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Report No. 98367-HN

**INTERNATIONAL DEVELOPMENT ASSOCIATION
INTERNATIONAL FINANCE CORPORATION
AND MULTILATERAL INVESTMENT GUARANTEE AGENCY
COUNTRY PARTNERSHIP FRAMEWORK
FOR
THE REPUBLIC OF HONDURAS
FOR THE PERIOD FY16-FY20**

November 13, 2015

**Central America Country Unit
Latin America and the Caribbean Region
The International Finance Corporation
Multilateral Investment Guarantee Agency**

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**The date of the last Progress Report on the Country Partnership Strategy FY2012-2015
was June 2014 (Report No. 76352-HN)**

CURRENCY EQUIVALENTS

(Exchange rate effective as of November 13, 2015)

HNL 22.14 = US\$1.00

FISCAL YEAR

January 1 to December 31

ABBREVIATIONS AND ACRONYMS

AECID	Spanish Agency for Cooperation and Development
CABEI	Central American Bank for Economic Integration
CAFTA	Central American Free Trade Agreement
CCT	Conditional Cash Transfer
CNBS	National Commission of Banks and Securities
COMRURAL	Rural Competitiveness Project
CPF	Country Partnership Framework
DPF	Development Policy Financing
DRM	Disaster Risk Management
ENEE	National Electric Power Company
FDI	Foreign Direct Investment
FY	Fiscal Year
GAFSP	Global Agriculture and Food Security Program
GDP	Gross Domestic Product
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDB	Inter-American Development Bank
IFC	International Finance Corporation
IMF	International Monetary Fund
LAC	Latin America and the Caribbean
MIGA	Multilateral Investment Guarantee Agency
OABI	Administrative Office of the Seized Assets
PPP	Public Private Partnerships
RUP	Unique Registry of Participants
SCD	Systematic Country Diagnostic
SDR	Special Drawing Rights
SME	Small and Medium Enterprises
UNCAC	United Nations Convention on Anti-Corruption
USAID	United States Agency for International Development
WBG	World Bank Group

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I. INTRODUCTION

1. **Honduras' recent economic performance has been positive, especially taking into account the global economic context.** Real Gross Domestic Product (GDP) growth accelerated from 2.8 percent in 2013 to 3.1 percent in 2014 and 3.6 percent in the first half of 2015. Growth has been supported by improved terms of trade, higher remittance inflows and export demand driven by the on-going recovery of the United States (US), and improved investor confidence. While growth has not reached pre-crisis rates (5.9 percent in 2003-2007) or those seen in post-crisis recovery periods (3.9 percent in 2010-2012), it is beginning to experience a moderate recovery. The economy suffered a number of shocks during 2013, including: (i) weaker growth of trade partners; (ii) a fall in coffee production, the country's main export, due to the leaf rust disease that affected over 25 percent of the cultivated area, coupled with lower coffee prices; and (iii) a contraction in investment due to the deteriorating fiscal outlook and political uncertainty in the context of national elections that took place in 2013.
2. **Despite this positive performance, Honduras' development challenges are many, and of great complexity.** Nearly one in five Hondurans lives on less than US\$1.25 per day, the second highest rate in Latin America and the Caribbean (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. While LAC has moved towards becoming a middle class region, Honduras' middle class has not grown over the past decade and remains one of the smallest in the region. Between 2003 and 2007, when real GDP grew by 6 percent on average, new job opportunities led to a reduction in both poverty and extreme poverty. However, following the 2009 political and economic crisis, when real GDP fell by 2.4 percent, a slow and uneven growth recovery led to a three-year increase in poverty. By 2013, poverty rates had returned to the levels seen in 2001.
3. **The country's high levels of poverty result from a combination of factors.** Sustained low growth is a critical factor. Over the 1960-2014 period, the 1.2 percent average per capita income growth in Honduras was well below the 3.1 percent in the Low and Middle Income Countries group. In 2014, the country's per capita income of just US\$2,300 was the third lowest in LAC. The problem of low per capita income levels is compounded by high levels of income inequality (Honduras has the second highest Gini coefficient among the LAC countries for which harmonized data is available), and high vulnerability to shocks (both economic and environmental), resulting in highly volatile growth rates.
4. **The recently concluded Systematic Country Diagnostic (SCD), *Honduras: Unlocking Economic Potential for Greater Opportunities*, identifies the need to tackle crime and violence as well as the challenges that emerge from high migration and remittances flows as key policy priority areas to make progress on eliminating poverty and boosting shared prosperity.** In large part due to its strategic location for drug traffickers, Honduras has some of the highest rates of crime and violence in the world (66 homicides per 100,000 people in 2014), which has wide implications for quality of life and business growth potential. Furthermore, the country faces high emigration rates, with almost a million Hondurans living outside of the country. In turn, emigrants send about 17 percent of GDP in remittances (2013), the highest rate in Central America. Remittances have been an important source of poverty reduction and income for the population, but also impact labor supply dynamics (through high reservation wages) and the real effective

exchange rate (creating Dutch disease type of effects), negatively affecting the country's competitiveness.

5. The SCD also identifies development constraints arising from the low quality of the country's institutions. Different institutional dimensions have affected Honduras' economic performance, related to: (i) the rule of law; (ii) the state's capacity to enforce the rule of law, affecting the country's ability to effectively fight crime and violence; (iii) an accountability framework, resulting in a high correlation between the political cycle and the implementation of expansionary policies that, in the past, has led to severe macroeconomic instability; and (iv) limited administrative capacity to enact rules and implement policy decisions, affecting the capacity of the state to advance a development agenda.

6. The difficulties of dealing with the country's high crime rates, high migration and remittances flows, and institutional quality are made even more complex when development dynamics are taken into account. As discussed in the SCD, Honduras may be trapped in a low level equilibrium where high crime and low growth, high migration and remittances flows and low growth, and institutional quality challenges and low development outcomes reinforce each other, creating vicious cycles from which it is difficult to escape. For this reason, the SCD also concludes that strategies designed to escape the low level equilibrium will need to: (i) ensure policies are coordinated along different fronts as otherwise the self-reinforcing nature of the vicious cycles could prevent the country from taking off; (ii) include the appropriate levers to break each of the different cycles; (iii) articulate programs that result in a "big push" to alter development dynamics; and (iv) complement the priority areas emerging from the identified cycles with interventions that reignite growth and promote inclusion.

7. The current Administration is addressing these challenges with a two-pronged strategy. On the one hand, recognizing (i) the interrelation of crime and migration flows; (ii) the regional nature of a problem that affects the Northern Triangle of Central America formed by El Salvador, Guatemala, and Honduras; and (iii) the magnitude of the required interventions to address the challenge, Honduras has partnered with El Salvador and Guatemala to articulate a common strategy, outlined in the *Plan of the Alliance for Prosperity in the Northern Triangle*. On the other hand, the country has been implementing a comprehensive domestic reform program to address macroeconomic imbalances, and enhance the country competitiveness. Strong political commitment and solid implementation of an ambitious fiscal consolidation strategy has helped to reduce the fiscal deficit from 7.6 percent of GDP in 2013 to 4.3 percent in 2014, and a projected 2.7 percent in 2015. Similarly, the Government seeks to enhance competitiveness by improving the regulatory framework and implementing trade facilitation measures. The Government is also aware of the need to address institutional weaknesses, particularly on the governance front, and has partnered with the United Nations and the World Bank Group (WBG) to advance this agenda.

8. The WBG's new Country Partnership Framework (CPF) seeks to support Honduras in its efforts to foster social inclusion, while bolstering conditions for growth and reducing vulnerabilities to enhance the country's resilience. The Government's 2014-2018 *Plan for a Better Life* focuses on four areas: (i) fostering peace and reducing violence; (ii) generating employment and enhancing competitiveness; (iii) reducing inequality and improving social protection for enhanced human development; and (iv) enhancing transparency and modernization

of the State. The CPF seeks to support critical components of this Plan, with an emphasis on the themes of social inclusion, growth and resilience, also highlighted as priorities in the WBG's SCD.

II. COUNTRY CONTEXT AND DEVELOPMENT AGENDA

Historical Perspective

9. **The development challenges of Honduras are not new.** Rather, they have been building over a long period of time. Over the past 55 years, Honduras's per capita growth has been low and volatile, failing to converge towards richer countries. In 1960, per capita income (in current US\$ terms) represented 215 percent of per capita income of the Low and Middle Income Countries, 13.5 percent of the High Income Countries per capita income and 5.6 percent of the US per capita income. In 2014, these same indicators have fallen to 86 percent, 6.2 percent and 4.3 percent, respectively. In other words, Honduras has been diverging from these three comparators for more than half a century, a reflection of the country's sustained lower growth rates. Moreover, growth has not only been relatively low, but also volatile. Over 1960-2014, the Honduras standard deviation of growth was 44 percent, 83 percent and 52 percent larger than that of the Low and Middle Income Countries group, the High Income Countries Group, and the US. Furthermore, natural disasters and global economic shocks have had a major impact on the country's growth performance. Honduras is highly vulnerable to natural hazards and climate change related events, and as a small open economy, exposed to terms of trade shocks, at times disrupting economic expansion and creating macroeconomic uncertainty. In particular, in 1998, Honduras endured the worst disaster in the country's recent history, Hurricane Mitch, which destroyed 70 percent of the country's crops and 70 percent of the nation's transport infrastructure, and generated economic damages estimated at around 81 percent of GDP.

Figure 1: Honduras & Comparator Countries
GDP per capita as share of US GDP per capita,
constant 2005 US\$

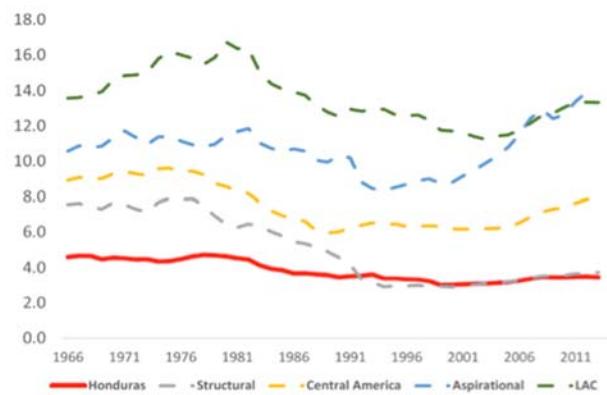
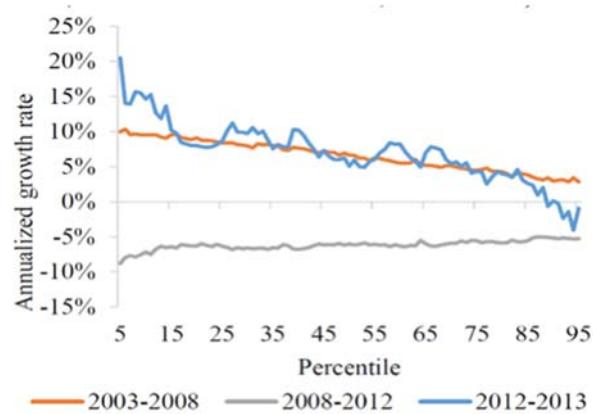


Figure 2: Growth Incidence Curve,
2003-2013



10. **A similar picture emerges when looking at the country's level of income inequality.** With a Gini coefficient of 0.54 in 2013, Honduras has the second highest inequality in LAC, which, in turn, is one of most unequal regions in the world. While the region has moved towards becoming middle class, Honduras' middle class has not grown over the past decade. Once again, this is not a new phenomenon, as data from the 2004 Flagship Report of the WBG's LAC Region (*Inequality*

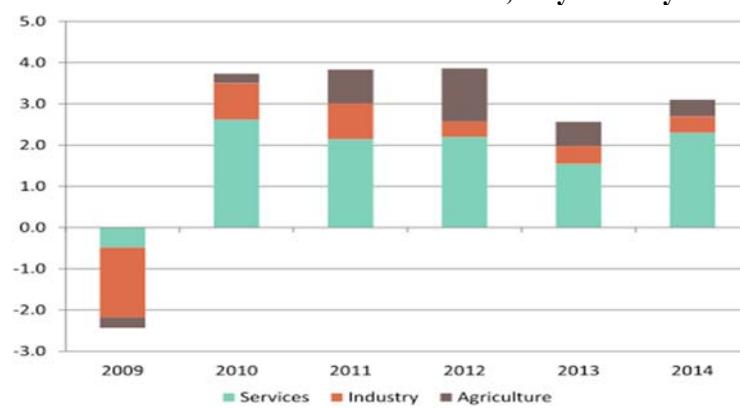
in Latin America, Breaking with History?) suggested that the country's Gini coefficient in the early 1990s (0.56) was already among the highest in LAC after Brazil (0.59) and similar to Colombia (0.56). Making comparisons for earlier periods is much more difficult due to data limitations, but existing proxies suggest that the country's inequality has historic roots. Indeed in 1925, only 29 percent of the Honduras population 10 years old and above were literate, compared to 64 percent in Costa Rica, close to 40 percent in Colombia, or 36 percent in Mexico. For the countries in LAC for which comparable data exist, only Guatemala had lower literacy rates that year (15 percent).

11. Sustained low per capita income levels and high income inequality over a prolonged period of time point to poverty being highly persistent. A similar message emerges when considering some key qualitative indicators. To illustrate this point, it is worth noting that the first International Development Association (IDA) credit issued by the WBG went to Honduras in 1961, a recognition that 50+ years ago the international community already considered Honduras a country in need of special assistance.

Recent Economic Developments

12. Honduras was slow to recover from the 2009 global economic crisis. While GDP growth contracted by 2.4 percent in 2009, it subsequently increased to an average of 3.9 percent from 2010 to 2012, though still below pre-crisis levels. In 2013 GDP growth decelerated to 2.8 percent before slightly recovering in 2014 to 3.1 percent. Growth was led by services, especially communications and financial intermediation services, which together account for more than half of GDP growth. Agriculture was the second main driver, supported by the recovery of the coffee industry, which employs 10 percent of the Honduran labor force. Other crops grown for domestic consumption also supported agricultural output, while providing livelihoods for more than half of the country's working poor. Manufacturing continues to grow at a modest pace following a slowdown in the "maquila" (mainly textile) industry, while the meat processing and sugar cane industries are recovering.

Figure 3: Sector Contributions to real GDP, % year-on-year



13. Lack of sound fiscal policies acted as a drag on growth. The public sector deficit grew from 4.5 percent of GDP in 2008 to 7.6 percent in 2013, driven by increased public spending during a period of worsening terms of trade. Consequently, the public debt stock increased by more than 19 percentage points in five years, growing from 30 percent of GDP to a projected 49.3 percent in 2015. Structural challenges undermined fiscal consolidation efforts, as weak budgetary

controls caused spending to exceed projections, undermining the credibility of the budget. The share of nondiscretionary expenditures (including public sector salaries and debt service payments) also progressively increased, limiting the resources available for public investment or countercyclical fiscal policies.

