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# IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IBRD-82840)

ON A

CREDIT

IN THE AMOUNT OF US$55 MILLION

TO THE

REPUBLIC OF HONDURAS

FOR A

FISCAL SUSTAINABILITY AND ENHANCED SOCIAL PROTECTION DEVELOPMENT POLICY CREDIT

February 28, 2017

Macroeconomics and Fiscal Management Global Practice
Central America Country Management Unit
Latin America and the Caribbean Region

**REPUBLIC OF HONDURAS**

**GOVERNMENT FISCAL YEAR**
January 1 – December 31

**CURRENCY EQUIVALENTS**
(Exchange rate effective as of January 31, 2017)
US$ 1.00 = HNL 23.70

**WEIGHTS AND MEASURES**
Metric System

## ABBREVIATIONS AND ACRONYMS

| | |
|---|---|
| CENISS | Social Sector National Information Center |
| CPF | Country Partnership Framework |
| CPSPR | Country Partnership Strategy Progress Report |
| CREE | Electricity Regulatory Agency |
| DEI | Executive Revenue Directorate |
| DeMPA | Debt Management Performance Assessment Tool |
| DPC | Development Policy Credit |
| DPF | Development Policy Financing |
| EU | European Union |
| ENEE | State-Owned Electricity Company |
| FDI | Foreign Direct Investment |
| GDP | Gross Domestic Product |
| HONDUTEL | Honduras' Telecommunications Company |
| ICRR | Implementation Completion and Results Report |
| IDA | International Development Association |
| IDB | Inter-American Development Bank |
| IFC | International Finance Corporation |
| IHNFA | Honduran Institute for Children and Family |
| IHSS | Honduran Institute for Social Security |
| IMF | International Monetary Fund |
| INA | National Agrarian Institute |
| INSEP | Infrastructure and Public Services Secretariat |
| LAC | Latin America and the Caribbean |
| M&E | Monitoring and Evaluation |
| MTDS | Medium Term Debt Strategy |
| ONCAE | National Procurement Office |
| RUP | Single Registry of Participants |
| SACE | Sistema de Administracion de Centros Educactivos |
| SAD | Teachers Administration System |
| SCD | Systematic Country Diagnostic |
| SDR | Special Drawing Rights |
| SEDIS | Secretariat of Social Inclusion and Development |
| SEFIN | Secretariat of Finance |
| SIAFI | Integrated Financial Management System |
| SIARH | Human Resources Management System |
| SIREP | Public Employee Control and Registry System |
| SSA | Shared Service Agreement |
| UDEM | Modernization Unit for the Finance Secretariat |
| VAT | Value Added Tax |

| | |
|---|---|
| Vice President: | Jorge Familiar |
| Country Director: | Humberto López |
| Sector Manager: | Pablo Saavedra |
| Task Team Leader: | Marco Antonio Hernández Oré<br>Susana M. Sánchez |
| ICR Primary Authors | Suzana Abbott and Ewa Korczyc |
| ICR Team Leader | Ewa Korczyc |

**REPUBLIC OF HONDURAS**

**Fiscal Sustainability and Enhanced Social Protection Development Policy Credit**

**CONTENTS**

## A. Basic Information

| | | | |
|---|---|---|---|
| Country: | Honduras | Program Name: | Honduras Fiscal Sustainability and Enhanced Social Protection DPC |
| Program ID: | P151803 | L/C/TF Number(s): | IDA-55770 |
| ICR Date: | 02/28/2017 | ICR Type: | Core ICR |
| Lending Instrument: | DPC | Borrower: | Ministry of Finance (Secretaria de Finanzas) |
| Original Total Commitment: | USD 55.00M | Disbursed Amount: | USD 55.00M |
| Revised Amount: | USD 55.00M | | |

**Implementing Agencies:**
Secretaria de Finanzas
Empresa Nacional de Energia Electrica Honduras
Secretaría de Desarrollo e Inclusión Social

**Cofinanciers and Other External Partners:** N/A

## B. Key Dates

| Process | Date | Process | Original Date | Revised / Actual Date(s) |
|---|---|---|---|---|
| Concept Review: | 10/06/2014 | Effectiveness: | 12/22/2014 | 12/22/2014 |
| Appraisal: | 10/29/2014 | Restructuring(s): | | |
| Approval: | 12/09/2014 | Mid-term Review: | | |
| | | Closing: | 03/01/2016 | 03/01/2016 |

## C. Ratings Summary

### C.1 Performance Rating by ICR

| | |
|---|---|
| Outcomes: | Satisfactory |
| Risk to Development Outcome: | Substantial |
| Bank Performance: | Satisfactory |
| Borrower Performance: | Satisfactory |

### C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)

| Bank | Ratings | Borrower | Ratings |
|---|---|---|---|
| Quality at Entry: | Satisfactory | Government: | Satisfactory |
| Quality of Supervision: | Satisfactory | Implementing Agency/Agencies: | Satisfactory |
| **Overall Bank Performance:** | Satisfactory | **Overall Borrower Performance:** | Satisfactory |

| C.3 Quality at Entry and Implementation Performance Indicators | | | |
|---|---|---|---|
| **Implementation Performance** | **Indicators** | **QAG Assessments (if any)** | **Rating:** |
| Potential Problem Program at any time (Yes/No): | No | Quality at Entry (QEA): | None |
| Problem Program at any time (Yes/No): | No | Quality of Supervision (QSA): | None |
| DO rating before Closing/Inactive status: | | | |

## D. Sector and Theme Codes

| | Original | Actual |
|---|---|---|
| **Major Sector/Sector** | | |
| Public Administration | | |
| Other Public Administration | 50 | 50 |
| Energy and Extractives | | |
| Energy Transmission and Distribution | 17 | 17 |
| Social Protection | | |
| Social Protection | 33 | 33 |

| | | |
|---|---|---|
| **Major Theme/Theme/Sub Theme** | | |
| Economic Policy | | |
| Fiscal Policy | 9 | 9 |
| Fiscal sustainability | 9 | 9 |
| Private Sector Development | | |
| Business Enabling Environment | 17 | 17 |
| Investment and Business Climate | 17 | 17 |
| Public Sector Management | | |
| Public Administration | 17 | 17 |
| Transparency, Accountability and Good Governance | 17 | 17 |
| Public Finance Management | 17 | 17 |
| Debt Management | 9 | 9 |
| Public Expenditure Management | 17 | 17 |
| Social Development and Protection | | |
| Social Protection | 17 | 17 |
| Social Safety Nets | 17 | 17 |
| Social protection delivery systems | 16 | 16 |

| E. Bank Staff | | |
|---|---|---|
| **Positions** | **At ICR** | **At Approval** |
| Vice President: | Jorge Familiar Calderon | Jorge Familiar Calderon |
| Country Director: | J. Humberto Lopez | J. Humberto Lopez |
| Practice Manager/Manager: | Pablo Saavedra | Auguste Tano Kouame |
| Program Team Leader: | Marco Antonio Hernandez Ore | Marco Antonio Hernandez Ore<br>Susana M. Sánchez |
| ICR Team Leader: | Ewa Korczyc | |
| ICR Primary Authors: | Suzana Abbott<br>Ewa Korczyc | |

## F. Results Framework Analysis

### Program Development Objectives (from Project Appraisal Document)

The Program Development Objective of the Development Policy Credit (DPC) is to support the Government of Honduras to (i) strengthen fiscal and financial management; (ii) strengthen the management of the power sector; and (iii) improve the targeting of social protection programs.

**Revised Program Development Objectives**

N/A

**(a) PDO Indicator(s)**

| Indicator | Baseline Value | Original Target Values (from approval documents) | Formally Revised Target Values | Actual Value Achieved at Completion or Target Years |
|---|---|---|---|---|
| **Indicator 1 :** | Coverage of the Public Employee Control and Registry System (SIREP) of public sector staff in the Executive Branch (percent of total public sector staff). | | | |
| Value (quantitative or Qualitative) | 0 percent | 80 percent | | 100 percent |
| Date achieved | 12/31/2013 | 12/31/2015 | | 12/31/2015 |
| Comments (incl. % achievement) | **ACHIEVED (and exceeded).** The result outcome of this indicator exceeded the target. The coverage of public sector staff in the SIREP was 20 percentage points higher than the target value. | | | |

| | | | | |
|---|---|---|---|---|
| **Indicator 2 :** | Annual savings generated by framework agreement purchases vis-a-vis market prices using traditional procurement methods. | | | |
| Value (quantitative or Qualitative) | US$1.3 million | US$2 million | | US$2.6 million |
| Date achieved | 12/31/2013 | 12/31/2015 | | 12/31/2015 |
| Comments (incl. % achievement) | **ACHIEVED (and exceeded).** The result outcome of this indicator exceeded the target by 30 percent. | | | |
| **Indicator 3 :** | The medium-term debt strategy is updated on an annual basis and made available to the public. The strategy includes indicators for interest rate, refinancing, foreign currency risks, and minimum targets for concessional financing in external borrowing. | | | |
| Value (quantitative or Qualitative) | Lack of a medium-term debt management strategy | Debt strategy adopted, updated, and published | | Debt strategy adopted, updated, and published |
| Date achieved | 12/31/2013 | 12/31/2015 | | 12/31/2015 |
| Comments (incl. % achievement) | **ACHIEVED.** Target indicator was achieved. The Government, supported by the World Bank, continued to improve its debt strategy and the functioning of the debt market. In 2015 the Government: (i) elaborated a calendar for debt auctions; (ii) improved the registry of debt titles; (iii) and institutionalized the unique debt codes (ISIN). | | | |
| **Indicator 4 :** | Annual financial deficit of ENEE. | | | |
| Value (quantitative or Qualitative) | 1.8 percent of GDP | 1.5 percent of GDP | | 0.05 percent of GDP |
| Date achieved | 12/31/2013 | 12/31/2015 | | 12/31/2015 |
| Comments (incl. % achievement) | **ACHIEVED (and exceeded).** The result outcome of this indicator exceeded the target with a 6-times larger reduction in the deficit than targeted. The Government continues to make advancements in the energy sector by bringing tariffs closer to efficient cost levels and is working to reduce non-technical losses. | | | |
| **Indicator 5 :** | ENEE will have completed and published externally-audited financial statements for 2014. | | | |
| Value (quantitative or Qualitative) | No | Yes (Partially) | | Audit was completed, but financial |

