the coverage and quality of education, with a particular focus on formal primary education, intermediate classroom education, and the Honduran Community Education and Hospital Care Program.
4. Also noteworthy is the investment devoted to assuring the sustainability of the Strategy, which in December totaled 3,196.3 million lempiras of PRS resources (22.9% of the

total), primarily for modernizing the public administration and for decentralization, and for environmental protection and risk management.

5. Twenty percent (20%) of poverty spending went to reviving the rural economy, strengthening social safety nets for specific groups, reducing urban poverty, and to a lesser extent accelerating equitable and sustainable economic growth. Funds were earmarked primarily for subsidy programs executed under the Family Allowances Program (PRAF), the transfer to the Honduran Institute for Children and the Family (IHNFA), and nutritional assistance and access to basic services, in particular drinking water and sanitation, and housing.

3. Proposals for execution of the requested loan

For comprehensiveness in the programs under the updated 2006-2010 PRS, a decision has been made to create the *Red Solidaria* [Solidarity Safety Net Program], and a proposal establishing its organizational, operational and institutional structure has been submitted to the Social Cabinet. The proposed Network will consist of the IHNFA, PRAF, the National Women's Institute (INAM), the Office of the First Lady, and the ministries of labor, health, education, and culture. Its specific objective will be to deliver services to at least 80,000 families in the country's poorest communities.

In addition, the following documents will be prepared: Operating Regulations for the Network; a Network action plan; an action plan for creating a Network monitoring and evaluation system; an action plan for use and updating of the PRAF single registry of beneficiaries for the Network; a proposed reform to the legal framework on the rights of indigenous peoples and definition of the institutional process and plan for monitoring and coordinating that reform; and a plan for preparing and approving the Integral Development Strategy for Indigenous Peoples.

4. Conclusions

- As this letter demonstrates, the Government of Honduras is taking important steps to continue with the Poverty Reduction Strategy and it plans to increase and pursue that progress through the loan now requested.
- The government undertakes to continue making progress in these fields, and will continue to rely on support from the Inter-American Development Bank in the areas indicated.

By virtue of the foregoing, the Government of Honduras hereby requests approval of the loan for the Social Sector Program to Support the Poverty Reduction Strategy.

Please accept the assurances of my highest consideration and esteem.

[signed]

Rebeca P. Santos,
Minister

**SOCIAL SECTOR PROGRAM TO SUPPORT THE POVERTY REDUCTION STRATEGY
(HO-L1009)**

OUTCOMES MATRIX

SUPPORT FOR FULFILLMENT OF THE 2006-2015 INTERMEDIATE INDICATORS UNDER THE PRS

Goals	Indicators	Observed 2005	Updated PRS targets			Support through HO-L1009
			2006	2010	2015	
EDUCATION						Component II. Comprehensiveness in the programs under the updated 2006-2010 PRS (through the <i>Solidarity Safety Net Program</i> and <i>transformation of the PRAF</i> , as part of reorganization of the social safety net); and
1. Double net coverage of pre-basic education in five years.	Coverage rate for pre-basic education (1999).	34.3	38.6	42.0	60.0	
2. Net coverage of 95% in the first two cycles of basic education.	Net coverage rate (excluding those over-age) 1 st & 2 nd cycle (1999).	89.4	92.5	93.2	95.0	
3. Net coverage of 70% in the third cycle of basic education.	Net coverage rate (excluding those over-age) 3 rd cycle (1999).	39.0	39.7	51.1	70.0	
4. 50% of the school population completes secondary education.	Net coverage rate (excl. those over-age) of the diversified cycle (10 th to 12 th grades) (1999).	22.7	24.2	33.4	50.0	Component IV. Protection of priority programs under the 2006-2010 PRS (through <i>updating the project and program portfolio</i> of the 2006-2010 PRS and <i>meeting the physical and financial targets</i>).
HEALTH						
5. Halve the mortality rate for infants and children under 5	Infant mortality rate/ 1,000 l.b. (1996).	23.0	27.0	22.0	18.0	
	Mortality rate for children under 5 (1996).	30.0	37.0	30.0	24.0	
6. Halve the malnutrition rate for children under 5	Child malnutrition rate (1996).	24.7	27.0	22.0	18.0	
7. Halve the maternal mortality rate	Maternal mortality rate per 100,000 inhabitants.	N.A. (goal 2005: 95.0)	93.0	82.0	70.0	

Goals	Indicators	Observed 2005	Updated PRS targets			Support through HO-L1009
			2006	2010	2015	
GENDER						Component III. Comprehensiveness in programs under the updated 2006-2010 PRS (through the <i>Solidarity Safety Net Program</i> , as part of the reorganization of the social safety net, and through labor market and skills development activities).
8. Raise the Human Development Index for women by 20%	HDI relative to gender (1999).	N.A. (2005 goal: 0.7)	0.7	0.7	0.8	
INFRASTRUCTURE						
9. 95% access to drinking water and sanitation.	% of population with access to drinking water (1999).	84.7	85.0	90.0	95.0	Componente II. Comprehensiveness in programs under the updated 2006-2010 PRS (through the <i>Solidarity Safety Net Program</i> and <i>transformation of the PRAF</i> , as part of reorganization of the social safety net); and
	% of population with access to sewage systems (1999).	78.2	76.0	85.0	95.0	Componente IV. Protection of priority programs under the 2006-2010 PRS (through <i>updating the project and program portfolio</i> of the 2006-2010 PRS and <i>meeting the physical and financial targets</i>).