14. In response, the current Administration launched an ambitious fiscal consolidation plan upon taking office. Since December 2013, the Administration has been implementing reforms (on both the revenue and expenditure sides) aimed at consolidating public finances and improving public financial management. First, a tax reform approved in December 2013 boosted revenues by 1.7 percent in 2014, relative to the previous three-year average. Second, the Government is strengthening oversight of payroll and procurement systems so as to tighten controls of current expenditures. Third, a power sector reform is underway to reduce its fiscal impact on the central Government budget (1.8 percent of GDP in 2013). Lastly, a set of measures designed to improve the targeting, monitoring, and evaluation of social protection programs is expected to enhance the cost-effectiveness of social spending.

15. The consolidation efforts have had a significant positive payoff. In just one year, the central government deficit decreased by 3.3 percentage points, and is estimated to decline further to 2.9 percent in 2015. Going forward, the 2015 budget includes measures to contain spending, including a hiring freeze on new public sector staff. Structural measures will complement the fiscal adjustment, including modification of electricity tariffs, reduction of electricity subsidies, and institutional measures to improve governance of the Government-owned and operated National Electric Power Company, *Empresa Nacional de Energía Eléctrica* (ENEE).

16. Continued implementation of the fiscal consolidation agenda could support improvements in other macroeconomic indicators. The combination of low oil prices, high remittances, and continued implementation of fiscal consolidation could support a further reduction in the current account deficit. The significant rise in public debt stock seen since 2010 is expected to slow, peaking in 2017 and decreasing gradually over the medium-term. Subject to the maintenance of the fiscal consolidation program, the debt-to-GDP ratio is projected to peak in 2017 at 50.8 percent and decrease gradually thereafter. Lower crude oil prices are expected to have a positive impact on domestic inflation and on the trade balance. Meanwhile, the real effective exchange rate has been gradually appreciating, which is expected to affect Honduras' trade competitiveness. The results on poverty reduction are expected to be modest, with poverty at US\$4 per day expected to fall by 1.4 percentage points between 2013 and 2017 to 58.0 percent.

17. Foreign direct investment (FDI) remains the largest source of external financing for the current-account deficit. In recent years, FDI has financed almost 70 percent of the current-account deficit, with FDI inflows regularly exceeding 5 percent of GDP, except in 2009 when FDI volumes plummeted worldwide. In 2014, FDI surpassed US\$1.1 billion (5.7 percent of GDP). FDI inflows have also shown much less volatility than portfolio and other investment inflows, and are typically associated with technological and knowledge transfers from abroad.

18. Despite the aggressive fiscal adjustment, economic growth accelerated in 2014 and is expected to further accelerate in 2015. Growth is projected in all major sectors, driven by increases in both domestic consumption and private investment. Similarly, the ongoing recovery in the US (Honduras' largest trading partner) will likely stimulate both export demand and

remittance inflows. In the agricultural sector, coffee production will likely increase with the containment of the rust leaf disease. In the service sector, sale rights of the 4G band will facilitate expansion of telecommunication services, including internet. Financial services are also expected to grow over the medium-term, though financial access remains limited.

Table 1: Macroeconomic Indicators and Projections for Honduras, 2010 – 2018

	2010	2011	2012	2013	2014e	2015f	2016f	2017f	2018f
Real Economy	(Percent change)								
GDP	3.7	3.8	4.1	2.8	3.1	3.2	3.2	3.3	3.3
Agriculture and livestock	1.8	6.5	10.7	3.4	2.7	4.4	4.0	3.9	3.9
Mining	-4.0	-10.6	-3.2	-6.9	-5.1	1.3	1.0	1.5	1.5
Manufacturing	4.5	4.4	1.8	3.4	1.5	3.3	4.1	4.1	4.0
Electricity and Water	-0.2	3.6	2.9	-2.5	1.3	2.5	2.5	2.5	2.5
Construction	-2.4	4.4	2.4	-2.5	-8.2	0.0	1.0	1.5	1.5
Commerce	3.4	4.2	3.8	2.1	2.0	2.8	2.8	2.8	2.8
Services	4.8	2.9	3.6	3.2	5.0	3.1	3.0	3.0	3.0
Domestic demand	4.4	6.7	2.5	0.6	2.9	5.9	2.8	2.9	3.3
Private consumption	3.6	3.6	4.3	3.8	2.7	8.9	3.7	3.5	3.8
(<i>percent of GDP</i>)	78.1	77.6	78.6	81.3	81.1	77.2	78.6	79.1	78.9
Gross Capital formation	12.0	24.1	-2.7	-11.4	6.8	1.7	1.7	1.7	1.9
(<i>percent of GDP</i>)	21.9	26.0	24.6	21.8	22.1	23.1	22.7	22.3	21.8
Exports of goods and services	15.7	8.4	9.8	-1.3	1.6	6.1	1.8	1.8	1.4
(<i>percent of GDP</i>)	45.8	51.3	50.9	48.3	46.9	43.2	40.4	38.1	35.7
Imports of goods and services	15.2	12.7	6.3	-4.1	1.5	10.4	1.4	1.4	1.7
(<i>percent of GDP</i>)	63.7	71.0	70.3	69.3	65.7	58.3	56.0	53.3	50.2
Consumer prices (end of period)	6.5	5.6	5.4	4.9	5.8	4.0	4.0	4.9	4.9
Fiscal Accounts	(Percent of GDP, unless noted)								
Non-interest revenues and grants	24.1	23.1	22.5	22.9	24.4	25.6	25.9	25.9	26.1
Of which: Tax revenues	15.1	15.4	15.1	15.3	17.3	17.3	17.5	17.5	17.5
Total Non financial expenditures	26.1	24.8	25.4	28.4	26.6	25.4	24.7	24.2	24.0
Current expenditures	20.7	19.0	19.4	22.0	20.7	20.4	19.7	19.2	19.0
Capital expenditures	5.4	5.9	6.0	6.4	6.0	5.0	5.0	5.0	5.1
Primary balance	-2.0	-1.7	-2.9	-5.6	-2.2	0.2	1.1	1.7	2.0
Interest payments	0.9	1.1	1.3	2.0	2.1	3.0	3.1	3.0	3.0
Overall balance	-2.8	-2.8	-4.2	-7.6	-4.3	-2.9	-2.0	-1.3	-1.0
Balance of Payments									
Trade balance (Billions of US\$)	-2.6	-3.1	-3.0	-3.1	-3.0	-2.7	-2.7	-2.7	-2.7
Trade balance (Percent of GDP)	-16.8	-17.9	-16.3	-17.1	-15.7	-13.7	-13.7	-13.7	-13.7
Current Account Balance (Percent of GDP)	-4.3	-8.0	-8.6	-9.6	-7.6	-6.0	-6.0	-5.8	-5.6
International Reserves (Percent of GDP)	17.3	16.0	13.9	16.6	18.4	19.3	19.8	20.0	19.9

E: estimates, F: forecasts

Source: Honduran authorities and World Bank staff estimates.

19. **The Honduran financial sector is generally sound and resilient, though the recent liquidation of *Banco Continental* has increased financial sector risks.** The banking sector is well capitalized and profitable, and during 2015, deposits and credit to the private sector grew moderately (by 5.8 percent and 3.7 percent respectively). Non-performing loans declined from 5.1 percent in 2009 to about 3 percent in early 2015, and the share of foreign exchange denominated lending remained stable at about 30 percent of the credit portfolio. Yet the forced liquidation of *Banco Continental* – Honduras’ eighth largest bank – in October 2015 has increased risks to financial sector stability. The authorities have been working on an orderly resolution of the bank to limit potential contagion and spillover effects with support from the IMF and the World Bank (Box 1).

Box 1: Resolution of *Banco Continental*

On October 7, 2015, *Banco Continental*, its owners, and the holding company of the *Grupo Continental* were designated by the U.S. Treasury and put on the sanction list under the Kingpin Act, which targets drug traffickers and their assets. The Kingpin Act prohibits US agents from engaging in any transactions with designated persons, and blocks any property in their possession or under their control in which the designated persons have an interest. As a result, the US Treasury froze the foreign assets of *Banco Continental*, reducing the bank’s capital adequacy ratio from 11.6 percent to 5.2 percent. The fall in the capital adequacy ratio forced the Honduran Bank regulator to first intervene in the bank on October 11, 2015 and, given the limited probability of a successful recapitalization, to subsequently liquidate it. Depositors have been able to withdraw up to 208,000 lempiras (US\$9,400), which is the threshold for the deposit insurance fund in the country.

The operations of *Grupo Continental*, one of the largest Honduran conglomerates, are also being affected. The conglomerate, established in 1929, consists of more than 50 businesses in the banking, insurance, media, cement, food packing, commercial and residential property, and agriculture exports. It reportedly employs around 11,000 people with another 25,000 indirect employees. The operations of the conglomerate were suspended in mid-October 2015, as no other financial company was willing to transact with companies whose owners were under US sanctions. These sanctions extend to the companies of the group owned 50 percent or more by the designated persons.

To mitigate the potential contagion and spillover effects on the real economy, the Honduran authorities have begun to seize the assets of *Grupo Continental* as well as other assets owned by the owners of the Group, and transfer them to the Administrative Office of Seized Assets (OABI) which will be tasked with their custody and management.

Poverty and Shared Prosperity

20. **With a GDP per capita of about US\$2,300, and a regionally comparable US\$4 per day headcount poverty rate of 59.4 percent, Honduras is one of the poorest countries in LAC.** Economic growth, job creation, and significant increases in remittances led to a decline in poverty in the mid-2000s, with the share of households living in poverty falling from 65.3 percent in 2003 to 59.2 percent in 2009. However, a combination of exogenous shocks and domestic fiscal instability beginning in 2009 had an especially damaging impact on Hondurans living below or near the poverty line. By 2012, total poverty had climbed to 66.5 percent, erasing earlier gains. Despite these setbacks, some gains have been achieved: the share of the population living on less than US\$1.25 per day, the global extreme poverty line, declined from about 47 percent of the

population in 1990 to 17.4 percent in 2013. Even so, Honduras' global extreme poverty rate remains one of the highest in the LAC region, trailing only Haiti.

Figure 4: Comparable Poverty Headcount Rates & Total Change in Poverty Rates, 2001-2013

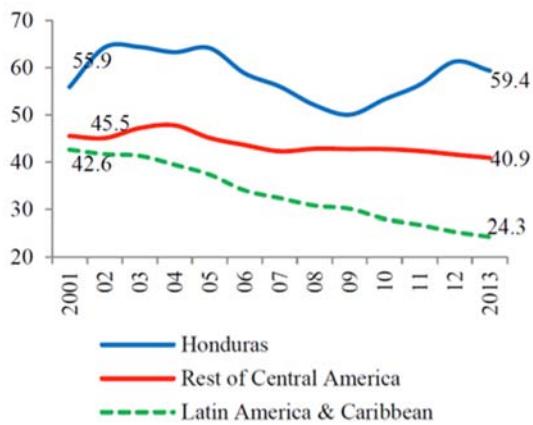
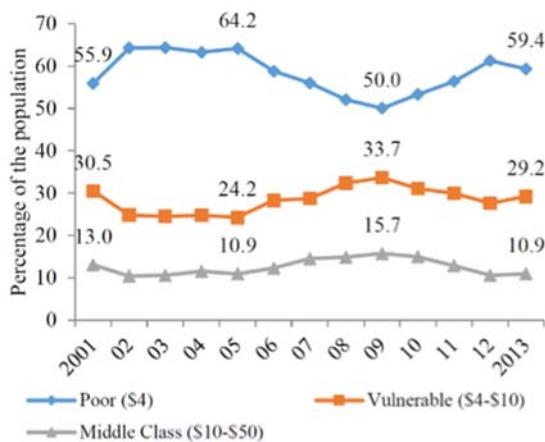


Figure 5: Honduran Population by Income Level, 2001-2013, %



21. **The rural poor accounted for more than half (56 percent) of the poor and two-thirds (67 percent) of the extreme poor in 2013.** Rural poverty is concentrated predominantly in the western and southern areas (the *Corredor Seco*). The rural poor rely largely on agriculture for income: over 70 percent of agricultural families work in subsistence farming, a type of farming associated with low competitiveness, low value-added and, as a result, low revenue generation. Moreover, from 2008 to 2013, self-employment represented between 47 percent and 53 percent of total employment in rural areas, concentrated in agriculture, forestry, fishing and hunting.

Box 2: Gender Dimensions of Access to Services in Honduras

Honduras has made considerable progress in women's health: maternal mortality rates have fallen by more than half since 1990, and access to maternal care and contraception has greatly improved. However, gains have not been equally enjoyed throughout the country, and depend greatly on income level, geography and ethnicity. Teenage pregnancy remains a critical concern: nearly a third of all births in Honduras are to mothers under 19 years old, the second highest teenage pregnancy rate in LAC after Nicaragua.

Education and economic opportunity indicators are more mixed. Education data in Honduras is in line with LAC trends, where enrollment rates for primary education are near to gender parity, but a significant gender gap favoring girls emerges in secondary and increases in tertiary education. Since the female to male ratio in secondary education was measured in 2005, girls' enrollment in secondary school has been *at least* 22 percent higher than boys. In addition, access to and quality of education remains particularly low for indigenous and Afro-Honduran girls, who face additional administrative, cultural and gendered barriers to education. Despite their achievements in education, women continue to participate in the formal labor market at much lower levels, face higher rates of unemployment and work more unpaid hours than their male counterparts. Limited labor opportunities coupled with economic need within households has led to an increase in female entrepreneurship, especially of micro-firms.

Source: World Bank Honduras Gender Assessment and Policy Note, February 2015

22. **Nonmonetary poverty is also most acute among the rural population and for certain segments of the population.** Many indicators related to sexual and reproductive health have shown significant improvement, but gains have not been equally enjoyed throughout the country, with discrepancies when comparing urban versus rural. For example, the percentage of births attended by skilled health personnel is 73 for rural women versus 94 percent among their urban counterparts (Box 2). While data specific to indigenous and Afro-Honduran women is scarce, the regions with highest concentrations of these populations lag behind Honduran averages in maternal and reproductive health indicators, and the unmet basic needs index of Indigenous Peoples and Afro-descendants fares worse than the national average (Box 3).¹

Box 3: Indigenous Peoples and Afro-descendants in Honduras

An estimated 8.6 percent of the Honduran population is made up of Indigenous peoples or Afro-descendants. Honduras's Indigenous Peoples and Afro-Descendants are distributed across the country, particularly in rural areas. There are seven Indigenous peoples (*Miskito, Pech, Tawahka, Nahua, Tolupán, Chortí y Lenca*), one group considered both Indigenous and Afro-descendants (*Garifunas*) and one Afro-descendant group of Creoles. While the Indigenous peoples are concentrated in the southwest and northeast corners of the country, the Afro-descendants are primarily along the Caribbean coast. Social structures in these groups remain strong and, except for the *Lenca* and the *Chortí*, the groups have kept their languages. Given the lack of information about these populations in household surveys, there are no official estimates of the poverty rates for them. However, rough estimations from indigenous organizations indicates that about 71 percent live in poverty and over half of the population is not employed. Agriculture is the main source of livelihood of the majority of this population, albeit at a subsistence level.