| | | | | |
|---|---|---|---|---|
| | | | | statements were not published. |
| Date achieved | 12/31/2013 | 12/31/2015 | | 12/31/2015 |
| Comments (incl. % achievement) | **PARTIALLY ACHIEVED**. Progress towards this outcome indicator was partially achieved, as the audits were carried out, but the results were not made published yet. | | | |
| **Indicator 6 :** | Percentage of the vulnerable population with coverage from at least one social assistance program. | | | |
| Value (quantitative or Qualitative) | Extreme Poor: 64.2 percent;<br>Extreme poor women: 48 percent;<br>Extreme poor indigenous and afro-descendants: 18 percent | Extreme Poor: 75 percent;<br>Extreme poor women: 52 percent;<br>Extreme poor indigenous and afro-descendants: 20 percent | | Extreme Poor: 76.1 percent;<br>Extreme poor women: 60 percent;<br>Extreme poor indigenous and afro-descendants: 25.8 percent |
| Date achieved | 12/31/2013 | 12/31/2015 | | 12/31/2015 |
| Comments (incl. % achievement) | **ACHIEVED (and exceeded).** The result outcome of this indicator exceeded the target across all of the vulnerable groups: in the case of the extreme poor, the outcome was 1.1 percentage point higher than target; for extreme poor women, the target was exceeded by 8 percentage points, while for the extreme poor indigenous and afro-descendants by 5.8 percentage points. | | | |
| **Indicator 7 :** | Percentage of social programs included in the Unique Registry of Participants. | | | |
| Value (quantitative or Qualitative) | 22 percent (9 of 40 programs) | 45 percent | | 100 percent |
| Date achieved | 12/31/2013 | 12/31/2015 | | 12/31/2015 |
| Comments (incl. % achievement) | **ACHIEVED (and exceeded)**. The result outcome of this indicator exceeded the target as the Government achieved a universal coverage of the beneficiaries of social programs i.e. 55 percentage points above the target. | | | |

## G. Ratings of Program Performance in ISRs

| No. | Date ISR Archived | DO | IP | Actual Disbursements |
|---|---|---|---|---|

| | | | | (USD millions) |
|---|---|---|---|---|

No ISR were prepared for the Project.

## H. Restructuring

Not Applicable

## 1. Program Context, Development Objectives and Design

1. **Honduras is one of the poorest and most unequal countries in the Latin America and the Caribbean (LAC) region**. Per capita gross national income totaled US$2,240 in 2013, compared to a LAC average of US$9,900. Nearly one in five Hondurans lived on less than US$1.25 per day, the second highest rate in LAC. According to official poverty lines, in 2013 almost 65 percent of Honduran households lived in poverty and 43 percent lived in extreme poverty, including two out of three rural Hondurans. Nearly 80 percent of Hondurans younger than 15 lived in impoverished households and approximately one in four was undernourished, with negative consequences implications for learning abilities and future earning capacity. With a Gini coefficient at 0.57, income inequality has been one of the highest in the region, and had remained at that level for the previous two decades.

2. **This Implementation Completion and Results Report (ICRR) assesses the results of the Fiscal Sustainability and Enhanced Social Protection Development Policy Credit (DPC) to the Republic of Honduras.** The DPC aimed to support the Government of Honduras to: (i) strengthen fiscal and financial management; (ii) strengthen the management of the power sector; and (iii) improve the targeting of social protection programs. A US$55 million single-tranche credit was approved by the World Bank's Board of Executive Directors on December 9, 2014 and fully disbursed upon credit effectiveness on December 22, 2014.

### 1.1 Context at Appraisal

3. **The Fiscal Sustainability and Enhanced Social Protection Development Policy Credit was designed to support the Government's efforts to strengthen macroeconomic and fiscal stability, while protecting the poor and vulnerable.** At the time of the DPC preparation, Honduras was facing large macroeconomic challenges related to high fiscal deficit and public debt levels that were threatening country's macroeconomic stability and aggravated difficult social challenges related to outspread poverty, crime and violence. International experience shows that fiscal consolidation episodes often disproportionately affect the poor and vulnerable segments of the population. The Honduras DPC Program was specifically designed to help the Government deliver the necessary fiscal adjustment, but at the same time mitigate its impact on the poor and vulnerable.

4. **This operation represented an important component of the integrated approach by the international community to support Honduras in achieving macroeconomic stability**. The program was aimed at consolidating public finances, reducing debt, restoring confidence, and building the foundations for economic growth and enhanced opportunities. The World Bank's DPC was part of the coordinated effort of multilateral institutions: the International Monetary Fund, the Inter-American Development Bank (IDB), and the European Commission. A 2014-2017 IMF Stand-By Arrangement/Credit Facility was negotiated in parallel with the DPC, and the IDB was provided additional budget support and technical assistance on a number of policy actions.

5. **At the inception of the DPC, the country has been experiencing multiple economic and social challenges.** Honduras was recovering from the economic slowdown of 2013, which

brought down GDP growth rate to around 2.8 percent in 2013 from 4.1 percent in 2012 (see Table 1). The economic slowdown was triggered by a combination of external and internal factors. On the external front, slowdown in the US economy and among other trade partners constrained the demand on Honduras' exports and put the downward pressure on agricultural prices, including coffee, one of the Honduras prime export goods. In addition, domestically, there was a significant decline in coffee production as a result of the coffee rust leaf disease which affected over 25 percent of the cultivated area; and a contraction in investment due to political uncertainty in a context of elections and a deteriorating economic outlook. In such context, the slowdown in the economic growth exposed long-standing fiscal challenges stemming from election-related spending overruns, inefficiencies of state-owned enterprises, and weak budgetary controls, putting pressure on country's fiscal situation. The fiscal deficit and debt levels increased significantly in 2013 to 7.1 and 43.6 percent of GDP respectively from around 3.7 and 34.8 percent of GDP in 2012, threatening country's macroeconomic stability and ability to fund poverty reduction social programs. Fragile macroeconomic and fiscal outlook, combined with country's high levels of crime and impunity, exacerbated the outward migration, and in particular the phenomenon of unaccompanied child migration triggering a humanitarian crisis.

6. **By the time of the DPC appraisal, Honduras macroeconomic outlook stabilized due to a comprehensive set of reforms, including several supported by the DPC policy dialogue and previous operations, targeting key dimensions of economic management.** With the technical support by the international community, in December 2013, the Honduran Congress approved a comprehensive fiscal reform to reduce the deficit and strengthen public finances, and created a new social program to reduce extreme poverty. The fiscal consolidation agenda addressed important challenges on both the revenue and expenditure sides of the budget. While implementation was still in its early phases at the time of appraisal, the Government had already adopted measures to boost tax revenues, tightened controls over current expenditures by strengthening its oversight of payroll and procurement systems, and embarked upon a reform of the power sector, and some preliminary measures were giving positive signals. Further, the Government had taken measures designed to improve the targeting, monitoring, and evaluation of social protection programs that were expected to enhance the cost-effectiveness of social spending while addressing the needs of the most vulnerable. These reforms were greatly facilitated by the ongoing policy dialogue with the Bank, including in the context of investment operations (see section 2.2).

7. **The DPC was designed to support the Government's reform program that was fully consistent with the World Bank's objectives of reducing poverty.** The program development objectives of the DPC were aligned with Government's strategy, *Plan de Todos para una Vida Mejor* and the World Bank's Country Partnership Strategy Progress Report (CPSPR) for 2012-2015. Specifically, the DPC was aligned with the following two high-level objectives of the Government's strategy: (i) human development, reduction of inequalities and social protection, and (ii) a transparent and modern state. It was also aligned with four strategic objectives endorsed by the new Administration that took office in January 2014: (i) strengthen social protection; (ii) promote sustainable growth; (iii) stabilize the country's macroeconomic situation, and (iv) improve the efficiency and trust in public institutions. The DPC was aligned fully with the CPSPR, specifically with Results Area 2.1 (Pension, Utility and Public Sector Wage Discipline) and Results Area 2.4 (Consolidated and Strengthened Social Protection System) under Strategic

Objective 2, Expanding Opportunities through Reducing Vulnerabilities, and with Results Area 3.1 (Improved Accountability in Public Expenditures) under Strategic Objective 3, Enhancing Good Governance.