Notes:

- (i) These are the indicators in the updated PRS (September 2006).
- (ii) **Relation to the United Nations' Millennium Development Goals (MDGs):** Contribution to these MDGs from the updated PRS targets in the Outcomes Matrix:

1. Eradicate extreme poverty and hunger (**Target 6 in the Outcomes Matrix**)
 - Reduce by half, between 1990 and 2015, the proportion of people living on less than US\$1 per day.
 - Reduce by half, between 1990 and 2015, the proportion of people who suffer from hunger.
2. Achieve universal primary education (**Targets 1, 2 and 3 in the Outcomes Matrix**)
 - Ensure that, by 2015, all boys and girls can complete a full course of primary schooling.
3. Promote gender equality and empower women (**Target 8 in the Outcomes Matrix**)
 - Eliminate gender disparity in primary and secondary education, preferably by 2005, and at all levels of education by 2015.
4. Reduce child mortality (**Target 5 in the Outcomes Matrix**)
 - Reduce by two thirds, between 1990 and 2015, the mortality rate among children under 5.
5. Improve maternal health (**Target 7 in the Outcomes Matrix**)
 - Reduce the maternal mortality rate by three quarters between 1990 and 2015.
6. Combat HIV/AIDS, malaria and other diseases (**Target 9 in the Outcomes Matrix**)
 - Halt and begin to reverse the spread of HIV/AIDS by 2015.
 - Halt and begin to reverse the incidence of malaria and other major diseases by 2015.
7. Ensure environmental sustainability
 - Integrate the principles of sustainable development into country policies and programs; reverse loss of environmental resources.
 - Reduce by half the proportion of people without sustainable access to safe drinking water by 2015.
 - Achieve significant improvement in the lives of at least 100 million slum dwellers, by 2020.
8. Develop a global partnership for development
 - Develop further an open trading and financial system that is rule-based, predictable and nondiscriminatory. Includes a commitment to good governance, development and poverty reduction, nationally and internationally.
 - Address the least developed countries' special needs.
 - Address the special needs of landlocked and small island developing States.
 - Deal comprehensively with developing countries' debt problems through national and international measures to make the debt sustainable in the long term.
 - In cooperation with the developing countries, develop decent and productive work for youth.
 - In cooperation with pharmaceutical companies, provide access to affordable essential drugs in developing countries.
 - In cooperation with the private sector, make available the benefits of new technologies, especially information and communications technologies.

**SOCIAL SECTOR PROGRAM TO SUPPORT THE POVERTY REDUCTION STRATEGY
(HO-L1009)**

PHYSICAL AND FINANCIAL TARGETS FOR PRS PRIORITY PROGRAMS

Activity	2007		2008	
	Physical targets	Financial targets	Physical targets	Financial targets
Family Allowances Program (PRAF)				
PRAF	36,000 households with health subsidies	US\$4,860,000	50,000 households with health subsidies	US\$6,750,000
	Subsidy roll	Financial report	Subsidy roll	Financial report
	36,000 households with education subsidies	US\$3,456,000	50,000 households with education subsidies	US\$4,800,000
	Subsidy roll	Financial report	Subsidy roll	Financial report
	50,000 surveyed households in the Single Registry	US\$697,000	Additional 30,000 surveyed households in the Single Registry	US\$420,000
	Single Registry of Beneficiaries	Financial report	Single Registry of Beneficiaries	Financial report
Integral development of women (DIMUJER) pilot program	N/A	N/A	Pilot exit strategy in 15 communities	US\$850,000
			Evaluation of pilot program	Financial report
Honduran Social Investment Fund (FHIS)				
Operational delegation of project cycle	150 municipios decentralized Agreements with municipios, progress reports	US\$10,900,000 Financial report	70 municipios decentralized Agreements with municipios, progress reports	US\$1,600,000
Water and sanitation program	31 projects implemented FHIS Management Information System	US\$900,000 Financial report	Pending	Pending
Basic and social infrastructure	700 projects executed FHIS Management Information System	US\$11,600,000 Financial report	80 projects implemented FHIS Management Information System	US\$2,000,000 Financial report