Honduras has experienced a growing acceptance of Indigenous peoples and Afro-descendants' rights and cultures. While these groups have become more politically active and better organized, they still do not have significant influence in decisions concerning their land, culture and use of their natural resources. In the absence of clear property titles (estimates indicate that only 10 percent have a guaranteed property title) and limited access to legal services, these groups face usurpation of their property rights and violent evictions occur in some regions. Furthermore, expansions by non-indigenous farmers (including large scale agro-industry), cattle ranches, mining and hydroelectric projects have been associated with serious conflicts in many rural areas.

Source: Honduras: Unlocking Economic Potential for Greater Opportunities, SCD, October 2015

23. **Children are particularly vulnerable to living in poverty.** In 2013, nearly 80 percent of Hondurans younger than 15 lived in poverty, in contrast to 64 percent of prime-age adults. In addition, approximately one in four children in Honduras is so undernourished that their development is stunted, with negative implications for their future learning abilities and earning capacity. The World Food Program estimates that 60 percent of Hondurans are food insecure and in the *Corredor Seco*, where poverty is most acute, and 58 percent of children under five suffer from chronic malnutrition. Moreover, chronic malnutrition is about twice as high for children in rural areas (28.8 percent) than those in urban ones (14.6 percent). Childhood access to basic

¹ The Unmet Basic Needs index describes households that are deprived of a fundamental public good or social service, and which: (i) include children aged 6-14 who are not attending school; (ii) lack access to running water; (iii) lack access to improved sanitary facilities; (iv) lack access to electricity; (v) live in housing with a dirt floor; and (vi) live in overcrowded housing.

services in Honduras lags behind LAC: one out of five Honduran children between the ages of 10 and 14 were not enrolled in school in 2013, and four out of ten had access to running water at home.

24. Moreover, poor households in Honduras have difficulties to rise above the poverty line, and those that do remain highly vulnerable to shocks that can push them back into poverty. According to the SCD, only 6 percent of the population exited poverty between 2003 and 2007, and remained out of poverty as of 2011. These households saw their incomes grow by almost 50 percent over the period. In contrast, chronically poor households—those that remained in poverty from 2003 to 2011—saw their incomes grow by 30 percent. The low and inconsistent poverty reduction of Honduras is a significant departure from regional trends, with LAC recording consistent poverty declines throughout the past decade and a half.

25. Income growth and redistribution have had varying roles as drivers of poverty reduction over the last decade. Gains in overall official poverty reduction that occurred in Honduras before the crisis (2003-2008) were mainly due to income growth and some changes in the distribution of income, although these gains were mitigated by higher prices. This situation reversed during the 2008-2012 period, when both weaker economic growth and a worsening distribution of income led to increases in poverty, even as changes in prices were poverty reducing. Most of the poverty reduction seen in 2013 is attributable to improvements in income distribution.

26. Increases in income through remittances had a positive impact on poverty reduction, though in the long-run, contributed to a Dutch disease effect. Remittances skyrocketed before the global financial crisis, rising from less than US\$1 billion in 2000 to US\$3.2 billion in 2013, the equivalent of 17 percent of GDP. The rapid increases in remittances have had a beneficial impact on poverty reduction, but have also contributed to a Dutch disease effect through higher wages and real exchange rate appreciation. Besides functioning as a safety net, remittances were also associated with improved access to services, such as health and education. However, the rise in household income led to an increase in consumer demand, driving up prices for domestically-provided goods and services, and leading to real exchange rate appreciation as demand for imports grew. This phenomenon hinders Honduras' international competitiveness, as the price of its exports increases and assets are diverted towards domestic demand.

27. The expansion of social assistance programs has had a positive impact on extreme poverty over the past decade. These programs have sharply increased in the past few years, accounting for 1.5 percent of GDP and surpassing all countries in Central America except for El Salvador in 2012. This expansion is largely driven by *Bono Vida Mejor* (formerly *Bono 10,000*), the country's largest social assistance program that consists of a conditional cash transfer (CCT) incentivizing child health monitoring and school attendance, with resources currently amounting to 0.5 percent of GDP. The *Bono Vida Mejor* has increased primary school attendance and use of health services in program areas, and reduced poverty among beneficiaries: a 2013 program impact evaluation showed a 5 percent reduction in poverty and a 13 percent reduction in extreme poverty among beneficiaries.

Key Development Challenges

28. Two discernible elements that emerge when analyzing Honduras' development challenges are the high levels of crime, and the high levels of migration and remittances inflows. Honduras suffers from one of the highest crime rates in the world, negatively impacting the overall investment climate.² This has, in turn, contributed to low growth, which has limited the ability of the Honduran economy to generate jobs and other opportunities for the already poor population. As a result, Honduras has become 'fertile ground' for illegal activity (such as drug trafficking and gang activity), contributing to higher violence. Gangs and drug traffickers, often from outside the country, offer higher income opportunities in the short-term, particularly in a country like Honduras, where violence is widespread and enforcement is weak. In these circumstances, youth, and in particular young men, become both the most likely perpetrators, and the most likely victims, of crime, affecting both their own well-being but that of their families and dependents. High violence leads to significant security costs for firms and lower incentives for firm creation, thus making investment in Honduras less attractive. This then leads to lower competitiveness and growth with fewer employment opportunities, thus reinforcing the vicious cycle between opportunities and high violence (Figure 6).

Figure 6: Cycle of Violence & Low Growth

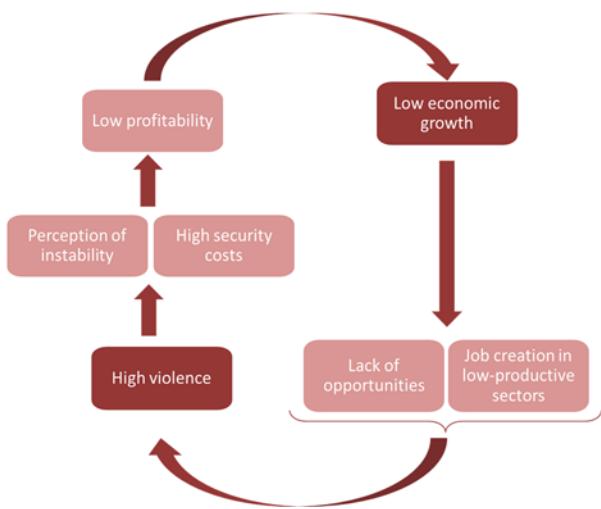
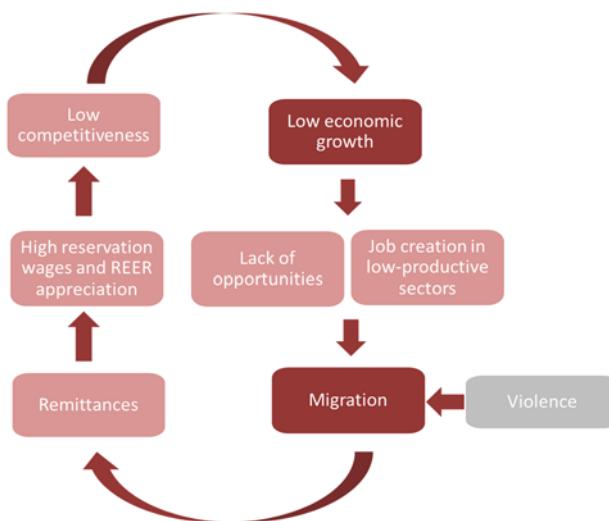


Figure 7: Cycle of Migration & Low Growth



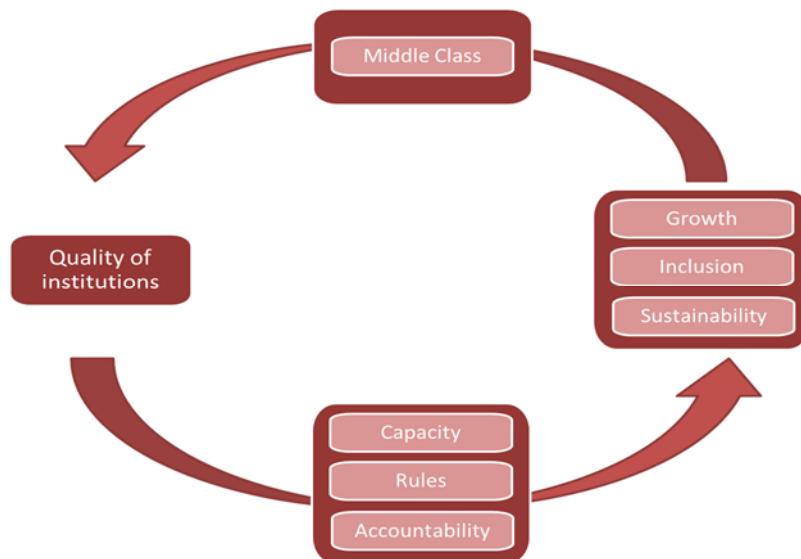
29. Similarly, lack of opportunities has also led to increasing emigration from Honduras. Even though the country's significant emigration was first triggered by Hurricane Mitch in 1998, continued poverty, rising crime and violence, and the lack of opportunities have further pushed many to emigrate. As of 2013, around 8 percent of Hondurans were living outside of Honduras, including an estimated 12.8 percent of the working age population. There were over half a million Honduran-born immigrants living in the US in 2013, constituting over 80 percent of Honduran international migration and reducing the country's stock of labor supply. The increased reliance

² The homicide rate in 2014 was 66.49 per 100,000 people. Online Police Statistic System (*Sistema de Estadístico Policial en Línea*), 2014.

on remittances as a source of income has left many households, particularly among the poor,³ vulnerable to fluctuations in external economies. For example, while an increase in remittances between 2003 and 2008 contributed to declining poverty rates, the sharp decrease in remittances in the aftermath of the financial crisis was a key driver of the increase in poverty between 2008 and 2012. Moreover, the receipt of remittances is associated with lower labor force participation among both men and women (remittance recipients are on average around 10 percent less likely to participate in the labor force) and real exchange rate pressures. These Dutch-disease type of effects have a negative impact on the country's competitiveness and growth potential, and hence act as a push factor for migrants generating a vicious circle between low growth and high migration (Figure 7).

30. **However, high poverty has persisted for many decades, so it is necessary to look beyond the challenges of high crime and high migration/remittances flows.** Both the high crime rates and the migration and associated remittances flows are elements that have mainly emerged in the last two decades. For example, according to data collected for the World Development Report in 2011, Honduras' homicide rate in the early 1990s was below 20 per 100,000 people, similar to other Central American countries. Yet the second half of the 1990s and the early 2000s witnessed a dramatic increase. Likewise remittances flows in 1997, just before hurricane Mitch, represented around 4 percent of GDP. This implies that these two factors, while significantly compounding the problem, cannot be the original cause of the country's low levels of development.

Figure 8: Cycle of Low Quality Institutions & Poor Development Outcomes



31. **The SCD concludes that a plausible explanation for Honduras' persistent development outcomes is related to the country's institutions.** According to both internationally comparable databases and country-specific analysis, the quality of institutions in

³ Remittances are increasingly important to households at the lower end of the income distribution: in 2013, they represented 5.8 percent of per capita household income in the bottom quintile and 14.6 percent in the second quintile, up from 2.1 and 6.0 percent, respectively, in 2003.

Honduras needs to be urgently addressed. This hypothesis would explain the many factors that appear to determine the low levels of growth, high levels of inequality, and sustainability challenges. It would also explain the persistence of both poor institutions and poor development outcomes, as it is possible that high poverty and poor institutions may be related in what is a vicious circle in which poor institutional quality leads to high poverty, which, in turn, leads to poor institutional quality (Figure 8). It also stresses how difficult it may be to tackle the country's institutional weaknesses on, for example, the governance or public sector capacity fronts, given persistently weak institutions.

Policy Priorities

32. **To address the challenges created by these vicious cycles, three key priority areas need to be tackled.** The SCD explores the behavior of the aforementioned vicious cycles and identifies three key entry points (or levers) that will require a “big push” across the wide range of priorities in order for Honduras to escape from its current situation. These are:

- (i) ***Crime & Violence: Increasing citizen security through better crime prevention and stronger law enforcement.*** Addressing crime requires a long-term strategy to reduce impunity, strengthen the judicial system, and improve accountability of the Government. Thus strengthening violence prevention and law enforcement is critical.
- (ii) ***Skills: Improving access and quality of education, particularly secondary schooling.*** Tackling Honduras’ low secondary school completion rate and vocational training is fundamental to promote improved job outcomes and generate greater competitiveness and innovation. Providing training to adults on specific skills would facilitate entry into better jobs, with a focus on young adults formerly involved in crime and gangs. Education is a key building block for other priorities, in particular, reducing crime and violence.
- (iii) ***Quality of Institutions: Improvements in the accountability framework, strengthening of the rule of law and the judiciary, and administrative simplification.*** Given the severity and wide range of challenges resulting from weak institutions identified above, a central question is how to strengthen institutions, including tackling corruption, improving the rule of law, and increasing the capacity of the state. In this regard, the 2009 World Bank’s Institutional and Governance Review identified the need to strengthen Honduras’ accountability framework and in particular, the accountability of policymakers towards citizens and tax payers. Similarly, the United Nations Convention on Anti-Corruption (UNCAC) self-assessment conducted thus far has revealed that with few exceptions, the country’s legal and regulatory framework complies with most UNCAC provisions related to criminalization of bribery, and most requirements relating to international cooperation, such as the signature of a series of international treaties, which are now part of domestic law. However, the self-assessment also reveals that major challenges remain in terms of law enforcement and thus, strengthening the rule of law is a critical step. Finally, administrative simplification, particularly on the regulatory framework, will be a crucial component of limiting corruption opportunities and enhancing competitiveness.

33. In order to break the vicious cycles, the SCD also stresses the need for policies that complement the identified levers, particularly those that have a direct impact on reigniting economic growth and fostering inclusion. These type of policies complement the identified levers are justified based on their static impact on poverty reduction and shared prosperity, as well as their impact on the identified country development dynamics. Specifically, they would help stimulate higher growth, which would feed into lower crime and lower migration pressures. In turn, these feed back into future higher growth, with higher growth and lower inequality feeding into better institutions and thus, back into higher growth.

34. Promoting fiscal sustainability is perhaps the most critical objective to reigniting economic growth. As evidenced by the negative impact of the pre-2014 macroeconomic imbalances on investors' confidence, restoring a sustainable fiscal position that is sustained over the medium- to the long-term is a pre-requisite to accelerating GDP growth and employment creation. Fiscal deficits and slower economic growth since the 2009 crisis have significantly increased public debt, introducing significant levels of uncertainty for investment decisions. While the authorities have recently made strides to reduce the fiscal deficit, fiscal consolidation will require additional reforms that enhance public financial management and rebalance expenditures from current spending towards capital spending. Curtailing the fiscal losses in the power sector will also bolster the fiscal position, and in this regard, the current environment of low oil prices provides an opportunity to advance electricity subsidy reform. At the same time, there is scope for mobilizing additional tax revenues by improving tax and customs administration and reducing tax exemptions, which represent a large share of GDP. Furthermore, with a view to generating sustained growth and facilitating further insertion into the global markets, it is important to tackle the constraints of expensive and low quality infrastructure services. In a context of fiscal consolidation, advancing the PPP agenda would be a natural response to this concern.