**Table 1. Honduras—Key Macroeconomic Indicators 2008-2015**

| | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|
| **Real sector** | | | | | | | | |
| | Annual percentage change, unless otherwise indicated | | | | | | | |
| Real GDP | 4.2 | -2.4 | 3.7 | 3.8 | 4.1 | 2.8 | 3.1 | 3.6 |
| Per Capita GNI (Atlas method) | 1,780 | 1,840 | 1,910 | 2,070 | 2,180 | 2,240 | 2,260 | 2,280 |
| *Contributions:* | | | | | | | | |
| Consumption | 3.0 | 1.2 | 2.7 | 2.7 | 3.7 | 3.5 | 2.1 | 2.8 |
| Investment | 3.2 | -16.4 | 2.0 | 5.3 | -0.4 | -2.2 | 1.3 | 4.6 |
| Net exports | -1.5 | 14.0 | -2.5 | -4.2 | 0.6 | 2.2 | -0.3 | -3.6 |
| Statistical discrepancy | -0.5 | -1.2 | 1.5 | 0.1 | 0.2 | -0.8 | 0.0 | -0.2 |
| CPI (average) | 11.4 | 5.5 | 4.7 | 6.8 | 5.2 | 5.2 | 6.1 | 3.2 |
| **Fiscal Accounts*** | Percent of GDP, unless otherwise indicated | | | | | | | |
| Revenues and grants | 33.2 | 29.8 | 29.7 | 29.7 | 29.4 | 30.5 | 31.6 | 31.6 |
| Current Revenues | 30.9 | 27.8 | 28.1 | 28.4 | 28.2 | 29.3 | 30.6 | 30.6 |
| Of which: Taxes | 16.6 | 14.7 | 15.1 | 15.4 | 15.1 | 15.3 | 16.9 | 17.7 |
| Expenditures | 34.7 | 34.1 | 32.3 | 32.2 | 33.1 | 37.6 | 35.5 | 32.7 |
| Current Expenditures | 27.9 | 28.3 | 27.4 | 27.3 | 28.3 | 31.6 | 29.6 | 27.0 |
| Of which: wages and salaries | 13.0 | 15.0 | 14.7 | 13.4 | 13.2 | 14.2 | 12.8 | 11.9 |
| Capital Expenditures | 6.0 | 5.8 | 5.3 | 5.6 | 5.5 | 6.4 | 6.0 | 5.6 |
| Overall balance | -1.4 | -4.2 | -2.6 | -2.5 | -3.7 | -7.1 | -3.9 | -1.1 |
| **Balance of Payments** | Percent of GDP, unless otherwise indicated | | | | | | | |
| Current account balance | -15.3 | -3.8 | -4.3 | -8.0 | -8.5 | -9.5 | -7.4 | -6.3 |
| Merchandise exports, f.o.b. | 44.6 | 33.1 | 39.5 | 45.1 | 45.2 | 42.2 | 41.4 | 39.1 |
| Merchandise imports, fob | 75.3 | 50.5 | 56.2 | 62.8 | 61.4 | 59.2 | 56.7 | 54.0 |
| Foreign direct investment (m.US$) | 1,007 | 505 | 971 | 1,012 | 851 | 992 | 1,120 | 1,113 |
| Gross reserves (months imports) | 3.1 | 3.8 | 3.9 | 3.3 | 2.9 | 3.6 | 4.0 | 4.3 |
| External public debt | 15.9 | 16.2 | 17.2 | 17.6 | 19.3 | 27.5 | 28.0 | 28.1 |
| Terms of trade (annual % change) | -6.1 | 6.9 | 2.7 | 8.4 | -12.7 | -6.4 | 2.0 | 5.4 |
| **Memorandum items** | | | | | | | | |
| GDP nominal in US$ billion | 13.8 | 14.5 | 15.7 | 17.6 | 18.5 | 18.4 | 19.5 | 20.5 |
| Public sector debt | 21.6 | 25.4 | 30.6 | 32.7 | 34.8 | 43.6 | 44.8 | 45.0 |

Sources: World Bank, IMF, the Government of Honduras
Notes: Data on fiscal accounts refer to non-financial public sector

## 1.2 Original Program Development Objectives (PDO) and Key Indicators

8. The Program Development Objective was to support the Government of Honduras to: (i) strengthen fiscal and financial management; (ii) strengthen the management of the power sector; and (iii) improve the targeting of social protection programs.

The following seven Key Indicators were to measure progress towards expected outcomes:

***Strengthening Fiscal and Financial Management***

- Coverage of the Public Employee Control and Registry System (SIREP) of public sector staff in the Executive Branch (percent of total public sector staff)
- Annual savings generated by framework agreement purchases *vis-à-vis* market prices using traditional procurement methods
- The medium-term debt strategy is updated on an annual basis and made available to the public. The strategy includes specific indicators for interest rate, refinancing, and foreign currency risks as well as minimum targets for concessional financing in external borrowing

***Strengthening the Management of the Power Sector***

- Annual financial deficit of ENEE
- ENEE will have completed and published externally-audited financial statements for 2014

***Improving the Targeting of Social Protection Systems***

- Percentage of the vulnerable population with coverage from at least one social assistance program
- Percentage of social programs included in the Unique Registry of Participants

### 1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and Reasons/Justification

Neither the PDO nor the Key Indicators were revised.

### 1.4 Original Policy Areas Supported by the Program

***Pillar 1: Strengthening Fiscal and Financial Management***

**9. Strengthening fiscal and financial management was aimed at promoting macroeconomic stability and increasing the fiscal space needed for social protection programs.** In the context of Honduras, fiscal consolidation has been the primary policy challenge for many decades, as the country suffered from varying degrees of chronic fiscal instability. The performance of the public finances had mirrored the country's presidential and parliamentary electoral cycle, with long periods of high deficits punctuated by short episodes of fiscal consolidation. In addition, several structural challenges undermined fiscal consolidation. Weak budgetary controls led to spending exceeding projections—often through modifications by Congress--and undermined the budget's credibility. New expenditure items were introduced without a formal review process or project evaluation. Furthermore, the share of non-discretionary expenditures—including public sector salaries and debt service payments—had increased continuously, limiting the resources available for public investment, or countercyclical policies.

**10. This DPC pillar aimed at strengthening fiscal and financial management through supporting reforms aimed at:** (i) tightening controls over payroll expenses, (ii) improving the efficiency of public procurement, and (iii) strengthening public debt management.

***Pillar 2: Strengthening the Management of the Power Sector***

**11. Strengthening the management of the power sector was critical to the fiscal consolidation effort.** The weak performance of the state-owned electricity company (ENEE) was one of the main contributors to the persistent deficit of the public sector. In 2013, it recorded losses equivalent of 1.8 percent of GDP, the highest in the history. ENEE's weak financial position was explained by its below-cost tariff structure, subsidies, and high technical losses (e.g., arising from poor infrastructure) and non-technical losses (e.g., arising from weak commercial management, theft and fraud).

**12. Tackling inefficiencies and reinforcing good management practices in the power sector was aimed to promote macroeconomic stability and increase fiscal space to fund the much needed social protection programs** This was to be achieved through measures aimed at reducing the electricity subsidy and supporting implementation of the Electricity Law, which, inter alia, was aimed at improving the performance of ENEE's commercial and financial management practices through restructuring it into a holding company with subsidiaries for generation, transmission, and distribution in order to improve accountability, cost efficiency, and reduce cross subsidies.

***Pillar 3: Improving the Efficiency of Social Protection Systems***

**13. Given the high and persistent poverty rates, the necessary fiscal adjustment had to be designed to protect the poor and the vulnerable.** At 15 percent of GDP in 2013, Honduras' social spending was high by regional standards. Nonetheless, there were serious challenges related to its efficiency, as evidenced by relatively high inclusion and exclusion errors. Furthermore, the economic slowdown in 2013 and the increased fiscal instability were further contributing to the rise in poverty, as the poorest are the least able to respond to adverse macroeconomic shocks. In addition, the Government's limited fiscal space impeded the expansion of effective, targeted social programs, such as the flagship conditional cash program *Bono Vida Mejor*.

**14. Improving the efficiency of social protection systems in the context of the ongoing fiscal consolidation was geared to allowing the Government to further increase the coverage of *Bono Vida Mejor*.** This was to be achieved through the adoption of a new targeting formula for social programs to eliminate errors of inclusion and reduce errors of exclusion, and through the consolidation of the registry of beneficiaries of social programs in a Single Registry of Participants (RUP).

**1.5 Revised Policy Areas**

The policy areas remained unchanged throughout the program.

### 1.6 Other significant changes

The policy areas remained unchanged.

## 2. Key Factors Affecting Implementation and Outcomes

### 2.1 Program Performance

15. The Program was supported by a stand-alone, single-tranche Development Policy Credit, disbursed upon effectiveness, in the total amount of US$55 million. All required Prior Actions were completed prior to the operation's approval (**Table 2**).

**Table 2. Prior Actions for the DPC**

| Prior Action | Status |
|---|---|
| ***Pillar 1: Strengthening Fiscal and Financial Management*** | |
| The Government: (a) created a Public Administration Reform Commission; (b) made mandatory and operationalized a register of personnel for the Secretariat of Finance, DEI, HONDUTEL, IHSS, and INA in SEFIN's SIREP; and (c) published a summary of the database of the registry of personnel on SEFIN's website with data as of October 15, 2014. | Completed |
| The Government has: (a) enacted an Electronic Procurement Law, which regulates the use of framework agreements, shared purchases and inverse auctions; (b) published the regulations related to the Electronic Procurement Law in the Official Gazette; and (c) signed a Shared Services Agreement, dated October 10, 2014, for the provision of information technology support in the administration of the *Honducompras* platform, through the Presidential Unit for Transparency, Modernization and State Reform and the Modernization unit of SEFIN (UDEM). | Completed |
| The Government, through SEFIN, has: (a) approved and published a medium-term debt management strategy; and (b) submitted this strategy to Congress for information. | Completed |
| ***Pillar 2: Strengthening the Management of the Power Sector*** | |
| The Government has implemented measures to reduce the electricity subsidy and improve governance including: (a) eliminating the direct electricity subsidy for residential customers consuming more than 75 kWh per month; (b) separating distribution, transmission and generation activities, and creating a distribution subsidiary company; (c) starting the implementation of ENEE's restructuring by creating an interim Planning in Distribution Engineering Unit and an interim Planning and Commercial Management Unit within ENEE; and (d) implementing a national Integrated Commercial Management System in ENEE. | Completed |
| ***Pillar 3: Improving the Efficiency of Social Protection Systems*** | |
| The Government, through SEDIS, has approved a new targeting formula for social programs, including *Bono Vida Mejor*, which identifies beneficiaries using a model that predicts rural and urban extreme poverty. | Completed |
| The Government, through SEDIS, has mandated the use of the Unique Registry of Participants (RUP) under the Social Sector Information Center (CENISS) to identify beneficiaries of social assistance programs. | Completed |

## 2.2 Major Factors Affecting Implementation

16. **The overall implementation of the DPC was satisfactory, with the Government committed to the reform program, and most factors positively affected program implementation.** Most factors were conducive to the DPC implementation. These included continued strong ownership on the part of the Government, the sustained complementarity of assistance among donors, both during preparation and throughout the implementation, including complementarity of the DPC with other operations in the World Bank's Honduras portfolio, and the strong analytical underpinnings supporting the Government's fiscal reform agenda,. Nonetheless, there were also factors that negatively affected the implementation of the program. Limited institutional capacity, especially in the energy sector[1] affected the Government's ability to implement reforms**.** In particular, the new Electricity Law entailed a significant reorganization of the legal and institutional framework of the electricity sector, which was only partially achieved. While the power sector reforms aimed to improve institutional quality in the long run, in the short term, the technical capacity constraints resulted in slower than expected implementation.