Activity	2007		2008	
	Physical targets	Financial targets	Physical targets	Financial targets
Ministry of Education				
Program for Transformation of National Education (IDB loan 1069/SF-HO)				
Training of instructors and directors at basic education centers (BECs) and technical staff in “BEC Instruction and “BEC Administration”	700 BEC and Ministry of Education instructors, directors, and technical staff enrolled in professional development course Contract signed with the Francisco Morazán National Education University (UPNFM), enrollment records and pledge for each participant	US\$100,000 Financial report, payroll, and receipts	600 BEC and Ministry of Education instructors, directors, and technical staff complete professional development course List of participants and certification of course completion	US\$200,000 Financial report, payroll, and receipts
BEC construction/repair	10 schools converted to BECs for studies through the ninth grade Provisional records of acceptance signed by the corresponding authority	US\$800,000 Financial report, transfer	30 schools converted to BECs for studies through the ninth grade Final records of acceptance	US\$2,000,000 Financial report, transfer
Installation of alternative energy devices (solar panels) at 100 BECs	Procurement and distribution of 100 solar panels to 100 BECs Receipts of delivery to BECs	US\$2,000,000 Credit note to the beneficiary from the Nordic Development Fund (NDF)	Installation of 100 solar panels at 100 BECs Records documenting proper functioning of the panels	US\$500,000 Credit note to the beneficiary from the NDF

Activity	2007		2008	
	Physical targets	Financial targets	Physical targets	Financial targets
Secondary Education and Job Training Program (IDB loan 1552/SF-HO)				
Expansion of third- and fourth-cycle education coverage in areas with shortages of conventional education services	Contract with Asociación Bayan Signed contract	US\$100,000 Financial report (checks) transfer	4,000 students taught under the SAT modality Enrollment records	US\$100,000 Financial report (checks) transfer
	Tutorial-based learning system (SAT) training for 20 pedagogical and agricultural specialists, to expand coverage Enrollment list	US\$20,000 Financial report	Training of 40 facilitators, tutors, and pedagogical specialists in alternative modalities, to expand coverage Enrollment list and training report	US\$20,000 Financial report
Administration of scholastic achievement tests in fourth-cycle BECs, to establish a baseline for the alternative modalities for which the Educational Quality Measurement Unit (UMCE), of the UPNFM, is responsible	Signed contract with the UPNFM so that the UMCE can administer scholastic achievements tests Signed contract	US\$80,000 Financial report (checks) transfers	Assessment of supply and demand of alternative modalities within the target population Final document and report (assessment) produced and submitted by the UMCE	US\$60,000
Provision of didactic/pedagogical material for the third and fourth cycles through the various modalities: Telebásica, SAT-Bayan, EDUCATODOS, and SEMED.	N/A	N/A	Materials used in the five basic areas for the alternative modalities Documents, manuals, and handbooks for instructors and students prepared and validated	US\$30,000 Supplier contract (check) transfer
Provision of furniture and equipment to 10 departmental offices for monitoring the coverage of alternatives modalities	10 departmental offices equipped with computers, printers, chairs, desks, and file cabinets Delivery receipts	US\$80,000 Check, transfer		

Activity	2007		2008	
	Physical targets	Financial targets	Physical targets	Financial targets
Honduran Community Education Program (PROHECO)				
Ongoing implementation of PROHECO, through transfers to the community educational associations (AECOs) nationwide	2,098 PROHECO schools in operation through transfers to AECOs List of AECOs	US\$8,700,000 Financial report (check or transfers)	2,150 PROHECO schools in operation through transfers to AECOs List of AECOs	US\$8,900,000 Financial report (check or transfer)
Training for field staff in conceptual, methodological, and administrative subjects; for technical staff at the program coordinating unit in strategic planning; and teacher exchange days, for the strengthening and sustainability of PROHECO schools	170 departmental and sector coordinators, social promoters, and 30 technical staff at the project coordinating unit trained List of participants	US\$20,000 Financial report	3,000 teachers and administrators in 18 departments participating in AECO teacher and administrator exchange days at the departmental level List of participants	US\$100,000 Financial report
Approval of 50 teachers at PROHECO schools, with priority given to single-teacher schools	N/A	N/A	50 teachers hired Employment contracts	US\$150,000 Financial report
Adult education	41,749 adults educated Enrollment list and facilitator payroll	US\$250,000 Record of payment of allowances to facilities	41,749 adults educated Enrollment list and facilitator payroll	US\$250,000 Record of payment of allowances to facilities
	37,574 participants promoted List of participants promoted, evaluation table	US\$250,000 Record of payment of allowances to facilities	37,574 participants promoted List of participants promoted, evaluation table	US\$250,000 Record of payment of allowances to facilities
	45,000 textbooks distributed Records of delivery and receipt of the textbooks by each literacy center	US\$250,000 Financial report for the textbook purchase	90,040 textbooks distributed Records of delivery and receipt of the textbooks by each literacy center	US\$270,000 Financial report for the textbook purchase
Preparation of the situational assessment to determine the illiteracy rate in PRALEBAH communities	Gathering of information in 10 departments in the program's area of influence Preliminary report	US\$50,000 Financial report	Gathering of information in 10 departments in the program's area of influence Final assessment report	US\$50,000 Financial report