35. Although focusing on skills is critical to strengthening Honduras' competitiveness, the challenge of fostering inclusion is overwhelming, and cannot wait for education reforms and investments to have an impact. Eighty percent of Honduran children live in poverty and a majority do not finish secondary school. There is strong evidence that the current social assistance programs are having an impact on the reduction of poverty and should be expanded to cover all eligible extreme poor. Over the long-term, efforts at inclusion need the support of basic services of good quality that empower the population with the assets both to create, and to profit from, opportunities. In addition to education and skills, reducing child malnutrition is a high priority.

36. Finally, in all of these efforts, attention to vulnerability considerations is paramount. Structural sensitivity to economic shocks, chronic fiscal instability, low resilience to natural hazards, and high levels of crime and violence represent multiple dimensions of vulnerability that together pose a persistent risk to the achievement of Honduras' economic and social development objectives. Honduras will need to continue building resilience to impact of climate change, as there is an expectation that there will be an increase in frequency and severity of extreme weather events, exacerbating the situation particularly in areas already under stress due to rapid urbanization and unsustainable land management practices. An ample agenda is in place and under implementation for building institutions and improving infrastructure and local planning. Greater attention is needed, however, to the impact of "small" natural events that affects the lives of the poor in a localized but dramatic manner. In this regard, the capacity of households to manage the impact of

natural disasters can be enhanced by linking them to saving mechanisms and increasing the availability of financial instruments, such as agricultural insurance.

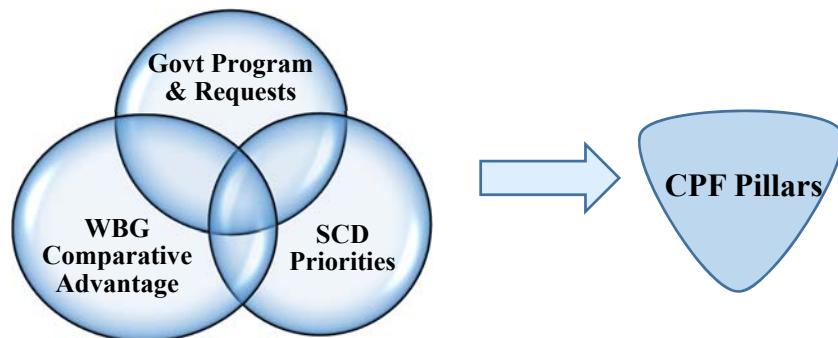
37. **The SCD also highlights several knowledge gaps.** Although there are some analyses of the nature and causes of Honduras' high and persistent levels of poverty and inequality, as well as its volatile growth, the SCD identifies eight areas of knowledge gaps, related to: (i) low returns to investment; (ii) full cost of crime to the country's economy; (iii) role of labor market regulations in job creation, informal employment and unemployment; (iv) effect of malnutrition and limited access to basic services for human capital accumulation; (v) impact of the country's high minimum salaries on job creation, particularly for unskilled workers; (vi) measurement of female agricultural employment; (vii) effect of crime on the welfare of the bottom 40 percent; and (viii) relationship between vulnerability, extreme weather events and poverty.

III. WORLD BANK GROUP COUNTRY PARTNERSHIP FRAMEWORK

A. Selectivity Filters

38. **The proposed CPF and the WBG's engagement in Honduras was defined using three selectivity filters at both the strategic and the objective levels.** These filters are as follows: (i) alignment with the Government's program and requests for WBG support to date; (ii) focus on SCD priority areas; and (iii) context-specific WBG comparative advantage (Figure 9).

Figure 9: Developing the CPF: Filtering Process to Define Objectives

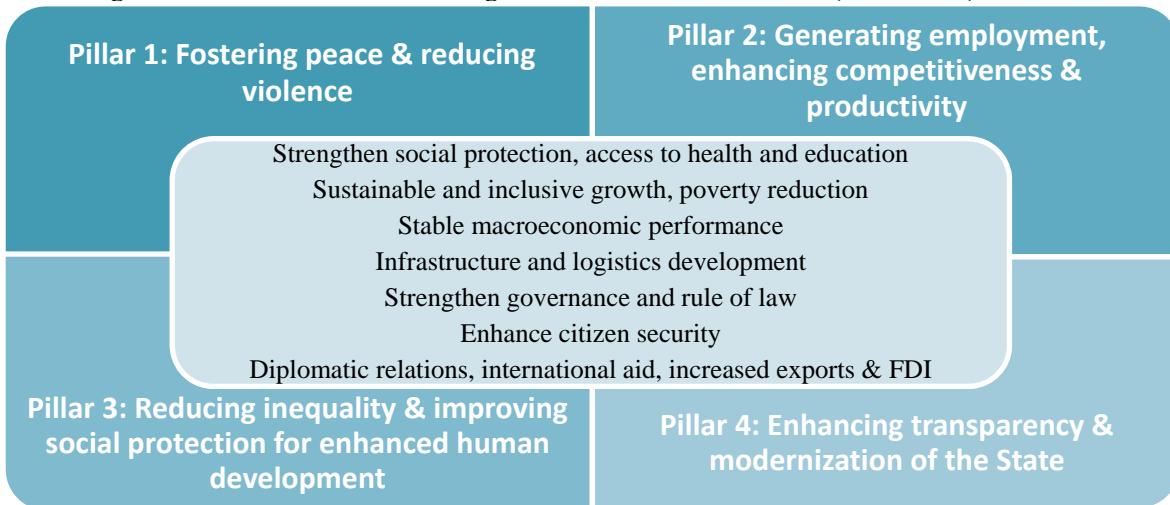


39. **Selectivity Filter 1: Government Program and Requests.** The Government's "Plan for a Better Life" (2014-18) is linked to the longer term Country Vision for 2038 (approved in 2010), and focuses on four key areas: (i) fostering peace and reducing violence; (ii) generating employment while enhancing competitiveness and productivity; (iii) reducing inequality and improving social protection; and (iv) enhancing transparency and modernization of the State (Figure 10). Since assuming office in early 2014, the Hernandez Administration has placed particular emphasis on strengthening citizen security, enacting fiscal reform for sustainability, driving reforms to enhance opportunities for economic growth, and taking notable action against organized crime, narco-trafficking and emblematic corruption cases.

40. **Within this framework, the Government is seeking WBG support in a number of areas, some which would continue support from the previous engagement.** These areas include, among others, supporting fiscal consolidation, expanding coverage of the social protection program, increasing opportunities for small and medium enterprises (SMEs) in the production and

commercialization of high value agricultural products (particularly coffee and cacao), modernizing the energy sector, and improving infrastructure and logistics to attract increased FDI.

Figure 10: Government's Strategic "Plan for a Better Life" (2014-2018)



41. **Selectivity Filter 2: SCD Priority Areas.** Table 2 below presents the three priority areas or entry points highlighted in the SCD needed to break the vicious cycles of crime and growth, migration and growth, and institutions and development outcomes. It also outlines critical complementary measures to boost growth, foster inclusion and promote sustainability.

Table 2: SCD Priority Areas & Complementary Measures

Policy levers to break or revert the vicious cycles	
Complementary measures	
Crime & growth	<ul style="list-style-type: none"> Strengthening violence prevention and law enforcement
Migration & growth	<ul style="list-style-type: none"> Improving education and skills to compete
Institutions & development outcomes	<ul style="list-style-type: none"> Improving the quality of institutions through: <ul style="list-style-type: none"> - improvements in the accountability framework, - strengthening of the rule of law and the judiciary, and - administrative simplification
Boosting growth	<ul style="list-style-type: none"> Promoting fiscal sustainability Improving infrastructure
Fostering inclusion	<ul style="list-style-type: none"> Strengthening the targeting and coverage of conditional cash transfers Improving access to basic services Promoting active labor market policies to improve job matching, particularly for low skilled workers
Promoting sustainability	<ul style="list-style-type: none"> Building resilience to natural hazards

42. **Selectivity Filter 3: WBG Comparative Advantage.** This filter seeks to identify the context-specific WBG comparative advantage in particular areas, in light of the WBG's track record in Honduras, lessons learned from implementation of the portfolio, WBG global experience on a specific issue, and areas of engagement of other development partners in the country, so as to generate synergies and avoid overlap. Moreover, the WBG can offer integrated solutions, drawing on the strengths of the three WBG institutions – IDA, the International Finance Corporation (IFC)

and the Multilateral Guarantee Agency (MIGA). Coordination within the WBG in the past has produced significant results in tackling Honduras' key development challenges. For example, IDA engagements in energy and transport were complemented by IFC and MIGA efforts to mobilize private sector investments in the generation of renewable energy and highway expansion and maintenance. The WBG can also leverage global knowledge on a variety of issues that can be tailored to the specifics of Honduras, such as global and regional experience in enhancing the efficiency of social protection systems, regional experience on crime and violence, and a strong track record of engaging in disaster risk management and climate change adaptation and mitigation locally, regionally and globally. IFC and MIGA also bring global and regional experience in areas such as the financial sector, SMEs, public private partnerships (PPPs), energy and infrastructure. Finally, there has traditionally been strong productive partnerships among key development partners in Honduras and this is expected to continue. Key partners include the Spanish Agency for Cooperation and Development (AECID), the Canadian International Development Agency, the Central American Bank for Economic Integration (CABEI), the Food and Agricultural Organization, the German Development Agency, the Inter-American Development Bank (IDB), the International Monetary Fund (IMF), the Swiss Cooperation, the United Nations, and the United States Agency for International Development (USAID).

Box 4: Key Themes Emerging from CPF Consultations in Honduras

The key themes as areas for WBG engagement emerging from consultations with various stakeholders included fiscal consolidation, high unemployment, crime and violence, and weak enforcement of the rule of law. Discussions with Government officials throughout the different consultations highlighted the need to continue supporting fiscal consolidation efforts, particularly reducing the fiscal burden of ENEE, and to support inclusive growth through more effective investments targeting the most vulnerable. Representatives of the private sector, civil society, and the youth endorsed the priority areas identified by the Government and underlined the need for continued dialogue with the WBG during the implementation of the CPF. Civil society organization and the youth also underscored the need for more aggressive strategies to combat high unemployment, crime and violence and the weak rule of law. Indeed youth groups from local universities were the most verbal, expressing concern as to the limited opportunities available to graduates of secondary and tertiary education as well as the credibility of Government institutions to ensure transparency in the administration of public resources. Finally, international development partners also concurred with the proposed areas of engagement and expressed great interest, particularly the Canadian International Development Agency, the European Union, and IDB, in ensuring coordination on the fiscal consolidation agenda and support to increase competitiveness in the agriculture sector.

43. The proposed CPF was developed in dialogue with the Honduran authorities, private sector and think tanks, and complemented with interactions with cooperation agencies in Honduras. The CPF was developed based on discussions held with various stakeholders during the elaboration of the SCD, and in dialogue with the authorities through a series of working sessions over a six-month period. The CPF benefitted from on-going knowledge generation activities, particularly consultations with various stakeholders in the preparation of several Policy Notes and Sector Project Briefs, the launch of the Honduras DNA and presentation of the Honduras Public Expenditure Review, and the SCD. Throughout different roundtable sessions and meetings with civil society, private sector, academia, think tanks, members of Congress, donor community, the WBG has discussed the country's development priorities and opportunities for continued involvement in Honduras. Stakeholder feedback helped the focus on fostering inclusion,

augmenting conditions for growth, and reducing vulnerabilities (Box 4). Donor coordination has also been strong, especially through coordination with the G16⁴ Group where objectives and areas of focus discussed helped identify the contributions of the WBG in the years ahead.

B. Developing the WBG Engagement

44. The Government’s strategic plan provides an appropriate framework for the proposed FY16-20 WBG CPF objectives, which are broadly consistent with the SCD priority areas and well aligned with the WBG’s Twin Goals. The WBG program has largely already been focused on the priority areas identified by the SCD. The CPF will move towards greater selectivity and consolidation of objectives and portfolio, based on the Government’s needs and requests (as well as lessons learned over the previous Country Partnership Strategy period, particularly regarding implementation capacities), while at the same time laying the foundation for deepening partnership in critical areas in the future.

45. The CPF takes into account the ongoing portfolio and analytical work currently underway (Box 5). There is a certain degree of continuity between the previous Country Partnership Strategy and the new CPF, given that the WBG is either already working towards the proposed CPF objectives, or can readily engage in supporting them. A broad range of analytical work was carried out in recent years (including the Honduras Economic DNA, the Public Expenditure Review, various Policy Notes and Sector Briefs developed for the new Administration), which, together with the SCD and the 2015 Gender Assessment,⁵ provide the analytical underpinnings for the choice of programs and activities featured in the CPF.

46. To achieve sustainable results, the design of the CPF should take into account the “stop-go” nature of Honduras’ development efforts, due to changes in administration, weak implementation capacity, and the need to leverage IDA resources. A key lesson from the implementation of the previous Country Partnership Strategy is the “stop-go” rhythm of development in Honduras and should be taken into account by the CPF design. The primary instrument for achieving results in Honduras has generally been investment project financing. However, project implementation tends to be spread over two administrations, and as such, experiences setbacks and delays given that the country’s institutional framework and policy direction tends to be re-created every four years, with each change in Administration. Also, sector institutions responsible for planning and delivering services are often exposed to new and yet-to-be-tested institutional arrangements, affecting projects that have implementation timeframes exceeding single Administration terms. Lastly, every change in Administration is accompanied by project management turnover. In this context, the WBG should take a longer term view in the design of the CPF by focusing on those sectors where the Government has demonstrated strong demand and commitment, which are of major development importance and where implementation capacity is satisfactory. Continuing to employ development policy credits to support critical reforms of the Government and reinforce development outcomes of IDA projects, such as in the case of the development policy credit series and complementary support through the Social Protection Project, may also contribute to overcoming the difficult implementation environment.

⁴ Canada, Germany, Spain, Sweden, the US, France, Italy, Japan, the Netherlands, Switzerland, the United Kingdom, WBG, the CABEI, the IDB, IMF and the European Union.

⁵ World Bank Honduras Gender Assessment and Policy Note, February 2015.

In addition, the WBG should consider including institutional strengthening in every operation and keeping the design of projects simple. Finally, it is critical for the three WBG institutions, IDA, IFC and MIGA, to jointly identify opportunities for development and provide a comprehensive set of solutions leveraging their strengths.

**Box 5: WBG on-going Portfolio and Technical Assistance
(as of September 15, 2015)**

IDA's active portfolio includes nine lending operations totaling close to US\$354 million in IDA commitments, of which almost US\$102 million is undisbursed. The portfolio spans a number of sectors including social protection, rural development, public sector management, and citizen security. The most significant challenges facing the Honduras portfolio are institutional capacity and political risk within the implementing institutions. However, the quality of the portfolio has improved, with only two projects (Improving Public Sector Performance, and the Rural Infrastructure Project) currently rated as moderately unsatisfactory. The disbursement rate has consistently been high over the years, currently at 32 percent (FY15), and well above LAC average (19.1 percent). Although, current fiscal constraints due to Government's fiscal control may limit disbursements going forward. The portfolio is mature, and by end FY16, only five projects will remain. The IDA17 allocation is SDR97.8 million (US\$138 million), of which US\$80 million has already been allocated to an additional financing and a Development Policy Credit.