17. **The fiscal reform program, and its objectives, have relied on strong government ownership from the earliest phase of the DPC preparation.** With the fiscal situation deteriorating rapidly in 2013, the Government prioritized fiscal reform, with Congress approving the reform package in December 2013. Government's commitment to the reform program and its continued leadership was also confirmed in the strong policy content of the follow-on Development Policy Financing by the World Bank (see section 2.4) and the successful implementation of the Third and Forth Review of the IMF's Program.

18. **The Government's program represented a coordinated engagement with Honduras' development partners.** Strong reform momentum in late 2013 and early 2014 and the gradual improvement in the macroeconomic outlook opened possibilities for the international community to support reform process in Honduras. As a result, the World Bank, the IMF and the IDB began working in close cooperation to put together a coordinated and complementary program of support to the Government's reforms. An IMF Stand-By Arrangement/Credit Facility for the period 2014-2017 was negotiated in parallel with the DPC and signed in December 2014, and a US$130 million IDB budget support operation focusing on the power sector was approved also in December 2014[2]. In addition to these operations, all three institutions have worked in close coordination to provide technical and advisory services supporting the Government in the implementation of the Program's policy actions.

19. **The DPC was also part of an integrated program of World Bank lending assistance, also supported by investment operations.** The now closed Power Efficiency Enhancement Project (P104034) was supporting actions to improve ENEE's operational and financial performance. As a result of the project's support, ENEE reduced its technical and commercial losses. The project also supported the power sector's sustainability and fiscal stability through,

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[1] The DPC program document also recognized political and governance risks stemming from political disagreement or legislative gridlock and fiduciary risks, but these risks did not materialize.

[2] Inter-American Development Bank, Programmatic Support to the Power Sector Reforms Agenda, HO-L1070. http://www.iadb.org/en/projects/project-description-title,1303.html?id=HO-L1070

inter alia, installing information systems and tools to inform decision making, creating a dedicated unit to fight fraud and theft among the highest consumers, and empowering ENEE to issue financial statements based on consistent data collection and information systems.[3] The IFC was providing technical advisory services on improving ENEE's operations, with a mandate to promote private sector participation in the power sector. Finally, the ongoing Social Protection Project (P115592), co-financed with the IDB, was supporting the *Bono Vida Mejor* program, focusing on coverage and institutional functions. This project, expected to close in December 2017, has been making important progress on improving the targeting and coverage, revising benefit levels and eligibility rules, testing alternative payment mechanisms, and introducing payment lists linked to the single registry and grievance and complaints mechanisms. These achievements further contribute to the sustainability of the Program and overall financial sustainability of the country.[4]

20. **The Government's fiscal program and the DPC's design were supported by strong analytical underpinnings.** Because of its central importance in Honduras' development trajectory, fiscal sustainability had been a constant theme in the World Bank's dialogue with the Government. Even before the new Administration came to office, the World Bank had been conducting several analytical studies to support fiscal reform, not only in terms of promoting macroeconomic stability, but also allowing expansion of social programs targeted at the poorest. The World Bank studies that helped inform the design of the Government's fiscal reform program, and of the DPC, are presented in Annex 4.

21. **While the analytical activities supported the policy dialogue that led to design of the fiscal reform program, several additional analytical and strategic activities carried out after approval of the DPC supported an ongoing dialogue throughout the program's implementation.** These included: (i) an assessment of social spending for Honduras, that analyzed the fiscal sustainability and effectiveness of social programs, providing recommendations for the short- and medium-terms; (ii) the Honduras Economic DNA - Maintaining Commitment, (iii) the Systematic Country Diagnostic (SCD), "Honduras, Unlocking Economic Potential for Greater Opportunities"[5] and (iv) the World Bank Group Country Partnership Framework for FY16-FY20[6].

## 2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

22. The Program's Development Objectives were clear and concise, and the three pillars and the respective Key Indicators under each of the pillars very well aligned with each of the three objectives.

### (a) Design

[3] World Bank, Implementation Completion and Results Report, Honduras Power Sector Efficiency Enhancement Project (P104034), Report No. ICR3594 dated September 3, 2015.
[4] World Bank, Project Paper on a Proposed Additional Credit and Restructuring, Honduras Social Protection Project, Report No. PAD1245-HN dated February 26, 2015.
[5] Hernandez Ore, Marco Antonio, Liliana D. Sousa, and Humberto Lopez, 2016. "Honduras: Unlocking Economic Potential for Greater Opportunities." Systematic Country Diagnostic. World Bank, Washington, D.C. License: Creative Commons Attribution CC BY 3.0 IGO.
[6] World Bank, Country Partnership Framework for the Republic of Honduras for the Period FY16-FY20, Report No. 98367-HN dated November 13, 2015.

23. The Program Document clearly described the pillars, prior actions, expected results, and indicators and these were well aligned to the PDO. Overall, the indicators were well-selected, measureable, and clearly attributable to the prior actions, and all of the indicators had identified baselines and end targets. Although in the case of electricity sector (indicator 4: annual financial deficit of ENEE), the indicator might have been too broadly defined[7]. The DPC chose the least number of indicators capturing key policy dimensions being assessed, in light of country needs and available data. The indicators were largely based on publically-available data, although some of them (e.g., in the area of wage bill management and social programs) required an additional data collection effort on the part of the Government.

Specifically:

- Under the first Objective: *Strengthening Fiscal and Financial Management,* the indicators covered both improvements in the fiscal stance, especially with regards to wage bill expenditures and well as savings generated from reducing expenses on goods and services, as well and improvements in the financial management (i.e. the institutionalization of the medium-term debt strategy);
- Under the second Objective: *Strengthening the Management of the Power Sector,* the indicators aimed to measure the fiscal impact of the reformed tariff structure (annual financial deficit of ENEE) and improvements to the institutional framework via enhanced transparency (externally audited and publically available financial statements)
- Under the third objective: *Improving the Targeting of Social Protection Systems* the indicators covered both the expansion of social transfer programs (i.e., percentage of the vulnerable population with coverage from at least one social assistance program) as well as the capacity of institutions for targeting (i.e., the inclusion of social programs participants in the Unique Registry of Participants).

24. The Program was prepared in close cooperation with the IMF, the IDB and the EU as a coordinated effort to help close the financing gap and support the implementation of structural reforms. The teams from each of these institutions coordinated internally and with the Government in the design of the policy matrix to support complementary efforts and support the process of institutionalizing the monitoring and evaluation arrangements in the public sector.

**(b) Implementation**

25. Monitoring was carried out through an ongoing and continuous dialogue with the Government, jointly with the IMF, the IDB and the EU that were also monitoring their respective operations in parallel. On the World Bank's side, this dialogue was supported by complementary

[7] ENEE's financial deficit is affected by multiple factors that go beyond the DPC supported reform Program. For example, in 2016 ENEE's deficit expanded due to the cost of incentives granted to the producers of electricity from renewable sources, and despite the reform of the tariff scheme. According to the preliminary information, in November 2016, the financial deficit of ENEE amounted to 0.54 percent of GDP (i.e. 0.5 percent of GDP increase as compared to 2015, and still significantly below the Program target value). With respect to this outcome indicator, the ICR notes that it was difficult to find an indicator that could reflect the complexities of the supported reform agenda.

investment projects (Section 2.2), hands-on technical assistance, analytical activities. On the Government's side, SEFIN was responsible for the Program's implementation and the monitoring, coordinating with other Government ministries and agencies involved in its implementation, in particular, SEDIS and ENEE. Together with SEFIN, these institutions were responsible for collecting the necessary data to assess implementation progress and results, and provide this data to the World Bank.

**(c) Utilization**

26. The DPC promoted and supported the use of M&E arrangements and respective systems in several areas, including, inter alia, in the areas of: public sector employment and wages, public procurement, public debt management, ENEE's technical and commercial losses, and social assistance. Regular monitoring and data collection activities under the DPC led to discussions with the Government on the implementation of reforms and their results. The application of systems put in place under the Program have been of utmost importance in the achievement of the Program's results, and especially in the success of the Government's fiscal reform objectives.

### 2.4 Expected Next Phase/Follow-up Operation

**27. While the DPC Program focused on supporting the Government's efforts to ensure macroeconomic stabilization, the subsequent operation, in addition to promoting fiscal sustainability, was aimed at improving competitiveness to boost economic growth.** Continued World Bank support to Honduras' fiscal reform efforts was provided under the First Fiscal Sustainability and Enhanced Competitiveness Development Policy Financing (DPF) in the amount of US$50 million, the first in a series of two programmatic operations, approved on December 15, 2015.[8] The programmatic series aimed to continue to support the Government's efforts in strengthening institutional arrangements to support fiscal sustainability through actions aimed at improving: (i) fiscal and financial management; (ii) energy subsidies and quasi-fiscal deficits; and (iii) the targeting and transparency of social spending. The complementarities with the DPC program are presented in Annex 5. The new series of DPF also aimed to support the Government's efforts in enhancing the regulatory framework to promote competitiveness by: (i) improving the regulatory framework to foster competition; and (ii) improving trade facilitation

## 3. Assessment of Outcomes

### 3.1 Relevance of Objectives, Design and Implementation

**Overall Rating: *Substantial/Satisfactory***

**(a) Relevance of Objectives: *Substantial/Satisfactory***

**28. The objectives of the Program remain highly relevant to Honduras.** The objectives of the DPC continue to be aligned with the Government's *2014-2018 Plan de Todos para una Vida*

[8] World Bank, Program Document, First Fiscal Sustainability and Enhanced Competitiveness Development Policy Financing, Report No. 99600-HN, dated November 13, 2015.

*Mejor*, and with the new Country Partnership Framework (CPF) for the period FY16-FY20 that was considered by the World Bank's Board of Directors on December 15, 2015. The CPF is supporting the Government's efforts to foster social inclusion, while improving conditions for growth and reducing vulnerabilities to enhance resilience. Specifically, the DPC supports the CPF's first objective, Expand Coverage of Social Programs, and the CPF's second and fourth objectives, Improve Reliability of Key Infrastructure and Strengthen the Regulatory Framework and Institutional Capacity, respectively. The relevance of the DPC objectives is also confirmed in the design of the subsequent operation which builds on the areas supported by the DPC (see section 2.4).