Activity	2007		2008	
	Physical targets	Financial targets	Physical targets	Financial targets
Education For All Plan – Multiple donor agencies (Spanish International Cooperation Agency, Canada, NDF, Switzerland, and Germany’s KfW Development Bank)				
Improvement of instructional quality and efficiency	Funds transferred to the UPNFM to implement the Basic Teacher Training and Trainer Training programs Signed interagency agreement between the Ministry of Education and the UPNFM Scholarship Regulations approved	US\$914,000 Financial report (electronic transfer)	Training of 40 teachers in regular schools Training completion records for 40 teachers	US\$10,000,000 Financial report
			University-level training of 35 teachers at the UPNFM Record of completion of academic training for 35 teachers	
Strengthening of pre-basic education	Monthly stipend paid to 1,900 volunteer educators from the Community Centers for Pre-Basic Education (CCEPREB) (including bilingual intercultural schools) February – August Monthly payroll	US\$263,000 Financial report	Monthly stipend paid to 2,300 volunteer educators from the CCEPREBs (including bilingual intercultural schools) Monthly payroll	US\$526,000 Financial report
	400 CCEPREBs organized Certificate of receipt signed by the departmental offices	US\$40,000 Financial report	400 CCEPREBs organized Certificate of receipt signed by the departmental offices	US\$69,000 Financial report

Activity	2007		2008	
	Physical targets	Financial targets	Physical targets	Financial targets
Ministry of Health				
Honduran Health Improvement Program				
Implementation of new service contracting and management models	7 service contracts for coverage expansion Signed contract/agreement	US\$900,000 Payment order	N/A	
Strengthening of the resolution capacity of healthcare units	200 signed personnel contracts Signed contracts	US\$600,000 Payment order	N/A	N/A
Construction of mother and child clinics to strengthen the operating capacity of the departments of Lempira, Copán, Intibucá, and La Paz	3 signed contracts to begin construction Signed contract	US\$100,000 Payment order (advance)	6 mother and child clinics under construction Contracts and notices to proceed	US\$480,000 Payment order
Engagement of a firm to conduct the program evaluation	Firm hired Contract	US\$200,000 Payment order	N/A	N/A
Provision of ambulances to strengthen the operating capacity of the departments of Lempira, Copán, Intibucá, and La Paz	N/A	N/A	4 ambulances procured Contract and delivery receipt	US\$250,000 Payment order
Construction of maternity centers to strengthen the operating capacity of the departments of Lempira, Copán, Intibucá, and La Paz	N/A	N/A	4 maternity centers constructed Contract and notice to proceed	US\$136,000 Payment order
Nutrition and Social Protection Project, Loan No. 4097, Component B – Community-based Integrated Child Care Program (AIN/C)				
Consulting services to strengthen institutions in the central government and the project coordinating unit (6)	40 contracts Contracts signed	US\$100,000 Payments made	53 contracts Contracts signed	US\$577,632 Percentage of payments made
Baseline in communities in the departments of Lempira, Intibucá, Copán, and La Paz	250 communities Community-level assessments	US\$200,000 Percentage of payments made	414 communities Community-level assessments	US\$414,000 Percentage of payments made

Activity	2007		2008	
	Physical targets	Financial targets	Physical targets	Financial targets
Expansion of the coverage of the AIN/C strategy	N/A	N/A	250 communities covered Contracts drawn up for expanded coverage	US\$1,707,473 Percentages disbursed based on provider performance

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK

PROPOSED RESOLUTION DE-___/06

Honduras. Loan ____/SF-HO to the Republic of Honduras. Social
Sector Program to Support the Poverty Reduction Strategy

The Board of Executive Directors

RESOLVES:

That the President of the Bank, or such representative as he shall designate, is authorized, in the name and on behalf of the Bank, to enter into such contract or contracts as may be necessary with the Republic of Honduras, as Borrower, for the purpose of granting it a financing to cooperate in the execution of a social sector program to support the Poverty Reduction Strategy. Such financing will be for the amount of up to US\$27,900,000 or its equivalent in other currencies, except that of Honduras, which is part of the Bank's Fund for Special Operations, and will be subject to the Financial Terms and Conditions and the Special Contractual Clauses of the Project Summary of the Loan Proposal.

(Adopted on __ _____ 2006)

LEG/OPR/RGII/IDBDOCS#812133
HO-L1009