IFC's investment activities focus on renewable energy generation (particularly hydro and photovoltaic), strengthening and broadening the financial sector, and supporting competitive agribusiness and commercial sectors. Furthermore, IFC has played a catalytic role in PPP development, improving access to finance for SMEs, streamlining administrative processes for business regulation and regional trade, and facilitation of international trade. IFC investments include four large scale renewable energy projects with an aggregate capacity of 210.5 megawatts (accounting for ~15 percent of the country's installed capacity). Total committed portfolio in Honduras for FY15 is US\$639.7 million, including mobilization (US\$496.1 million in non-trade; US\$68.1 million in trade finance; and US\$75.5 million from IFC's Asset Management Company). This represents a substantial increase compared to FY11 results of US\$193.4 million and is IFC's second largest portfolio in Central America. IFC is currently considering opportunities in commercial property development, construction materials, infrastructure, logistics and health coverage.

MIGA has US\$326.9 million in gross exposure through three projects in the transport and energy sectors. MIGA has recently provided guarantees of US\$187.9 million for the construction and operation of a toll road between *San Pedro Sula* and *La Ceiba*. This investment will improve the connectivity between Honduras' second largest city and the coast, servicing commuter traffic between *San Pedro Sula* and *El Progreso*, agro-industrial traffic on the Atlantic coast, and tourist traffic towards *Tela* and *La Ceiba*. In energy, MIGA granted US\$82.4 million in guarantees for a 24 megawatt expansion of the existing 102 megawatt *Cerro de Hula* wind farm, and an investment of US\$56.7 million in guarantees in three photovoltaic projects supporting 80 megawatts of solar power.

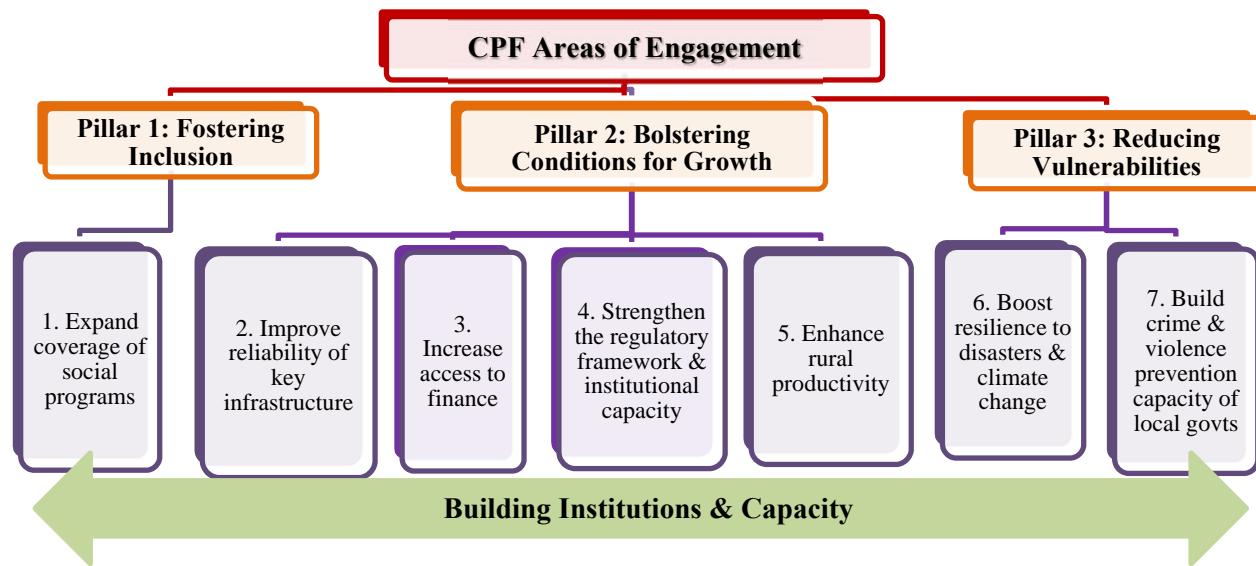
47. Enhancing good governance was a strategic objective of the previous Country Partnership Strategy. In the wake of the 2009 political crisis, progress was made on improving governance in certain key sectors, such as education and public infrastructure, and strengthening the demand-side governance role of civil society organizations. Despite these achievements, overall results for this strategic objective were only moderately satisfactory, with limited results in public sector reform. Lessons learned point to the need for comprehensive work with all branches of Government, as well as a sustained willingness for reform on the part of the authorities,

based on a broader country consensus that goes beyond the four year administration period, and beyond the scope of the WBG.

C. Proposed WBG Partnership Framework (FY16-20)

48. The WBG proposed engagement supports Government's efforts to foster social inclusion, while improving conditions for growth and reducing vulnerabilities to enhance resilience. Thus the proposed CPF is organized around three strategic pillars, with seven objectives (Figure 11): (i) Fostering Inclusion; (ii) Bolstering Conditions for Growth; and (iii) Reducing Vulnerabilities.

Figure 11: Honduras CPF Areas of Engagement (FY16-20)



49. Given the importance of institutions and gender, these themes will be addressed in a cross-cutting manner throughout the CPF. Improvements to the quality of institutions in Honduras, according to the SCD, will require a broad agenda that includes: (i) improvements in the accountability framework; (ii) strengthening of the rule of law and the judiciary; and (iii) administrative simplification. The WBG will continue its partnership with the Government and other development partners on a number of initiatives for enhanced transparency, social accountability and anticorruption, including the Open Government Partnership, the Construction Sector Transparency Initiative, the Extractive Industries Transparency Initiative, and UNCAC, and will explore how to best mainstream citizen engagement in operations (Box 6). However, improvement of institutions in Honduras goes beyond transparency and accountability measures, and requires the building of additional skills and capabilities within the government, for example strategic planning and policy design. From the governance perspective, these capabilities are key to promote effective public investment management and consolidate fiscal stability. Given that weak institutions have limited the Government's ability to deliver on its development agenda, capacity building and institutional strengthening interventions have been embedded in all seven CPF objectives. Nonetheless, given the time needed for incremental change in building institutions, expected results during this CPF period will likely be modest and therefore, no specific indicators have been identified to measure progress for this cross-cutting theme (other than those identified under each specific objective). A second importance cross-cutting issue is that of gender.

As gender is a key socio-economic category, a gendered lens is being used both to identify barriers and design policies to eliminate or mitigate them. Indeed, barriers for human capital accumulation, labor force participation and civic engagement, which are all key contributors to sustainable economic prosperity, may be considerably different for men and women. Thus, where possible, a gender lens in policy design will also be employed throughout the CPF.

Box 6: Honduras' Governance Initiatives

Fighting Corruption:

Honduras' National Anti-Corruption Council is carrying out the UNCAC Self-Assessment, an objective and evidence-based instrument to assess the gaps in the legal, regulatory and institutional framework for combating corruption. The UNCAC is the only legally binding universal convention on anti-corruption and represents an accepted international standard regarding best practices for combating corruption. Chapters three (Criminalization and Law Enforcement) and four (International Cooperation) are expected to be completed by end 2015.

Promoting Transparency & Citizen Participation:

- The *Open Government Partnership* has helped create space for dialogue among the authorities, civil society, private sector and other actors. The Presidential Office for Transparency, Modernization and State Reform was created in 2014 and a number of permanent structures have been established to facilitate country-based dialogue and engagement on enhancing good governance across sectors.
- After joining the *Construction Sector Transparency Initiative* in August 2014, the President issued an Executive Decree in March 2015 establishing a Formal Disclosure Requirement for Honduras, representing a considerable milestone in delivering transparency in public infrastructure.

Improving Accountability in Public Expenditures:

The Government moving towards an Integrated Financial Management System to enable the registration of payments at both the central level and in decentralized institutions, and is working to increase procurement transparency. To date, the system has allowed registration of 69 percent of central level payments, and 88 percent of payments for decentralized institutions. In 2014, an Electronic Procurement Law was enacted mandating the use of framework agreements, which are expected to promote transparency in Government purchases. As of 2015, all bidding opportunities are published on an e-platform for public procurement. The Government is also seeking to strengthen its public investment management system based on regional best practices, with WBG support.

Addressing the Public Sector Wage Bill:

The Public Administration Reform Commission is spearheading the reform process of the State and carrying out an overhaul of the organizational structure and rationalization of human resource management within the public sector. To increase the effectiveness of wage expenditure and resource allocation, a compulsory Public Employee Control and Registry System was created and cross-references employee information with the Human Resources Management System and the Financial Management System to validate information and remove 'ghost workers.' This generated nearly US\$15 million in savings in the education sector and has since been extended to all 88 central Government institutions. Payroll audits are also being used to identify payments made outside existing labor and social benefits legislation. These audits have been completed in five institutions accounting for nearly 80 percent of the public payroll (Education, Health, Infrastructure and Security Secretariats, and the Tax Administration Agency), and recommended actions to improve personnel file management and legislative simplification to facilitate and strengthen control. Finally, an exercise is underway to improve strategic staffing by matching employee profiles with post qualifications. A functional institutional review is ongoing (to be completed in December 2015) and will provide the Commission with a plan for future action.

50. The CPF proposes a highly selective program to address the Twin Goals. The CPF relies largely on legacy activities and features few new investments in select areas, such as social protection, fiscal consolidation and rural productivity. The proposed areas of engagement address the Twin Goals by supporting growth and competitiveness as drivers for poverty reduction, while promoting shared prosperity and inclusion and increasing resilience. The SCD highlights a history of persistent poor social and economic outcomes driven by high poverty and low shared prosperity. Changing the pattern of development outcomes will require measures to promote inclusion and strengthen competitiveness, while simultaneously addressing social, economic and environmental vulnerabilities, especially among the most poor. The proposed pillars and objectives of the CPF are mutually reinforcing to achieve these important goals: Pillar 1 aims to both provide financial protection of families and expand coverage of existing social programs among the poor; Pillar 2 seeks to both increase competitiveness and returns in rural sectors, namely agriculture, while also supporting infrastructure improvements; finally, Pillar 3 focuses on reducing vulnerability to disaster and climate change, and crime and violence.

51. Not all SCD priority areas will be addressed by this WBG CPF, and even within the priority areas, the CPF will be selective. A number of priorities were identified either by the SCD or the Government that, although critical for the country to break the vicious cycles or achieve better development results, are not being addressed in the CPF. These may be areas that are considered priorities by the Government and the SCD, but in which WBG comparative advantage is not as strong; areas identified as SCD priorities, but in which WBG support was not requested by Government; or areas in which WBG participation can only be defined as opportunities materialize, as is the case with IFC investments and MIGA guarantees. For example, although skills and education are important for competitiveness and growth, and the WBG has in the past supported improved coverage and accountability of the basic education system in rural and disadvantaged communities, due to the limited IDA resource envelope, the Government has not requested WBG support in the sector. Moreover, there are a number of other active development partners in the sector and strong donor coordination and collaboration through one of the longest standing donor groups in the country. The WBG has remained active in the donor group and in policy dialogue with the Government despite a limited program in the sector. The CPF will also be selective within priority areas. As outlined in the SCD, Honduras needs concerted and ambitious reforms in each of the mutually reinforcing areas to give a big push to break the vicious circles. However, the WBG is only one partner and, given limited resources, may be constrained in how much it can contribute to the “big push.” For example, while crime and violence is a crucial area, the WBG’s engagement can only focus on the preventive side of ensuring safer municipalities, while recognizing that many other elements are needed to improve security, including on the enforcement side, which will necessarily be led by the Government, with support from other development partners.

52. While the WBG’s engagement is well defined for the first two years, the proposed CPF allows for flexibility within the framework of the selectivity filters. Thus, should the elements that currently determine their non-inclusion in the program change, the WBG may engage in some of the areas mentioned above in the future, such as skills and education, or areas that could potentially be supported through IFC investments or MIGA guarantees, such as extractives. The Performance and Learning Review, expected in FY18, will provide the

opportunity to adjust the CPF as needed, as well as to better take stock of the results of IFC and MIGA investments, considering their market-based and demand-driven business models.

53. The selectivity of the CPF is also reflected in a realistic results framework. In addition to relying on the selectivity filters to pragmatically focus on key development areas in the WBG program, the CPF tries to maximize its development impact by exploiting the synergies of the different instruments in the WBG's menu: lending, economic and sector work, technical assistance, and dialogue. Furthermore, the expected results of the proposed WBG program are commensurate with the scope of supported interventions relative to the government's overall program and the country development challenges described in the SCD.

Pillar 1: Fostering Inclusion

54. Fostering inclusion in Honduras requires the extreme poor and most vulnerable to have access to critical social programs. In 2010, in line with international good practice, the Government of Honduras developed a CCT Program, *Bono 10,000*, to protect the poor and improve their human capital by targeting poverty directly, addressing hunger and improving educational and health outcomes. The Program provided resources to poor families with children to incentivize child health monitoring and school attendance. The eligible population included both extreme and moderate poor families with children aged 0-5 years and children in primary school (Grades 1-6), with the transfer conditional on compliance with regular health check-ups and/or enrollment and attendance in primary school. Evidence to date shows that the Program reduced both poverty and extreme poverty among beneficiaries at a time when poverty rates were rising nationwide, and increased primary school enrollment and visits to health centers for children aged 0-3. While these effects have been positive, more can be done to ensure greater coverage of the extreme poor, while also ensuring fiscal sustainability of the Program. Food security and malnutrition are also critical issues in some parts of the country, especially the *Corredor Seco*, and need to be urgently addressed. Financial inclusion also remains a challenge in Honduras, with a majority of the population not using formal financial services: as of 2014, only 21 percent of adults used formal financial services in Honduras, including only 13 percent of those in the bottom 40 percent. In this context, this Pillar supports the objective of expanding coverage of social programs, with the ultimate view of fostering both social and financial inclusion.

55. Limited and inequitably distributed access to education, health and utilities services inhibits human capital formation, leaving many Hondurans unable to compete for high-productivity jobs. Honduras suffers from low rates of labor force participation, high unemployment among certain groups such as youth and women, and a large concentration of workers in low-productivity jobs. Many of these distortions are at least partially attributable to deficiencies in basic public goods and services. Honduras' labor force participation rate has increased in the last decade, yet it remains among the lowest in the region, and fewer than two of every three adults in the bottom 40 percent of the income distribution are active in the labor force. One of the main components of the Government's Social Development Strategy seeks to link beneficiaries of the social protection programs to employment and entrepreneurship opportunities. The CCT Program could also help to provide linkages between the beneficiaries and productive inclusion interventions through increasing employability, particularly among the youth and women.