**29. The DPC objectives addressed key development challenges in Honduras identified in the recent SCD.** The SCD identifies persistent fiscal instability and macro-economic imbalances as a key constraint to growth that is particularly negative in terms of its impact on the Government's ability to sustain (and even not revert) on social gains. It highlights that "promoting fiscal sustainability is perhaps the most critical objective to reigniting economic growth over the medium term." Although the Government's fiscal reform program, including financial management reforms, supported by the IMF, the IDB and the World Bank, has already led to very promising results (Section 3.2), the key now is to sustain the reform momentum. The Government needs to continue to move forward with the fiscal consolidation and prudent fiscal management in order to produce tangible results that will support sustainable growth and the expansion of targeted social protection programs. Fiscal consolidation will require additional reforms that enhance public financial management, including in the state-owned enterprises, and rebalance expenditures from current spending to capital spending. In particular, continued efforts to strengthen the management and operations of the power sector continue to be highly relevant given the high costs for generation, above-average demand, outdated infrastructure, as well as weak institutions, high energy costs and unreliable services. All these factors remain a significant barrier to growth, and continue to be a drain on fiscal resources. Finally, building upon progress in improving the targeting and expanding the coverage of *Bono Vida Mejor*, in 2013, almost 65 percent of Honduran households were below the poverty line, with 43 percent in extreme poverty. As only 25-30 percent of families in extreme poverty were *Bono Vida Mejor* beneficiaries, the Government has prioritized the expansion of the Bono to 300,000 extreme poor families by 2017, in addition to actions that will further improve the program's targeting and strengthen its impact.

**(b) Relevance of Design: *Substantial/Satisfactory***

**30. The DPC's design incorporated findings of robust analytical work, the outcomes of close donor coordination and lessons learned from previous budget support operations in Honduras.** The DPC was supporting a subset of the Government's broader reform agenda to consolidate public finances, reduce debt, restore confidence and build the foundations for economic growth and enhance opportunities for the most vulnerable. A substantial wealth of analytical work, produced by the World Bank and other institutions (Section 2.2), provided the analytical underpinnings for the policy dialogue with the new administration regarding the design of the fiscal reform agenda. In addition, the close cooperation with the IMF and IDB, both in the policy dialogue and preparation process, resulted in a coordinated program of assistance and policy matrix in support of the Government's agenda in its entirety (Section 2.2). The DPC's policy matrix reflected the areas of the World Bank's focus, and the Prior Actions and Key Indicators selected were appropriate to achieve and to measure the progress on the implementation of the program objectives. Although in its design, the DPC had identified exogenous risk factors such as the possible impact of a potential spike in oil prices on macroeconomic balances, it did not consider the reverse—the impact of a possible drop in oil prices, which in fact materialized. With declining oil prices, ENEE's losses fell, but the expected higher private investments in transmission and distribution have not yet materialized. Finally, the DPC's design relied on the lessons learnt from earlier budget support operations in Honduras. In particular, given the unfavorable track record of past operations related to the lack of Government's ownership and support for policy reforms over time and across political spectrum, especially in the fiscal area, the DPC was designed as a stand-alone, single tranche operation. While such decision in retrospect might seem conservative, the earlier experiences of DPCs suggest that this was an appropriate approach.

**(c) Relevance of Implementation: *Substantial/Satisfactory***

31. **The DPC's implementation arrangements were and continue to be relevant.** SEFIN was the executing agency given its overall responsibility for fiscal policy and management, and coordinated with other ministries and agencies involved with the Program's implementation, in particular SEDIS and ENEE. Sustained dialogue and cooperation with the IMF and IDB, and the process for preparation of the new budget support operation, the SCD, and the CPF, provided for continued monitoring and technical and advisory support for implementation.

### 3.2 Achievement of Program Development Objectives

**Overall Rating: *Satisfactory***

32. The Program's Development Objectives of the DPC to strengthen fiscal and financial management; strengthen the management of the power sector; and improve the targeting of social protection programs were achieved as evidenced by the progress on key indicators as well as Government's reform momentum across the DPC pillars. Substantial progress was made in implementing reforms in each of these areas. Of the DPC's seven results indicators, five were exceeded with wide margins, one was achieved, and one was partially achieved.

**Outcomes of the Government's Reform Program**

**Objective 1: Strengthen Fiscal and Financial Management**

33. Under the first objective, Strengthen Fiscal and Financial Management, the three indicators either achieved or exceeded its expected targets. As a result, performance towards this objective is rated **Satisfactory.**

***Outcome Indicator 1: Coverage of the Public Employee Control and Registry System (SIREP) of public sector staff in the Executive Branch (percent of total public sector staff); <u>Baseline</u>: 0 percent; <u>Target</u>: 80 percent by December 31, 2015[9];***

[9] Unless otherwise noted in the Indicators that follow, all targets were to be achieved by December 31, 2015.

34. **With the non-financial public sector wages and salaries equivalent to 14.2 percent of GDP in 2013, curtailing the public sector wage bill was at the center of the Government's efforts to reduce the fiscal deficit.** Building upon earlier efforts to control wages in the education sector (about 50 percent of the Government's payroll) initially by registering staff data on the web-based Teachers' Administration System (SACE), the Government began implementing a medium-term agenda to reduce its wage bill across other units as well. The Public Administration Reform Commission, created in June 2014 and chaired by the Ministry of Government Coordination, established a roadmap to reduce wage expenditures with clear implementation deadlines in three phases: i) creation of a registry of staff to detect ghost staff; (ii) carrying out of payroll audits to identify redundant staff positions; and (iii) implementation of a functional review to increase the efficiency of the target institutions. The DPC supported the first phase of this process through the creation of a registry of workers in prioritized institutions (SEFIN, the Executive Revenue Directorate-DEI, HONDUTEL, IHSS and the National Agrarian Institute) in SEFIN's Public Employee Control and Register system (SIREP). A first public employment census was completed in 2014 and as of December 31, 2015, 100 percent of public sector staff in the Executive Branch had been registered in a centralized system (SIREP) integrated with the automated payroll system. Through the ministerial decision from May 2016 (Decree PCM-021-2016), the Government decided to keep the regular updates of the census on a monthly basis, and now SIREP is routinely cross-referenced with monthly payment data from the Integrated Financial Management System (SIAFI) and the Integrated Human Resources System to validate benefit payments and control against ghost workers. The Education Secretariat has continued to use its SACE that was developed to capture teacher specific information, but that system, together with SIREP will interact with the SIAFI to help strengthen payment monitoring and evaluation systems. To contain the impact of wages on the deficit, the Government instituted a freeze on nominal wages in 2014 and 2015, and canceled 60 percent of the unfilled public sector posts available at the end of 2013. The non-financial public sector wage bill declined by 2.3 percent of GDP from 2013 to 2015. **Progress towards this Outcome Indicator was exceeded.**

***Outcome Indicator 2: Annual savings generated by framework agreement purchases vis-à-vis market prices using traditional procurement methods; Baseline: US$1.3 million; Target: US$2 million;***

35. **Improvements in Honduras' procurement capacity, inter alia, by modernizing systems and promoting more efficient methods were designed to generate savings while fostering accountability, transparency and efficiency.** The DPC supported the enactment of the Procurement Law in August 2014 that allowed three procurement methods using the electronic catalogue through the system platform that supports the procurement processes (*Honducompras)*: framework agreements, shared purchases, and inverse auctions. It also strengthened the role of the National Procurement Office (ONCAE), the normative agency responsible for procurement policy that was transferred from SEFIN to the then newly created Presidential Directorate of Transparency and State Modernization. A 2013 pilot program of framework agreements for five types of products in 42 institutions had resulted in savings of nearly US$1.3 million during the year. Since that time, the number of products in the electronic catalogue has increased to 5,000 and all institutions utilizing SIAFI have been required to use the electronic procurement catalogue. For the year ending December 31, 2015, the annual savings generated by framework agreement

purchases vis-à-vis market prices using traditional procurement methods totaled US$2.6 million. To ensure that ONCAE can focus on strategic policy issues and that procurements count upon the availability of budgetary resources, the Government promoted the interconnection between *Honducompras* and SIAFI, and signed a Shared Services Agreement between the Modernization Unit of SEFIN and ONCAE in October 2014, to eliminate duplicate procurement functions and provide ONCAE with information technology services, including hosting and maintenance of *Honducompras*. **Progress towards this Outcome Indicator was exceeded.**

***Outcome Indicator 3: The medium-term debt strategy is updated on an annual basis and made available to the public. The strategy includes specific indicators for interest rate, refinancing, and foreign currency risks as well as minimum targets for concessional financing in external borrowing; Baseline: Lack of a medium-term debt management strategy; Target: Debt strategy adopted, updated and published;***

**36. The lack of fiscal and debt policy frameworks had resulted in persistent deficits, pro-cyclical economic policies, rising debt levels and a gradual loss of policy credibility.** In addition, the weak institutional framework for debt management had resulted in the further weakening in Honduras' fiscal position. With the support under the DPC, the Government developed and adopted a rolling, three year, medium-term debt strategy (MTDS) that considered financing needs in accordance with fiscal and monetary policies and (i) outlined a public debt structure taking into account the composition, maturity, currency and interest rates of domestic and external debts as well as projections for macroeconomic and other variables; and (ii) specified risk management parameters, including scenario analyses for key variables. The Government has issued the MTDS annually, first for 2015-2018 and then for 2016-2019, and has made both of these publicly available on SEFIN's website.[10] The yields and maturity for new domestic bonds have been improving since 2014: yields fell from a peak of 10 percent in August 2013 to 6.5 percent in June 2015, closer to the yields of other Central American countries. The Government has exchanged short-term maturity bonds (due in 2020) with a new bond carrying longer maturities, thereby improving the risk profile of its debt. **Progress towards this Outcome Indicator was achieved.**

**Objective 2: Strengthen the Management of the Power Sector**

37. Under the second objective, Strengthen the Management of the Power Sector, one indicator exceeded its expected target, and one was partially achieved. Performance towards this objective is rated **Moderately Satisfactory.**

***Outcome Indicator 4: Annual financial deficit of ENEE; Baseline: 1.8 percent of GDP; Target: 1.5 percent of GDP;***

**38. Addressing power sector inefficiencies that led to high fiscal cost was a priority for the Government.** ENEE's high losses in distribution and transmission, below-cost electricity tariffs, high subsidies, and weak management practices had led to a deterioration in its financial

[10] http://www.sefin.gob.hn.

position and contributed to elevated fiscal deficit. The new Electricity Law adopted in May 2014 aimed to promote the sector's long-term sustainability and: (i) defined clear sector policy responsibilities under the *Secretaría de Industria y Comercio*; (ii) created a new Electricity Regulatory Commission (CREE) responsible for defining methodologies for establishing tariffs and technical standards as well as overseeing transparency in bidding processes; (iii) allowed private sector participation in transmission and distribution; (iv) established an Independent Market Operator to perform dispatch of generation contracts and guarantee supply adequacy; and (v) restructured ENEE into a holding company with subsidiaries for generation, transmission and distribution in order to improve accountability, cost efficiency, and reduce cross subsidies. In addition, to reduce ENEE's structural deficit, electricity tariffs were increased by 12 percent in October 2014 and further by 9 percent in December 2014. The reduction of the electricity subsidy threshold from 150 kWh to 75 kWh alone is estimated to have reduced the amount of direct electricity subsidies to residential sector by around US$40 million a year[11]. Finally, in 2015 ENEE's wage bill was reduced by 40 percent, resulting in a 0.25 percent of GDP reduction in ENEE's deficit. The implementation of Prior Action 4 combined with a significant decline in oil prices, helped to reduce the deficit of ENEE, which declined from 1.8 percent of GDP in 2013 (the highest in its history) to 0.05 percent of GDP in 2015. **Progress towards this Outcome Indicator was exceeded.** Nonetheless, the reform agenda in the Honduran power sector remains large as the implementation of some of the provisions of the new Electricity Law, especially with regards to the separation of generation, transmission and distribution, requires capacity building and further financial and technical strengthening of ENEE.

***Outcome Indicator 5: ENEE will have completed and published externally-audited financial statements for 2014; <u>Baseline</u>: No; <u>Target</u>: Yes by December 31, 2014.***

**39. Reforming ENEE's management practices was a priority for reducing Government subsidies to the company.** ENEE's management practices lagged behind sector best practices in terms of commercial policy and financial management, and contracts with private contractors for the purchase of generated thermal power was high cost (especially relative to the cost of generating hydro power in ENEE's plant), had short repayment periods, with very high interest on arrears. As a result, in 2013 ENEE's payments due reached an estimated US$237 million, including US$22 million in interest. With the World Bank assistance under the Power Sector Efficiency Enhancement Project, ENEE has put in place an Integrated Management System that allowed it to better manage its operations and inform its managers' of the decision making process, including to issue financial statements based on a consistent data collection and information system to increase transparency. This system has been used to generate ENEE's financial statements that have been audited by external auditors (with assistance provided by the IDB) since 2014. Although the audits have been issued without opinion, ENEE has so far not published them. **Progress towards this Outcome Indicator was partially achieved.**

### Objective 3: Improve the Targeting of Social Protection Programs

40. Under the third objective, Improve the Targeting of Social Protection Programs, both indicators exceeded its expected targets. Performance towards this objective is rated **Satisfactory.**

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[11] Fiscal and Welfare Impacts of Electricity Subsidies in Central America, The World Bank, 2017, forthcoming

***Outcome Indicator 6: Percentage of the vulnerable population with coverage from at least one social assistance program; <u>Baseline</u>: Extreme poor (64.2 percent of participants), Extreme poor women (48 percent of participants), and Extreme poor indigenous and afro-descendants (18 percent of participants); <u>Target</u>: Extreme poor (75 percent of participants), Extreme poor women (52 percent of participants), and Extreme poor indigenous and afro-descendants (20 percent of participants);***

**41. To address Honduras' high poverty rates and weak outcomes in education and health, the Government focused on improving coverage and reducing leakage gaps of its social programs, including *Bono Vida Mejor*.** The *Vida Mejor* strategy, launched in January 2014, created an umbrella framework for social policies and targeting of the extreme poor population. The new Secretariat of Social Inclusion and Development (SEDIS), created as part of that strategy, adjusted the *Bono* targeting model with the aim of reducing large inclusion and exclusion errors—only about 25-30 percent of the extreme poor were *Bono* beneficiaries—in order to prioritize benefits for families living in extreme poverty. For this, the proxy means test was adjusted by changing variables and weights to better predict income-based extreme and moderate poverty using the latest data available (2013 household survey data). The process of incorporation of new families was accompanied with the suspension of families identified as non-poor through an updating of the beneficiaries database, and carrying out of a new registration campaign in identified priorities areas. The coverage of *Bono* was expanded from 270,000 families in extreme poverty in 2014 to about 300,000 families in 2015. As of December 31, 2015, 76.1 percent of the extreme poor, 60 percent of extreme poor women, and 25.8 percent of extreme poor indigenous and afro-descendants were covered by at least one social assistance program. The Government is now prioritizing coverage for all extremely poor households in 141 target municipalities identified as particularly vulnerable due to high poverty, high crime and high outmigration rates. **Progress towards this Outcome Indicator was exceeded.**

***Outcome Indicator 7: Percentage of social programs included in the Unique Registry of Participants; <u>Baseline</u>: 22 percent (9 of 40 programs); <u>Target</u>: 45 percent***

**42. In October 2014 the Government mandated the use of a Single Registry of Participants (RUP) to improve synergies across social programs, avoid duplication of beneficiaries and target better social interventions.** The RUP database was composed of beneficiaries of nine major social programs (including *Bono*) accounting for 22.5 percent of the 40 social programs, with about 1.5 million beneficiaries as of October 2014. By the end of 2015, 100 percent of beneficiaries of all social programs were included in the RUP. **Progress towards this Outcome Indicator was exceeded.**

### 3.3 Justification of Overall Outcome Rating

**Rating: *Satisfactory***

**43. The Honduras DPC provides an example of an effective, timely and well-coordinated assistance of the World Bank.** First, the financial assistance package by the multilaterals, which the DPC was part of, helped to avert a potential fiscal crisis, and through its signaling role, it increased credibility of Government policies, which was crucial for regaining investors' confidence and strengthening growth prospects. Second, as described in Section 3.3, the DPC has also brought about tangible results across the engagement pillars by designing policies to strengthen spending controls, debt management, budget transparency, procurement and payroll systems, power sector management and the targeting of social programs. In addition, the operation has also helped to position the World Bank in the policy dialogue with the Government and other stakeholders on key development priorities for the country and influence the direction of the reforms that were sometimes beyond the scope of the operation. More than the results themselves, which are remarkably impressive, what stands out is the Government's sustained commitment over time to the reform process—something that had been identified as a cause for concern at the time of the Program's preparation.

**44. The results of the Government's reform program across the three DPC Development Objectives have been remarkably positive.**

- **On the First Pillar, within three years in office, the Government has stabilized the economy and made significant progress in institutionalizing fiscal discipline.** Economic performance, with real output growing at 3.6 percent in 2015, exceeded expectations. The public sector deficit dropped to 1.1 percent of GDP in 2015, amounting to an adjustment of 6 percentage points of GDP relative to 2013. This result was explained by a reduction of around 5 percentage points of GDP in spending since 2013 (from a peak of 37.6 percent of GDP in 2013 to 32.7 percent in 2015), mainly through reductions in the wage bill and in the purchase of goods and services (both policy areas supported by the DPC). In addition to important tax policy measures (increases in VAT, fuel taxes, reduction of minimum tax exemption threshold for income tax, etc.) a new tax administration was created in February 2016 with IMF and IDB assistance. As a result, revenues increased from 30.5 percent of GDP in 2013 to 31.6 percent in 2015, mainly on account of higher tax collection. In April 2016, the Congress enacted the Fiscal Responsibility Law aimed at cementing the gains of the fiscal consolidation process, increasing accountability, transparency and sustainability of public finances. The law limits the size of the overall deficit as a share of GDP to 1 percent of GDP, imposes limits to the increase in current spending and defines a transition path to full compliance. The IMF's 2016 Article IV Consultation and Third and Fourth Reviews under the Stand-by Arrangement concluded that most of the performance criteria and all of the indicative targets for end-December 2015 had been met, as had most of the end-June 2016 targets. It also found that "the over performance of the fiscal targets was sizeable---the overall balance for the nonfinancial public sector, the Central Government was met with wide margin". The successful fiscal adjustment effort combined with the Government's commitment to fiscal prudence, increased investors' confidence and allowed Honduras to return to international markets in January 2017 with US$700 million issuance at a record low yield of 6.25 percent.

- **On the Second Pillar, the management of the power sector improved markedly with the adoption of the new Electricity Law.** ENEE's financial situation has improved substantially by the end of 2015, when its deficit declined to around 0.05 percent of GDP from 1.8 percent of GDP in 2013. Nonetheless the progress on some components of the enacted Electricity Law has been slower than expected. Further improvements in the management and financial structure of ENEE is required to reduce the arrears, the excessive non-technical losses and fully implement provisions of the Electricity Law, especially with regards to the *de facto* (rather than only *de jure*) separation of generation, transmission and distribution.

- **On the Third Pillar, the institutional reforms in the area of social programs helped to improve the coverage and targeting of *Bono Vida Mejor* program despite the ongoing fiscal consolidation process.** As shown in section 3.2, efficiency gains from the roll-out of the Unique Registry of Participants and the new targeting formula for *Bono Vida Mejor* helped to expand social programs in a fiscally sustainable way. All outcome indicators in this were reached with comfortable margins.

### 3.4 Overarching Themes, Other Outcomes and Impacts

#### (a) Poverty Impacts, Gender Aspects, and Social Development

**45. The DPC's impacts on poverty and social development were likely positive, especially since one of its objectives and policy areas addressed the targeting of social protection programs directly** (Section 3.2). It is difficult to prove the counterfactual, but the creation of fiscal space made possible through the implementation of the Government's program and through actions supported by the DPC were likely pro-poor as cost-saving measures may have reduced the need to cut spending on social programs targeted at the most vulnerable. Further, improvements in targeting of the *Bono Vida Mejor*, by reducing errors of inclusion, and addressing errors of exclusion by prioritizing the extreme poor only, together with the putting in place of the RUP have undoubtedly led to increased efficiencies within the social protection system, thereby positively impacting those most in need. The *Bono Vida Mejor* program has shown to have positive results: between 2012 and 2013, extreme poverty among beneficiaries fell by 9 percentage point (in a context where it increased nationwide), while primary school enrollment and visits to health centers for children aged 0-3 (the program's conditionalities) both increased.