Objective 1: Expand coverage of social programs

56. **Bono Vida Mejor (formerly Bono 10,000) has become the main social assistance program in Honduras.** By end 2013, the Program absorbed around 0.5 percent of GDP (US\$130 million per year) and covered almost 20 percent of the population (270,000 households in rural areas and 50,000 in urban areas). The Program's objective is to protect consumption and prevent families falling into poverty in the short-run, while increasing use of health and education services that, over the longer term, will improve human capital indicators and contribute to breaking the intergenerational transmission of poverty.

57. **In 2014, the new Government developed a social development strategy and consolidated social programs for the poor, including Bono Vida Mejor, under a new Secretary of Development and Social Inclusion.** To address Honduras' high poverty rates and weak outcomes in education and health, the Government elaborated a four-year strategic plan (*Plan Estratégico de Gobierno 2014-2017*) to reduce inequality, promote human development and social protection. In the line with the 2013 Social Protection Policy, the Government announced a social development strategy, the *Estrategia Vida Mejor* ("Better Lives Strategy"), and consolidated the various social programs used to provide services to the extreme poor under the leadership of the Secretary of Development and Social Inclusion. This Secretary is now the coordinating institution for the broader social sectors (social protection, health, and education), and oversees the delivery of a comprehensive set of services to improve individual and collective welfare known as the Platform *Vida Mejor*, including social insurance and assistance, health, nutrition, and education, in addition to the CCT Program.

58. **The Government seeks to expand coverage of the extreme poor through further enhancing the targeting of the Bono Vida Mejor Program while ensuring its fiscal sustainability.** Estimates for 2013 show that 75 percent of beneficiary households are extreme poor (with 45 percent belonging to the first income quintile, and the rest to the second quintile), and 15 percent are moderately poor (third income quintile). The errors of inclusion are in line with other CCT programs in the region. However, exclusion errors are high, since just 25-30 percent of families in extreme poverty are *Bono Vida Mejor* beneficiaries. As a result, the Government is prioritizing benefits for extreme poor families and has set a preliminary target of reaching 300,000 extreme poor families by 2017 through the *Bono Vida Mejor* Program. To this end, the Program's proxy-means test has been adjusted to ensure better identification of the extreme poor, and beneficiary data is being updated using the latest vulnerability maps from the National Statistical Institute and other poverty information.

59. **Changes are also being made to the Program's eligibility rules and benefit levels to increase coverage of excluded extreme families, with a focus on the transition from primary to secondary school.** While Honduras has been largely successful in boosting primary enrollment and completion rates, repetition and dropout rates are still significant, the net enrollment rate for secondary school is only 44 percent—the lowest in Central America—with significant drop out rates between 6th and 7th grade. Honduras is also the only country in Central America where the majority of youth (53 percent) reports economic causes as the driving factor for dropping out. By end 2015, the Program will begin covering students in lower secondary education (Grades 7-9), given that school dropouts tend to take place in the transition from primary (Grade 6) to lower secondary (Grade 7). Benefits will be higher for children in lower secondary school than in primary

school to reflect their higher opportunity cost and the importance of economic causes in driving the country's high dropout rates. Moreover, benefits will be paid according to the number of children complying with co-responsibilities, instead of a flat benefit per family. These changes are expected to allow for increasing coverage of excluded extreme poor families, while maintaining the Program budget at 0.5 percent of GDP, in line with other LAC CCT programs.

60. Areas with the highest rates of poverty, malnutrition, vulnerability, violence and high child migration will be prioritized for Program expansion, including the *Corredor Seco*.

Program expansion will prioritize the extreme poor in 141 municipalities with the highest rates of poverty, vulnerability, violence and high child migration. Nearly 91.7 percent of the population (650,000 persons) live under the extreme poverty line in the country's western and southern areas (the *Corredor Seco* or Dry Corridor) – the region with the country's most acute poverty and malnutrition. Around 58 percent of children under five suffer from chronic malnutrition in this region, in part due to the region's particular drought and aridity hazards. Contributing factors include low incomes, limited access to clean water, a nutrient-deficient diet (predominantly corn, sorghum and beans), poor sanitation, and insufficient breastfeeding and complementary feeding practices. The Government has launched a flagship initiative – Alliance for the Dry Corridor (*Alianza para el Corredor Seco*) – to support interventions for the vulnerable population in municipalities in the *Corredor Seco*. It combines food production and rural household income generation activities with nutrition education and growth monitoring. This Alliance was created with support from the WBG's Global Agriculture and Food Security Program (GAFSP).

61. In line with the Government's National Financial Inclusion Strategy, and as part of strengthening implementation of the *Bono Vida Mejor* Program, the Government also plans to partner with at least one regulated financial institution to improve the Program's payment mechanisms. Contracting private financial institutions with presence across different regions of the country will help the program conduct benefit transfers in an efficient and accountable manner, and facilitate household planning and consumption smoothing.

62. The WBG will support the Government in implementing these changes through development policy financing (DPF), investment lending, and grant financing. WBG support will help retarget and scale up the CCT Program to ensure that the majority of Program beneficiaries are the extreme poor in rural areas. The scaling up of the CCT Program should, in turn, contribute to increasing both primary and lower secondary completion rates in beneficiary families and improving health outcomes for beneficiary pregnant women and children, given the need for compliance with both education and health co-responsibilities. The CPF will also support the graduation agenda of *Bono Vida Mejor* program beneficiaries, by linking them to Active Labor Market Programs implemented by the Ministry of Labor (for example, youth employment programs such as *Con Chamba Vivis Mejor* or the former *Mi Primer Empleo*). The Secretaries of Labor and Social Security, Education, and Social Inclusion have initiated a study to identify ways of formalizing the linkages between existing Active Labor Market Programs and CCT beneficiaries to support the transition from schools to jobs. Moreover, links will be sought with existing public works (such as the *Chamba Comunitaria* Program) and microenterprise programs (such as *Tu Banca Solidaria* Program) to support entrepreneurial opportunities for the less skilled, extreme poor beneficiaries. Support will be provided through the First Fiscal Sustainability and Enhanced Competitiveness DPF (P155920) and the on-going Social Protection Project (P115592), as well as a new Social Protection and Employment Project in outer years of the CPF. The WBG

will also enhance food and nutritional security of vulnerable households through the *Corredor Seco* Food Security Project Grant from the GAFSP Trust Fund (P148737) by increasing food production and rural household income generation, and improving nutrition education and household hygiene of beneficiaries. This Project will target a subgroup of *Bono Vida Mejor* beneficiaries in the *Corredor Seco*, and provide them with food-production business development training and support, as well as nutrition and household hygiene education and growth monitoring, with a focus on pregnant and lactating women and children under five.

63. This objective also includes support for institutional strengthening and increasing accountability. The CPF will support institutional strengthening to ensure that the CCT Program is managed more efficiently, cost effectively and transparently. To exploit synergies across the country's various social programs while promoting program accountability, the Social Protection Project is financing the enhancement of both the Unique Registry of Participants (RUP) and the institutional registry of programs. The RUP database is composed of beneficiaries of most social programs and covered 3.35 million people (two-fifths of the population) as of end of 2014, of which 72.2 percent were extreme poor and 13.8 percent were moderate poor. As of October 2014, the RUP will be used as the principle targeting instrument for all social interventions, beginning with nine major programs in 2015,⁶ with a target of reaching 18 programs by end of 2017. Moreover, the Management Information System will include a new grievance and complaints module for case management and identification of major operational bottlenecks. This module will also be connected to RUP to allow easier update of information, as well as verification and assessment of household eligibility. Finally, through both the First Fiscal Sustainability and Enhanced Competitiveness DPF and the on-going Social Protection Project, support will be provided to Government to partner with regulated financial institutions to ensure more regular, transparent and timely disbursement of benefit payments to beneficiaries with greater efficiency and accountability.

64. A number of development partners are collaborating closely on social protection and malnutrition reduction initiatives. The *Bono Vida Mejor* Program is being co-financed by the IDB and CABEI, with each development partner financing different activities in different geographical areas. The WBG finances around 20 percent of transfers to poor households in rural areas in four Departments, *Atlantida*, *Colon*, *Copan*, and *Cortes*, while the Government has increasingly been allocating domestic resources for transfers to households living in urban areas. The WBG is also a member of the Alliance for the Dry Corridor (*Alianza para el Corredor Seco*), which relies on evidence-based research and best practices from all major food security donors in agriculture and health in Honduras. The ACS was created using the GAFSP grant. Once Honduras was competitively awarded the US\$30 million grant, it was leveraged by other co-investors, such as USAID, the European Union, the Canadian International Development Agency and the Honduran Government, and currently totals an investment of around US\$200 million.

65. The expected outcome of WBG interventions under this objective is improved coverage of the extreme poor by social programs. The *Bono Mejor Vida* Program is expected

⁶ The nine programs already registered and using RUP are: *Bono Vida Mejor*, *Alimentos Solidarios* (distribution of food to elderly), *Con Chamba Vivis Mejor* (youth employment program), *Merienda Escolar* (school feeding), *Vivienda Mejorada* (housing improvement), *Ecofogon* (distribution of cooking stoves), *Huertos Escolares* (school farming), *Huertos Familiares* (urban farming), and *Microempresarios del Maiz* (corn agribusiness promotion).

to be better targeted, resulting in higher coverage of the extreme poor, especially in rural areas, without jeopardizing the Program's fiscal sustainability. Indicators to measure success of this objective include increases in the percentage of extreme poor households that receive conditional cash transfers from the *Bono Vida Mejor* Program; and the percentage of Program beneficiary children aged 16-18 years that completed lower secondary education (ninth grade), disaggregated by gender.

Pillar 2: Bolstering Conditions for Growth

66. Stimulating growth in Honduras will require addressing a number of challenges to growth and creating new opportunities. Honduras faces a number of structural constraints to growth. The SCD outlines some of these challenges, including: (i) a lack of fiscal discipline and high levels of debt which have undermined macroeconomic stability in Honduras; (ii) inadequate infrastructure resulting from public spending decisions; (iii) a persistent shortage of skills and limited access to school for much of the population; and (iv) relatively low access to capital (finance and property rights), particularly for SMEs and groups that are considered vulnerable, such as indigenous people, women and youth. The Government aims to position itself as one of the largest providers of trade logistics services in the Americas and has proposed a robust strategy for addressing the existing constraints to growth. At the core of this strategy are efforts to reduce the high costs of doing business by increase efficiency of public investment and regulatory structures, improve reliability of infrastructure, with a particular focus on the energy sector and transportation infrastructure, and increase positive investment spillovers (i.e., impact of social programs addressing crime on improving investment climate). The Government aims to nurture existing business while also attracting new ones, and ensure a more equitable approach to growth by intensifying efforts in rural areas.

67. Macroeconomic stability has been a chronic challenge for Honduras over the last decade, with uneven fiscal discipline and increasing levels of debt. Weak budgetary controls and growing non-discretionary expenditures have led to higher than expected deficits and larger arrears, which itself undermines the allocation of resources. The Government's fiscal policy-making tends to be ad hoc, with limited transparency, accountability, and sustainability, driven by a lack of a credible medium-term fiscal framework and fiscal responsibility provisions. As a result, a key Government priority is to strengthen fiscal management and maintain momentum on its comprehensive reform program to stabilize, and indeed, bolster, its fiscal position.

68. To help spur new growth, the Honduran Government has been actively promoting new business opportunities. The Hernandez Administration seeks to ensure that the country has the proper legal and regulatory framework to tap the potential of the private sector as a key driver of development. The current Administration has also focused efforts on fiscal consolidation and public sector reforms to increase efficiency and transparency of Government operations, and enhance conditions for attracting FDI. At the core of this approach is the infrastructure sector, where several infrastructure improvement projects have already been awarded to private sector partners through PPP instruments. The Government is also working to establish Honduras as a top logistic center to meet regional and inter-oceanic transportation demands, particularly in the context of expansion of the Panama Canal. For example, the Government hopes to modernize port infrastructure and is working with private sector entities (through PPP models) to improve service

and productivity at the country's main port (*Puerto Cortés*). The Government is also interested in upgrading the existing Port of *Castilla* on the northern coast and building the Port of *Amapala* in the south, connecting these two ports through a railroad, improving connectivity and facilitating trade openness within Central America. Finally, the Government is taking measures to enhance competitiveness and investment in emerging sectors with potential for growth, such as extractive industries, through policy and institutional reform. To fully take advantage of these new opportunities, the Government needs to develop a strategy to create more partnerships and attract private sector participation.

Box 7: Typology of the Agricultural Sector in Honduras

Honduras' agriculture sector is based on family farming, while the agro-industry enterprises only takes a small stake of total agricultural units. Family agriculture poses a challenge due to its diversity and relevance to family livelihoods for the majority of rural inhabitants. Development strategies for family agriculture recognize that agricultural production is not always an exit strategy out of poverty for everyone. The role of the State and its interventions are designed to improve both the effectiveness of public spending programs and the impact of poverty reduction strategies. The terminology family agriculture can be divided into three categories: i) subsistence; ii) transition; and iii) commercial farming.

- i) **Subsistence farming:** Characterized by low access to productive assets (land, labor and capital) and by mainly producing low value crops (corn, sorghum and beans) for self-consumption with low productivity and income generation. Often they are located far away from population centers and the cultivated land is on hilly terrain, where farming does not have potential. These households are mostly extreme poor and in many cases suffer from chronic malnutrition. The Millennium Development Goals 2030 agenda has emphasized assistance programs such as income support and cash transfers for subsistence farmers oriented towards families trapped in poverty in rural areas, complemented by food security programs and livelihood strategies not necessarily related to agriculture.
- ii) **Transition farming:** Characterized by producers with sufficient access to productive assets and capacity to handle improved technologies to reach a higher level of productivity, move away from subsistence farming and diversify into higher value products such as vegetables, fruit, coffee and livestock. Most transition farmers diversify and lessen their dependence on agriculture. Public sector strategies to link transition farmers with market activities have proven to be successful.
- iii) **Commercial farming:** Characterized by producer groups that have achieved a certain level of capacity, therefore graduating from previous levels. They are included in agricultural value chains and have access to national and international markets. They have access to higher technology and irrigation systems and part of them have access to financial markets. Commercial small-scale family farmers often help keep food prices within reach and contribute to rural economic growth as a powerful engine by creating jobs in agriculture with enhanced backward and forward linkages to non-agriculture rural sectors. Public and private investments effectively targeting this group have a multiplier effect in both rural and urban areas, benefiting many landless farmers.

69. **To help increase the competitiveness of existing industries, the Government is actively working to modernize the agricultural sector.** The Government aims to simultaneously support poverty reduction, increased employment, and stronger growth by modernizing agricultural tools, increasing cultivation of crops with high export potential, and providing capacity building to help meet changing market demands, particularly in the Central American Free Trade Agreement (CAFTA) era (Box 7). This will be achieved by adopting new technologies to support sustainable

and productive agriculture, improving crop diversification, and through regular and proactive technical assistance.

70. **These opportunities highlight the private sector as a driver of economic growth.** The WBG is well positioned to work with the private sector to stimulate investment in Honduras. Through MIGA, the WBG is already providing credit enhancement guarantees to investors to protect FDI against political and non-commercial risks, notably in the energy and infrastructure sectors. Similarly, through IFC, the WBG is supporting investment and advisory services to encourage private sector development in Honduras, notably in the infrastructure sector and to support access to finance for SMEs. These robust efforts to improve investor confidence are critical, particularly in the context of high rates of crime and violence, among other challenges.