#### (b) Institutional Change/Strengthening

46. The DPC's objectives and respective Prior Actions supported measures that were mostly related to institutional change and strengthening. In addition, throughout implementation the Government also advanced on other institutional measures, congruent with the DPC's objectives. Progress towards these is summarized in Section 3.2. As development policy financing is not particularly designed to provide hands-on supervision or technical advice, the DPC counted upon technical advisory mechanisms under other ongoing operations (Section 2.2), preparation of a follow-up development policy operation (Section 2.4), and an extensive body of analytical and advisory activities in areas supported by the DPC (Section 2.2). The main beneficiaries of these activities were the Secretariat of Finance, ENEE, and the Secretariat of Social Inclusion and Development.

#### (c) Other Unintended Outcomes and Impacts

NA

## 4. Assessment of Risk to Development Outcome

**Rating: *Substantial***

47. Despite the significant achievements of the DPC and of the Government's Fiscal Reform Program more broadly, Risk to Development Outcome continues to be Substantial. The Government remains fully committed to its program, and continues to implement measures to maintain macroeconomic stability and consolidate its fiscal measures. As described throughout this ICR, most of these measures have been anchored in approved legislation, the latest of which was the recently approved Fiscal Responsibility Law. Macroeconomic prospects are good, barring any unforeseen natural disaster or other exogenous factors. The economy is expected to grow by 3.6 percent in 2016. GDP is expected to slow down to around 3.4 percent in 2017 on the back of heightened global uncertainty. Fiscal performance is expected to remain good: after significant drop to 1.0 percent in 2015, the non-financial public sector deficit is expected to have declined further to around 0.5 percent of GDP in 2016. Although the second Fiscal Sustainability and Enhanced Competitiveness DPF has not yet materialized, the Government has made steady progress in complying with its triggers (Section 2.4). The IMF's 2016 Article IV Consultation and Third and Fourth Reviews under the Standby Arrangement concluded that program performance remains satisfactory. The authorities have already announced that they would seek to open the new Program with the Fund. The main objective of the new arrangement would be to ingrain and safeguard the fiscal gains over the medium-term and support progress in the area of structural reforms. However, the main risk to development outcome relates to the political calendar (Presidential and Congressional elections are due in November 2017) and its impact on the continuity of the Government's fiscal reforms. So far, the program has been implemented by only one Presidential Administration. In the past, Honduras' fiscal problems have surfaced especially during the election and transition periods. If there is political stability, the chances for continuity in fiscal and social policies are strong, albeit pre-election spending, if it were to occur, could derail progress hopefully only temporarily. At the same time, the controversy over a Supreme Court ruling in 2015 that suspended a constitutional ban on re-election may lead to heightened political tensions. In addition, institutional capacity constraints within ENEE as well as complexity of the energy sector reform agenda, led to a slower implementation of the provisions of the new Electricity Law, especially with regards to a separation of generation, distribution and transmission functions. The lack of strong support and leadership to pursue further reforms in this area could reverse some of the fiscal gains achieved during the DPC implementation.

48. In addition, Honduras macroeconomic situation although stabilized and improving markedly from when the DPC was approved, continues to be subject to external risks, including possible terms of trade shocks, a further slowdown in external demand for Honduras' exports, unexpected global volatility and higher borrowing costs transmitted through financial channel and potential natural hazards. The macroeconomic situation is also subject to domestic risks, including those related to the continued limited fiscal space despite significant improvements, high debt and current account deficits and significant currency mismatches that could impact the stability of the financial sector. These in turn can put additional pressure on the expenditures available for supporting social programs. Risks of weak institutional capacity, especially given the multi-sectoral nature of the Government's program, could affect the pace and quality of reforms.

49. While at the closing of the DPC operation, Honduras is still one of the poorest countries in Latin America with high rates of poverty, crime, and violence, the progress achieved since late 2013 has been quite remarkable. Country's macroeconomic and fiscal position is now much stronger, though still fragile, and can be a basis for further advancements across different sectors. The DPC tackled an ambitious set of reforms that are crucial to addressing Honduras "chronic structural challenges" identified by the recent SCD. While a one-off operation cannot solve Honduras multiple development challenges, it seems that a significant progress was achieved across the DPC areas and the regulatory framework for fiscal policy, debt management, energy sector and social protection are visibly stronger than prior to the operation.

## 5. Assessment of Bank and Borrower Performance

### 5.1 Bank Performance

**(a) Bank Performance in Ensuring Quality at Entry**
**Rating: *Satisfactory***

**50. Bank Performance in Ensuring Quality at Entry was Satisfactory**. The design of the operation was appropriate, timely and responded to the country's priorities. Recognizing the importance of addressing fiscal issues both for macroeconomic stability and longer-term growth prospects, the World Bank began with the preparation of several analytical pieces on the subject, including a series of policy notes in preparation for an incoming administration in 2014 (Section 2.2). A solid dialogue that began with the outgoing administration and carried over to the new one, laid the basis for the Government to define its reform program that was fully owned by the Government. During the subsequent period, the World Bank worked with Honduras' international partners, especially the IMF and the IDB to define a program of coordinated support, with each institution preparing assistance packages in the areas most appropriate given their mandate and comparative advantage based on already ongoing operations. The DPC's results framework was clear and well defined, with appropriate linkages between PDO, Prior Actions, and results indicators, and limited to the areas of World Bank support within the overall program. Based on lessons of experience, the choice of a single tranche DPC was appropriate. Finally, risks were well identified, with appropriate mitigation measures defined.

**(b) Quality of Supervision**
**Rating: *Satisfactory***

**51. Bank Performance in the Quality of Supervision was Satisfactory.** As a single tranche DPC, supervision was a continuous process from preparation through program implementation, and preparation of the follow-up operation (Section 2.4). Throughout the DPC's supervision, the World Bank's focus, in coordination with other partners, was not focused only on the operation itself but especially on program implementation more broadly, and on identifying the next step in the sequencing of the Government's reforms. The dialogue was supported by continued analytical and technical advisory services, which resulted in an excellent and fruitful dialogue with the Government, all in coordination with other development partners.

**(c) Justification of Rating for Overall Bank Performance**

**Rating:** ***Satisfactory***

**52. Overall Bank Performance is rated Satisfactory** based on satisfactory ratings for Quality at Entry and Quality of Supervision, and the World Bank's important role not only in the preparation of the DPC itself, but also in working in close coordination with the Government in defining reform priorities, and later working with other partners to harmonize a comprehensive program of assistance in support of those reforms.

**5.2 Borrower Performance**

53. For purposes of this review, Government refers to the Secretariat of Finance, while Implementing Agencies refer to ENEE and SEDIS (the Secretariat of Social Inclusion and Development).

**(a) Government Performance**
**Rating: Satisfactory**

**54. The Government's Performance is rated Satisfactory.** Since the earliest stages, the Government engaged with the World Bank in defining its fiscal reform priorities, and showed strong commitment to the implementation of its program. SEFIN worked closely with the implementing agencies to coordinate the implementation of agreed actions, and to monitor and collect information to assess progress. The Government, under its Honduras' Open Government Action Plan, developed in 2014, carried out a broad consultation process to ensure support for the reforms proposed.

**(b) Implementing Agency or Agencies Performance**
**Rating: Moderately Satisfactory**

**55. ENEE's** performance, although making substantial progress in reforms in the power sector, suffered from capacity constraints while at the same time taking actions to strengthen and enhance the sector's institutional framework. As mentioned in Section 2.2, the power sector reforms aimed to improve institutional quality in the long run, but in the short term, the technical capacity and political economy to implement those reforms resulted in slower than expected implementation. Some of the provisions of the new Electricity Law (*de facto* separation of distribution and transmission functions) are yet to be implemented. Against this background, ENEE's performance is rated *Moderately Satisfactory*.

**56. SEDIS** counterparts worked closely with the World Bank team during the DPC preparation and implementation, especially given the complementarities with the ongoing Social Protection Project. Overall, the implementing agencies were attentive to the agreed actions and policies under the DPC. The key outcome indicators for SEDIS were reached with wide margins. Against this background, SEDIS performance is rated *Satisfactory*.

**(c) Justification of Rating for Overall Borrower Performance**

**Rating:** ***Satisfactory***

**57. Borrower Performance is rated Satisfactory, as out of three entities responsible for Project implementation, two (SEFIN and SEDIS) were rated satisfactory and one (ENEE) was rated moderately satisfactory.**

## 6. Lessons Learned

- Comprehensive reform programs in difficult institutional environments require substantial advisory services and should be accompanied by dedicated funding for TA;
- Strong Government commitment, and the timing of engagement at the start of an administration, can provide an important window of opportunity for frontloading a reform program and producing results that will increase support for the program in the longer-term.
- Coordinated assistance by country's main development partners helped to solidify and consolidate reforms. Enhanced collaboration with multiple stakeholders was anchored in the DPC, allowing for the extensive provision of complementary TA in support of the joint objectives. The excellent coordination among the donors was crucial given Honduras' low institutional capacity.
- Leverage for bold reform program (mobilizing resources as part of the financial package) strengthened the content of the reform agenda, while multi-sectoral approach (DPC and investment loans across DPC pillars) helped to support implementation. The complementarity of the World Bank instruments across the portfolio reinforced each other and provided a basis for the successful implementation of the reform program. In low-income countries, with limited institutional capacity, the World Bank provided an integrated approach – solid amount of analytical work delivered both prior and during the program implementation informed the design of DPC-supported reforms. At the same time, the DPC policy dialogue helped to remove some bottlenecks in the implementation of the ongoing investment projects.