71. **Within this context, this Pillar's objectives are to: (i) improve reliability of key infrastructure; (ii) increase access to finance; (iii) strengthen the regulatory framework and institutional capacity; and (iv) enhance rural productivity.** To meet the objectives of this Pillar, the WBG will draw on the strengths of IDA, IFC and MIGA to implement an innovative package of complementary instruments, based on cutting-edge global knowledge. The WBG will evaluate opportunities to support Honduras in the development of emerging sectors that can break the vicious cycles identified in the SCD by strengthening institutional capacity and management of PPPs. The Government has requested support from the WBG in developing these key sectors. While resources under the current IDA envelope have already been assigned, there may be additional resources in the near future which may be considered for support in these areas, as the opportunities arise.

Objective 2: Improve reliability of key infrastructure

72. **Weaknesses in core infrastructure, especially transportation and energy, inhibit economic growth by reducing gains from trade and increasing prices for traded goods.** Despite efforts to increase infrastructure coverage, Honduras still lags behind neighboring countries. Road density in Honduras is only 15 percent of Costa Rica's road density, and it lags behind Nicaragua, Panama, and El Salvador. Moreover, Honduras has one of the lowest rural electrification rates in LAC, with a quarter of the rural population lacking access to electricity. On the two most widely used international rankings of transport service provision – the World Economic Forum's Global Competitiveness Index and the Logistics Performance Index – Honduras ranks slightly below the median among the 140-160 countries ranked, scoring below neighboring Central American countries.

73. **Honduras' transport infrastructure is in dire need of modernization.** The majority of overland freight in Honduras is transported by road. Despite its importance, the road network has deteriorated due to limited public investment, environmental shocks, and weak institutional capacity within the state agencies responsible for paving roads. As a result, more than 50 percent of roads in Honduras are in a poor condition, contributing to inefficiencies in the road transportation network that affect both international trade and domestic commerce. Similarly, high rates of crime and violence and logistical weaknesses (empty backhauls, long wait times, corruption, etc.) contribute to the high costs of road transport and further exacerbate the already

slow transport time.⁷ Given the significance of agriculture for both economic growth and household consumption, and due to the perishable nature of most agricultural products, improving the reliability of Honduras' road network is critical for connecting producers to markets and markets to buyers.

74. Securing access to electricity can be cumbersome and costly, and once connected, connection is often unstable. First, the cost of power generation is high. Over half of Honduras' energy mix is made up of thermal generation, which requires expensive fuel imports. Second, inefficient transmissions and distribution systems managed by ENEE result in both technical losses and reduced reliability of the electric grid. Third, ENEE lacks an adequate cost recovery scheme, subsidies are poorly targeted, and there are significant challenges related to billing and collection systems. Fourth, high levels of theft and fraud as a result of weak enforcement have resulted in a high per capita demand for electricity, which exceeds supply by around 100 megawatts. As a result of the combined high costs for generation, above-average demand, outdated or non-existent infrastructure, as well as weak institutions, high energy cost and unreliable services remain a significant barriers to growth for Honduras, especially in those sectors with higher energy intensity. In fact, the country's *maquila* industry produces its own electricity from biomass to counteract the unreliable and expensive electricity service. While improvements continue to be made in urban centers, overall access to reliable and affordable energy services area still limited, particularly in rural areas. Furthermore, efforts to implement comprehensive sustainable rural energy programs have been hindered by the lack of an integrated rural energy policy and the weakness of the institutional framework for the rural energy sector. Given that hydropower provides 40 percent of electricity, climate vulnerability, in terms of water availability in the long term, as well as the vulnerability of the transmission and distribution systems and related infrastructure will also be examined and appropriate climate-smart options to build resilience in Honduras' energy sector will be proposed.

75. The WBG will provide some support for improving transport and logistics, which is at the core of the Government's strategy to promote growth. It will do so through an existing MIGA guarantee for the rehabilitation and improvement of 220 kilometers of the road network along the *Corredor Turístico* toll road and rehabilitation of two bridges, one of which was severely damaged by Hurricane Mitch.⁸ This work aims to improve connectivity in Honduras, including through: (i) rehabilitation of the road between *San Pedro Sula*, Honduras' second largest city and international air transport hub, and *El Progreso*, Honduras' agricultural center; (ii) rehabilitation of the road from *La Ceiba* to *Tela*, two of Honduras' most popular tourism destinations on the Caribbean Coast and source of banana and pineapple production; (iii) expansion of the road from *Tela* on the coast to *El Progreso*; and (iv) construction of a highway bypass through *El Progreso*, Honduras' key connection point to the Caribbean Coast (including *Puerto Cortes*, the only deep sea port in Central America). Among the most important benefits are the significant reduction in

⁷ Average security costs related to transportation have increased by close to 20 percent over the past three years and currently represent about 5 percent of total trucking costs. Long loading times and delays at weigh stations represent around 20 percent of total shipping time along the country's main routes. Trucking companies report high informal payments to the police along both national and international overland routes, as well as border clearance payments to both official and unofficial customs agents.

⁸ MIGA is providing guarantees of US\$187.9 million to two of the project's lenders, JPMorgan Chase Bank and the *Corporación Interamericana para el Financiamiento de Infraestructura*. The project is being carried out under a 30-year concession agreement between *Autopistas del Atlántico*, S.A. de C.V and the Government of Honduras.

transport time of vehicles and goods, as well as operating expenses and fuel savings, among other inputs. This will potentially facilitate increased access to markets for the agricultural and service sectors and expand the country's capacity to produce higher-value agricultural produce, often perishable. It may also contribute to reduced agricultural losses due to more efficient travel. Fully funded by the private sector, the project also provides a needed stimulus to strengthen the country's infrastructure network while alleviating pressure on public finances. This underlines the viability of the public-private partnership framework recently endorsed by the Government of Honduras. The WBG will also use knowledge and convening services to foster private sector involvement in Honduras' transport and logistics agenda. Analytical work will be jointly developed (IDA, IFC, MIGA) to inform policy dialogue and support development of a broader, more integrated Transport and Logistics Strategy (with a mid- to long-term vision), considering all relevant stakeholders and with active participation from the private sector. This Strategy will identify the best potential opportunities for investment based on Honduras' competitive and comparative advantages, with an asset-management approach and including use of PPPs and other innovative instruments, as appropriate. However, expected results of this work are likely to be modest given the program is largely made up of legacy activities, and thus this objective will address only a small component of the country's transport constraints.

76. The WBG will also continue support of Government efforts to increase the reliable supply of power through a broad mix of interventions. Under the Promoting Fiscal Sustainability Pillar of the DPF, the WBG will continue to promote growth and competitiveness by reducing the cost of energy and increasing reliability of energy supply at the national level. With respect to the specific challenges of electricity connectivity in rural areas, the WBG is providing grant financing to strengthen the existing policy and regulatory framework for rural electrification and increase rural energy access through off-grid electrification. To ensure the medium- to long-term reliability of electricity in Honduras, the WBG is also supporting larger infrastructure support. With support of a MIGA guarantee, a 24 megawatt expansion of the existing 102 megawatt *Cerro de Hula* wind project, the largest wind farm in Central America, is moving forward.⁹ This project will broaden Honduras' energy mix (further reducing dependence on traditional fossil fuel generation), while contributing to reducing the cost of power. MIGA and IFC are also working jointly to support the development, construction, and operation of three solar photovoltaic power plants in *Choluteca* region, which will add more than 80 megawatts of clean, renewable energy to Honduras' grid.¹⁰ IFC investments in renewal energy generation will help private sector clients expanding their capacity to provide 575GWh in electricity each year and reaching at least 444,000 households by 2018. Together these solar and hydro operations are expected to displace approximately 299,000 tons of carbon dioxide equivalent each year, while generating about US\$42 million in taxes and other payments for the Government of Honduras throughout the life of the project. Construction is already underway, with expected interconnection to the grid by late 2015. Finally, analytical work will also be carried out during the first two years of the CPF period, including a renewable energy grid integration study and a country-level energy

⁹ The MIGA guarantee of US\$82.4 million covers Globeleq Mesoamérica Energy's new and existing equity investments. Globeleq has secured a long-term operating agreement from the Honduran Secretariat of Natural Resources and Environment and a long-term power purchase agreement with ENEE.

¹⁰ MIGA is providing investment guarantees of US\$56.7 million to cover equity investments of SunEdison, while the IFC is providing direct financing for US\$85.9 million, including US\$65.5 million in senior debt and US\$20 million in subordinated debt. SunEdison will provide energy to the national grid under a 20 year power purchase agreement with ENEE and will also operate and manage them under long-term agreements.

efficiency exploratory assessment, which may inform both the planning process to strengthen the power system and a forthcoming strategy to ensure more efficient use of energy. The results of this analytical work may lead to potential private and public investments in the energy sector to improve the reliability and sustainability of the power supply, especially in the current scenario of high penetration of variable renewable energy. Additional efforts to improve the efficiency of the energy consumption will be required to reduce the pressure on the supply side to meet the growing demand. Public investments in the energy sector supporting the integration of variable renewable energy and energy efficiency may require IDA support.

77. WBG support under this objective includes a number of interventions that are expected to strengthen institutions. In particular, the CPF will support the Competition Authority to implement the Leniency Program, which was adopted under the Competition Law and provides incentives for corporations and individuals to report and cooperate in the investigation of cartel practices. The WBG support will also focus on strengthening the institutional capacity of COALIANZA, a recently created commission to promote PPPs for public works, to ensure that PPPs are structured around the principles of competitiveness and good governance. The WBG is collaborating with the Government of Honduras to improve ENEE's institutional framework, including support for the implementation of adequate internal control systems and the definition of a modern organizational structure, in line with best international practices.

78. The WBG is working closely with key development partners on improving the reliability of Honduras' infrastructure. Given the difficulty of the challenges facing Honduras and the need for comprehensive and sustainable solutions, WBG support alone will not be sufficient to support the modernization of the road network or energy sector. In fact, WBG support builds on efforts of partners such as CABEI, the German Development Agency, IDB, and USAID in the road and energy sectors.

79. The expected result of this objective is improved energy and transport-related infrastructure. Indicators to be used to measure success include: (i) increase in the kilometers of roads under operation and regular maintenance; and (ii) people provided with new or improved access to electricity.

Objective 3: Increase access to finance

80. Access to finance remains an important challenge, undermining the competitiveness of SMEs. SMEs tend to have difficulty accessing credit and, even if successful, interest rates are usually higher than those for larger firms. While the Government has taken strides to increase access to credit, further measures are needed to increase access to financing. Despite improvements during the last decade, firms in Honduras are still lagging behind on gaining access to checking accounts (81 percent of Honduran firms compared to over 92 percent in LAC). Furthermore, only 31 percent of these firms have a line of credit, well below the LAC average of 46 percent, while around 15 percent of firms identified access to finance as a major constraint to doing business, only behind political instability and corruption. This is a particular challenge for small firms as they were 20 percent more likely than medium-size firms, and 94 percent more likely than large firms, to identify access to finance as a major constraint to their operations.¹¹ Firms also report

¹¹ World Bank Enterprise Survey 2010.

low usage of formal financial services to finance their operations. As of 2014, only 17 percent of firms in Honduras had investments financed by a bank, compared to 33 percent in LAC. This negatively impacts development and growth of SMEs, undermining their competitiveness and limiting opportunities to finance the expansion of their business operations. Moreover, financial inclusion indicators are among the lowest in the region, with the percentage of adults with access to a bank account reaching only 32 percent (compared to a LAC average of 51 percent), considerably limiting economic opportunities, especially for small farmers. The National Commission of Banks and Securities (CNBS) is currently preparing a National Strategy for Financial Inclusion addressing four strategic pillars: i) supply; ii) demand; iii) financial literacy and transparency; and iv) consumer protection. The Strategy is targeting five market segments, namely employees, SMEs, remittance recipients, micro and small farmers, and beneficiaries of the Government's CCT programs. Its implementation will take place over five years and with nationwide coverage, both urban and rural. The CNBS in its regulator capacity will be responsible for adapting the legal and regulatory framework to foster financial inclusion in a context of healthy competitive environment. Overcoming the access to finance challenge and providing SMEs with the opportunity to grow and expand is crucial for fostering their role in stimulating new investments, creating growth, and reducing inequality and social exclusion for many Hondurans.

81. The WBG will work to reduce barriers to financing. The IFC currently provides credit lines to domestic banks to support an SME lending portfolio of about US\$445 million, benefitting close to 20,700 SMEs. IFC support to financial institutions in Honduras will help them increase their outreach to nearly 23,000 SME by end FY17, an outstanding portfolio worth about US\$517 million. During this CPF period, IFC seeks to expand financial services through SME financing and explore opportunities to further strengthen access to credit and the growth potential of smaller domestic companies, including through specialized lending initiatives. IFC will also continue to support financial intermediaries to expand banking penetration in rural areas and underserved segments, such as agribusiness, by providing special purpose long-term credit lines as well as short-term finance programs to promote export of critical agro-commodities. In addition, IFC will continue to fill a market gap by supporting a local commercial bank in its initiative to finance sustainable energy and clean technology projects, both highly underserved sectors. Such financing has been constrained in part due to the lack of proper financing conditions for small enterprises, such as longer tenors, as well as limited project finance capabilities and technical expertise of the local banking system. The WBG is also supporting improving access to credit for small agricultural producers through the Rural Competitiveness Project (COMRURAL, P101209), which provides options to leverage private capital and create the capacities and trust between rural producers' organizations and financiers for longer term business relationship. The Project targets in particular the participation of youth and women. In the context of the Government's National Financial Inclusion Strategy, the WBG may also consider addressing some structural challenges preventing access to financing, in particular for small farmers and the poor in rural areas through trust funding. Facilitating financial inclusion is a critical stepping stone for creating economic opportunities for the poor.

82. The expected outcome of this objective is an increase in access to finance for SMEs. This will be measured by the WBG's core sector indicator of increase in people, small and medium enterprises reached with financial services.

Objective 4: Strengthen the regulatory framework and institutional capacity

83. Promoting competitiveness in Honduras is essential for the country to move to a path of increased and more sustainable growth. In the context of ongoing trade liberalization as a result of CAFTA, Honduras is increasingly integrating into the global economy. However, it faces a number of challenges to attracting and retaining investors, both domestic and foreign. To attract new businesses, nurture and grow existing businesses, support diversification of exports, increase FDI and the participation of the private sector, it is, therefore, critical that steps are taken to improve the overall competitiveness of the country, including, among others, reinforcing the investment climate, reducing red tape, improving the regulatory framework to ensure competition and trade facilitation, enhancing land regularization and strengthening the financial sector.

84. Honduras has a number of governance-related challenges that negatively impact the overall investment climate, including crime and violence, corruption, and bureaucratic red tape. The high levels of crime and violence are not only worrisome on a social level, but also impact investor confidence and increase the cost of doing business. Similarly, high levels of corruption and complicated regulatory and administrative burdens create hurdles and add costs to operating a business. While Honduras has made progress over the last decade, it still lags internationally in terms of its ease of doing business and more generally investment climate.