## 7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

**(a) Borrower/Implementing agencies**

No issues were raised by the Borrower/Implementing Agencies

**(b) Co-financiers**

NA

**(c) Other partners and stakeholders**

No issues were raised by other partners and stakeholders

## Annex 1 Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

| Names | Title | Unit | Responsibility/ Specialty |
|---|---|---|---|
| Marco Antonio Hernandez | Senior Economist | GMFDR | TTL |
| Susana Sanchez | Senior Operations Officer | GMFDR | TTL |
| Miguel Angel Saldarriaga | Consultant | GMFDR | Team member |
| Diana Lachy | Program Assistant | GMFDR | Team member |
| Ana Belen Rodriguez Castillo | Operations Analyst | | |
| Patricia Chacon Holt | Program Assistant | | Team member |
| Silvia Gulino | Program Assistant | | Team member |
| Diego R. Dorado Hernandez | Senior Public Sector Socialist | GGO16 | Team member |
| Pablo Guzman | Research Analyst | GGO16 | Team member |
| Pablo Acosta | Senior Economist | GSP02 | Team member |
| Gonzalo Reyes | Senior Social Protection Specialist | GSP04 | Team member |
| Mariano Gonzalez | Senior Energy Specialist | GEE04 | Team member |
| Martin Ochoa | Senior Operations Officer | LCCHN | Team member |
| Ezequiel Miranda | Operations Officer | LCCHN | Team member |
| Liliana D. Sousa | Economist | GPV04 | Team member |
| Mateo Salazar | Consultant | GPV01 | Team member |
| Jose Rezk | Sr Financial Management Specialist | GGO22 | Team member |
| Gabriela Grinsteins | Counsel | LEGLE | Team member |
| Maria Virginia Hormazabal | Finance Officer | WFALA | Team member |
| Koffi Ekouevi | Senior Economist | GEEDR | Peer-Reviewer |
| Christian Gonzalez | Senior Economist | GMFDR | Peer-Reviewer |
| Ana Maria Oviedo | Senior Economist | GSPDR | Peer-Reviewer |
| Oscar Calvo-Gonzalez | Program Leader | LCC2C | |
| Giorgio Valentini | Country Manager, | LCCHN | |
| Auguste Tano Kouame | Practice Manager | GMFDR | |
| Maryanne Sharp | Operations Adviser | LCC2C | |
| Humberto Lopez | Country Director | LCC2C | |

(b) Staff Time and Cost

| Stage | Staff Time and Cost (Bank Budget Only) | |
|---|---|---|
| | No. of staff weeks | USD Thousands (including travel and consultant costs) |
| **Lending** | | |
| **FY2015** | 14.7 | 135.59 |
| **Total:** | 14.7 | |
| **Supervision/ICR** | | |
| **FY2016** | 1.1 | 10.23 |
| **FY2017** | 4.5 | 40.00 |
| **Total:** | 5.6 | 50.23 |

## Annex 2. Summary of Borrower's ICR and/or Comments on Draft ICR

By the time of the ICR submission, the Borrower did not provide the comments.

## Annex 3. List of Supporting Documents

Grinsteins, Gabriela. 2014. Official Documents- Financing Agreement for Credit 5577-HN (Closing Package). Washington, D.C.: World Bank. http://documents.worldbank.org/curated/en/638631468040163145/Official-Documents-Financing-Agreement-for-Credit-5577-HN-Closing-Package

Hernandez Ore, Marco Antonio; Sousa, Liliana Do Couto; Lopez, J. Humberto. 2016. Honduras - Unlocking economic potential for greater opportunities: systematic country diagnostic. Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/519801468196163960/Honduras-Unlocking-economic-potential-for-greater-opportunities-systematic-country-diagnostic

Inter-American Development Bank. 2014. Programmatic Support to the Power Sector Reforms Agenda, HO-L1070. http://www.iadb.org/en/projects/project-description-title,1303.html?id=HO-L1070

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International Monetary Fund. 2016. Honduras: 2016 Article IV Consultation, Third and Fourth Reviews under the Stand-By Arrangement and the Arrangement under the Standby Credit Facility, Country Report No. 16/362

International Monetary Fund. 2016. Honduras: Second Reviews Under the Stand-By Arrangement and the Arrangement under the Standby Credit Facility, Country Report No. 16/4

World Bank, 2015. Program Document, Honduras - First Fiscal Sustainability and Enhanced Competitiveness Development Policy Financing, Report No. 99600-HN, dated November 13, 2015.

World Bank. 2013. Honduras - Country partnership strategy progress report for the period FY2012-2015. Washington D.C.: World Bank. http://documents.worldbank.org/curated/en/334281468040157798/Honduras-Country-partnership-strategy-progress-report-for-the-period-FY2012-2015

World Bank. 2014. Honduras Social Expenditures and Institutional Review. Washington, DC. World Bank. https://openknowledge.worldbank.org/handle/10986/21804 License: CC BY 3.0 IGO.

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World Bank. 2015. Honduras - Country partnership framework for the period FY16 - FY20. Washington, D.C.: World Bank Group. http://documents.worldbank.org/curated/en/431191468179338816/Honduras-Country-partnership-framework-for-the-period-FY16-FY20

World Bank. 2015. Honduras - Power Sector Efficiency Enhancement Project, Implementation Completion and Results Report, Report No. ICR3594

World Bank. 2015. Program Document. Honduras - Social Protection Project: additional financing; Report No. PAD1245-HN

World Bank. 2016. Honduras - Power Sector Efficiency Enhancement Project, Implementation Completion Report Review, Report No. ICRR0020145

## Annex 4. Analytical Underpinnings

| Analytical Work | Focus |
|---|---|
| ***Pillar 1: Enhancing Fiscal and Financial Management*** | |
| Public Expenditure Review (2013) | Analyzes the drivers of rising fiscal deficit, noting how fiscal consolidation remains a challenge to Honduras. It also highlights the role of wages, especially in the education sector, and how improved public financial management practices could enhance fiscal discipline. |
| Managing Fiscal and Public Finance Challenge in Honduras Policy Note (2013) | Highlights that an integral fiscal reform strategy would include the following objectives: expanding the tax base (including elimination of tax exemptions), strengthening budget control, reducing ENEE's deficit, and improving debt management. |
| Debt Management and Performance Assessment (2014) and Reform Plan for Debt Management (2014) | Highlight the importance of adopting a medium-term debt management strategy. |
| Honduras Current Account Assessment (2014) | Analyzes the drivers of the current account deficit, in particular, the linkages between the fiscal deficit and the current account deficit. |
| ***Pillar 2: Strengthening the Management of the Power Sector*** | |
| Towards and Efficient and Sustainable Energy Sector Policy Note (2013) | Explains the role of ENEE as a source of fiscal problems for Honduras. It identifies challenges in the sector, such as ENEE's high technical and commercial losses, large and ineffective subsidies, and an inadequate legal framework. The note identifies a series of measures to reduce commercial losses, including the need for modern information systems. |
| Honduras' Public Expenditure Review (2013) | (See above) |
| ***Pillar 3: Improving the Efficiency of Social Protection System*** | |
| Strengthening Social Protection Systems in Honduras Policy Note (2013) and Honduras' Social Expenditure Review (2015) | Explain the importance of strengthening the targeting of social programs to reduce poverty and promote shared prosperity, and highlight that a single registry would help improve the management of social programs. |
| Poverty and Shared Prosperity in Honduras Policy Note (2013) | Provides an overview of trends and drivers of poverty and shared prosperity in Honduras, highlighting the relevance of social programs. |

## Annex 5. DPF Pillar 1-Strengthening Institutional Arrangements to Support Fiscal Sustainability

| Area of Focus | Prior Action | Expected Outcomes |
|---|---|---|
| Fiscal Planning and transparency | The Government, through SEFIN, has: (a) approved and published on the Ministry's website a medium-term macroeconomic and fiscal framework that is consistent with the medium-term debt management strategy; and (b) submitted this framework to Congress for approval. | To increase fiscal responsibility by aligning spending with income and debt level expectations; improve oversight and control of public spending; increase responsible spending by providing relevant and timely indicators to make well-informed public spending decisions. |
| Energy Subsidies and Quasi-Fiscal Deficits | The Government's National Energy Commission has approved and published an energy tariff structure that reduces the electricity subsidy for residential consumers. | To improve the financial sustainability of EMNEE through a combination of increased cost recovery, a more efficient use of energy, and improved sectoral governance; ultimately, to reduce the fiscal deficit of ENEE |
| Public Debt Management | The Government through SEFIN, has: (a) approved and published on its website a medium-term public debt policy that establishes public debt ceiling recommended targets for state-owned enterprises, and borrowing guidelines for local governments; and (b) approved and published a calendar for debt issuance for 2015 and 2016. | To enhance fiscal oversight and debt accrual controls and to facilitate and encourage the use of competitive auctions for debt purchasing; ultimately expected to lead to an increase in the share of debt accrued through competitive auction mechanisms. |
| Budget Controls | The Government, through SEFIN, has: (a) created a budgeting module in the Integrated Financial Management System (SIAFI-GES) that specifies budget ceilings consistent with the medium-term macroeconomic and fiscal framework; and (b) submitted to Congress for approval the 2016 Budget Bill of Law that specifies processes for registering public trust funds in the budget (*Fideicomisos*) | Approximately 88 central government institutions to implement the budget module in SIAFI-GES consistent with MTFF; together with measures in the 2016 Budget Bill of Law, and institutional functional reviews, expected to improve payroll controls. |
| Targeting and Transparency of Social Spending | The Government, through SEDIS, has: (a) expanded the coverage of the *Bono Vida Mejor* conditional cash transfer program to children attending 7th to 9th grade of lower secondary education; and (b) approved a methodology to prioritize the coverage of the | To increase the fiscal sustainability of the Platform Vida Mejor while maximizing its expected impact on poverty by targeting coverage fo the most vulnerable; by increasing coverage to older children, the bono aims to address high dropout rates in secondary school; ultimately, to |

| | | |
|---|---|---|
| | Platform *Vida Mejor* in 141 municipalities most affected by poverty, vulnerability, violence and migration | increase the number of children living in extreme poverty while maintaining constant the CCT budget as a percentage of GDP. |
| Transparency and Accessibility of Census and Household Survey Information | INE has: (a) published the full documentation and metadata of the 2013 Population Census; and (b) published the tabulations of the EPHPM and the 2013 Population Census on its website. | To help identify, characterize and monitor poverty and other social welfare indicators more effectively |