85. Land tenure security is central to economic growth. Weak property rights can discourage investments and restrict access to credit. Coupled with a highly skewed land distribution, land tenure insecurity has contributed to social instability (often through illegal land occupation and violent disputes) and unsustainable land uses. In this context, strengthening property rights has the potential to stimulate economic growth and reduce poverty rates, especially in urban and rural areas critical for the country's development. The Government has already made substantial improvements in the legal, institutional and operational framework for the protection and management of property rights, including the promulgation of the 2004 Property Law. However, Honduras still faces important challenges to consolidate land governance advances: the legal and policy framework needs to be made more consistent; key agencies need further institutional strengthening and better coordination, as well as more insulation from political interference; municipalities need to be strengthened to advance decentralization of the system and ensure maintenance of cadastral information; a more strategic and culturally-responsive approach to indigenous peoples' land rights is crucial; better equity in land rights is needed, with respect to both ownership and land use for women; capacity for alternative conflict resolution mechanisms needs to be increased; and a culture of registry needs to be further promoted.

86. Although Honduras has made advances in strengthening the financial sector, serious challenges remain. In the last decade, a series of laws and regulations were approved to strengthen the financial system, including: (i) strengthening prudential norms (for example, capital adequacy, and loan classification); (ii) initiating consolidated supervision (including offshores, affiliates and subsidiaries); (iii) increasing the powers of the supervisory agency, the CNBS; and (iv) broadening the circumstances that require corrective actions by banks. However, vulnerabilities in the financial sector exist as evidenced by the recent closure and planned liquidation of *Banco Continental*. This has generated uncertainty for the financial system and exposed weaknesses that need to be urgently addressed. Challenges include: (i) weak oversight capacity of CNBS to supervise financial groups and detect, in a timely manner, the risk that economic conglomerates

may pose to financial entities; and (ii) lack of a modern legal and regulatory framework for the resolution of banks and their financial groups, or for the insolvency of economic conglomerates.

87. Finally, strengthening fiscal management through continued implementation of fiscal consolidation measures is critical to improving Honduras' fiscal position. Since December 2013, the authorities have launched a set of reforms designed to increase fiscal space and stabilize the country's fiscal position. On the revenue side, tax reforms are expected to increase the tax-to-GDP ratio from 15.6 percent in 2013 to an average of 17.2 percent during 2014-16. On the expenditure side, enhanced public financial management, particularly in the areas of procurement and payroll, is expected to yield significant fiscal savings. With respect to the wage bill, a personal registry to reduce leakages and ghost positions was introduced in 2014, and was complemented in 2015 by the creation of a budgeting module in the Integrated Financial Management System, integrating budget ceilings consistent with the medium-term macroeconomic framework. Similarly, ENEE reform is already underway. The Government increased the fuel surcharge associated with the electricity tariff by 12 percent (2014) and modified the tariff formula to improve cost recovery by better aligning the prices paid by residential consumers with the cost of electricity generation and distribution. This adjustment, which became effective in January 2015, raised the average tariff by an additional 9 percent. In addition, the 2014 Electricity Law lays the foundation for the restructuring of ENEE, with separate subsidiaries for distribution, transmission, and generation. This separation should increase transparency across the value chain and improve both governance and efficiency. The reforms implemented thus far represent important steps in the right direction, but will require substantial will and capacity to sustain over the medium-term.

88. In response to governance-related challenges, the WBG will continue to support the Government in making improvements to the regulatory environment. While the Government has already enacted a new Competition Law and adopted associated regulations (May 2015), the WBG will support further advancement of the competitiveness agenda under the Enhancing Competitiveness and Transparency Pillar of the DPF. Specifically, it will support Government efforts to simplify regulatory procedures to start and operate a business in Honduras through the creation of an electronic platform (*MiEmpresaEnLínea*) aimed at facilitating a number of common business tasks, such as filing permits and obtaining licenses. These measures are expected to reduce the overall time needed to start a business, while also maintaining sufficient oversight. To further advance the competition policy agenda, the WBG may engage with the Competition Authority in assessing potential negative effects on competition stemming from new regulations. The WBG will also continue to provide investment climate-related advisory services with programs that simplify business regulations at the municipal level and support the simplification and harmonization of international trade procedures including import and export procedures.

89. The WBG will also work to strengthen property rights and secure land tenure. The first phase of the WBG-supported Land Administration Program was instrumental in the formulation and implementation of a number of legal and institutional reforms. The WBG is continuing support through an on-going Second Land Administration Project (P106680), which builds on the achievements of phase one and aims to strengthen property rights in Honduras through the establishment of modern and decentralized land administration services based on improved institutional processes and systems. This Project is supporting the Government's renewed efforts to improve governance and transparency of land administration services, including

introducing a new approach to the property registration system. Accordingly, the WBG will continue to invest in the development of a sustainable and efficient information and communication platform for land administration as well as the provision of technical strengthening and capacity building to ensure the quality and sustainability of cadastre and property information.

90. Addressing social and environmental safeguards related to land property rights will be a priority in the WBG portfolio. Spurred by recent land conflicts between a palm oil corporation Dinant and local *campesino* organizations (Box 8), the Government and the WBG recognize that a holistic approach is needed to address land rights in the *Bajo Aguán* Valley, which has long been a center of agrarian conflict related to land disputes between farmers and large corporations. The *Bajo Aguán* Valley is one of the most fertile regions in Honduras and as such, provides great opportunities for inclusive development in rural areas where agriculture is the primary source of income. The Government and the WBG agree that constructive engagement on issues of critical concern will be necessary to address human rights protection, regional violence, public security, livelihoods, and specific land-related grievances, while also moving toward shared understanding and action on broad structural concerns that underlie the conflict. With a number of investments in coffee, sugar and palm oil, the WBG will focus on further strengthening land rights and reducing land disputes in rural areas. Among other, the WBG may support Government's efforts to: conduct a land tenure assessment in the *Bajo Aguán* under the Second Land Administration Project (P106680) and strengthen natural resource institutions and geological mapping as part of the Extractive Industries Transparency Initiative (P144108).

Box 8: Conflict over Land Rights in *Bajo Aguán*

IFC investments in Honduras include a loan to Dinant, a large palm oil and food production corporation with extensive land tracts in the *Bajo Aguán* Valley in Northern Honduras. Following land conflicts between Dinant and local *campesino* organizations and complaints by human rights non-governmental organizations, the Compliance Advisor Ombudsman, an independent recourse and accountability mechanism for IFC, conducted a compliance audit of IFC's environmental and social performance with regard to its investment in Dinant and identified a number of weaknesses. In response, IFC and Dinant agreed on an Enhanced Action Plan to address both Dinant-specific needs for environmental and social improvements as well as some of the critical and more systemic land ownership and development issues in *Bajo Aguán*. As part of the Plan, IFC engaged the Consensus Building Institute and international legal counsel to carry out a stakeholder engagement and dispute resolution process and monitor Dinant's security plan to ensure consistency with the Voluntary Principles for Security and Human Rights.

Dinant has undertaken a social baseline study for all project sites to better inform engagement with communities, established a grievance management mechanism, hired new community liaison officers, and updated its security procedures. The company also carried out a security forum with communities in order to prepare Community Risk Assessments for some locations and is the first company in Honduras to disarm its security guards to reduce armed conflicts. The Government of Honduras has expressed support for this initiative and has requested WBG support to find sustainable solutions to address some of these structural issues.

91. The Government recognizes the urgent need to strengthen the financial sector. In particular, to respond to the current country context, the WBG will work closely with the IMF on strengthening the legal and regulatory framework and oversight for the financial sector. In the

short-term, the WBG is expected to focus on asset management technical assistance to OABI to facilitate the resolution of the *Grupo Continental* conglomerate. The introduction and implementation of an orderly management of seized assets will be critical to reinforce investor confidence and protect the public finances. The WBG may consider engaging in other areas to strengthen the financial system, including enhancing policies for anti-money laundering and combating the financing of terrorism, strengthening deposit insurance, and improving bank resolution and restructuring processes, depending on the country context, demand and involvement of other donors.

92. The WBG will also support strengthening of fiscal management institutions and capacity, and enhancing the framework to promote competitiveness. In particular, the DPF focuses on policy and institutional measures aimed at improving: (i) fiscal policy and public financial management; (ii) financial sustainability of the electricity company; (iii) the regulatory framework for debt management; and (iv) checks on the public wage bill. These reforms are expected to contribute to key results. The enactment of the fiscal responsibility law and amendments to the public debt legal framework are expected to enhance fiscal responsibility, budget planning and execution, and transparency of public debt issuance. The restructuring of ENEE, following the 2014 Electricity Law, that will lead to separate subsidiaries for distribution, transmission and generation, and the creation of the Electricity Regulatory Agency, are expected to contribute to a reduction of ENEE's deficit, and, as a result, a reduction of Government subsidies to ENEE. In addition, further restraint of the public wage bill will build off reforms to date (staff registry, etc.) and will include institutional functional reviews of institutions making up 80 percent of the wage bill to improve payroll controls.¹² These reviews are expected to be used as inputs to improve the organizational structure of the entities and feed into the development of performance-based human resource management system.

93. Given the difficulty of the challenges facing Honduras and the need for comprehensive and sustainable solutions, the WBG is working closely with key development partners on improving investment climate and on fiscal consolidation. Notable partners working on investment climate and competitiveness issues include: (i) AECID and the Swiss Agency for Development and Cooperation, which fund projects in competitiveness; (ii) the United Nations Development Program, the European Union and AECID, which provide support to governance and institutional strengthening; and (iii) the IDB, the German Development Agency and USAID, which have diverse programs to help Honduras modernize various state functions. The WBG is working closely with all of these agencies to minimize duplication of partner activities and, where possible, create synergies to ensure complementarities in reinforcing Honduras' investment climate. On support to the Government's fiscal consolidation agenda, the WBG is working closely with both the IDB and the IMF. The three institutions are providing technical assistance on a number of reforms, including in taxation, fiscal management, energy sector modernization, social protection, and private sector development. Reforms in these areas, a subset of which are supported by this program, can lead to significant improvements in the fiscal position of Honduras, promoting investment and job creation, and fostering increased opportunities and social inclusion.

¹² The Health, Education, Infrastructure, and Security Secretariats, as well as the Revenue Authority.

94. There are four expected results of this objective related to ease of doing business, trade facilitation, improving land tenure, and strengthening fiscal management capacity. Indicators to be used to measure success include: (i) reduction in average number of days to start a business; (ii) reduction in number of days required to export and import; (iii) increase in families with land titles; and (iv) increase in share of the public sector workforce that has been evaluated through an institutional functional review.

Objective 5: Enhance rural productivity

95. Agriculture is an important driver of growth, but it is vulnerable to extreme weather events and productivity is low. Approximately 46 percent of the Honduran population lives in rural areas.¹³ Of this population, 68.5 percent live below the national poverty line and most depend on low-productivity, subsistence farming, and are vulnerable to climate change and related shocks in a country seen as one of the most affected worldwide by extreme weather events. Gradual shifts in temperature and precipitation patterns will affect the suitability of current agricultural production areas and production yields. To address this, climate-smart interventions planned under this CPF are expected to improve rural productivity, while at the same time increase resilience to gradual climate change impacts. For some crops (such as Arabica coffee), it is predicted that currently fertile land will become increasingly unsuitable and more prone to diseases. Implementing climate smart solutions, such as substituting more resilient cultivars or other crops altogether is one way of increasing resilience, while use of risk insurance mechanisms, such as the Catastrophe Risk Insurance Fund for Central America, is another option. In the context of limited transport and telecommunications infrastructure, rural communities are both technologically and geographically disconnected from markets, limiting their ability to tap into existing reservoirs for growth. In 2014, agriculture contributed 14 percent of the GDP and 70 percent of total exports. Agriculture also comprises 70 percent of total exports (excluding *maquila* assembly). Work in agriculture accounts for around 35 percent of all employment nationally, and the majority of rural employment. However, due to lower prices of export crops (coffee, bananas), the agricultural sector has lost about a third of its purchasing power in the last two decades, inhibiting growth nationally, and specifically in rural areas. To ensure equitable and sustainable growth and poverty reductions, intensified efforts to enhance rural productivity are needed.

96. Despite efforts to adapt, small producers remain largely excluded from modernization efforts and have not significantly benefited from economic growth. Some progress has been made in improving productivity in lowland agriculture in recent years, through the expansion of non-traditional export crops, such as fruit and horticultural products, and the diversification of rural economic activities in areas such as tourism, crafts, fishing, sustainable timber harvesting and wood processing, and environmental services.¹⁴ Most small and medium producers grow low-value crops for self-consumption and local markets. Agriculture has low land and labor productivity and the cultivated land is on hilly terrain vulnerable to environmental degradation and related impacts of climate variability and change, with poor access to water, roads,

¹³ World Development Indicators (2014). ‘Rural population’ refers to people living in rural areas as defined by national statistical offices. It is calculated as the difference between total population and urban population. World Bank staff estimates based on United Nations World Urbanization Prospects.

¹⁴ Some of these crops include: melon, watermelon, oriental vegetables, vegetable oils, rambutan, organic banana and cacao; aquaculture includes: shrimp, tilapia, and lobster.

credit, modern production technology, improved seeds, tools, and basic inputs. The combination of limited access to key assets, information and modern production technology with poor land management practices have limited the ability of small rural producers to take advantage of market opportunities. Female producers face additional challenges: they have lower access to training, capital, inputs, and markets for their goods. When women do have access to land, they have smaller plots on less fertile soil, and are less likely to produce export crops than male farmers. Women are more likely than men to spend additional income on food and healthcare, so increasing women's income is likely to have a proportionally greater impact on children's health and nutrition. Finally, while CAFTA created new export opportunities for Honduran products, it also brought a more competitive environment, particularly for rural producers.

97. The Government's strategy to enhancing rural competitiveness demonstrates a multi-pronged approach focused on increasing returns to agriculture and stimulating robust supply chain participation through productive alliances. This strategy, developed under COMRURAL, is expected to help to increase export volume while creating employment and reducing vulnerability, particularly for the rural poor. Adoption of new technologies and access greater market intelligence to more efficiently use available resources are key components to increasing profitability and competitiveness in agriculture. In the context of food insecurity and high levels of malnutrition, enhancing women's participation, improving productivity, adapting to climate change, modifying the composition of its basket of products produced while introducing nutrition education are critical components for both insulating the population against exogenous shocks (such as the food crisis of 2008), and investing in modernization of the agricultural sector. Some options for improving rural competitiveness include: (i) technological innovation, good agricultural practices, and climate smart agriculture to raise productivity; (ii) targeted market intelligence to enhance market access; (iii) financial capital to boost access to productive assets; and (iv) capacity building and technical assistance to be able to meet market demands.

98. The WBG will support the continued efforts of the Government through on-going and new investment and grant financing. First, COMRURAL seeks to contribute to increased productivity and competitiveness among organized rural small-scale producers through their participation in productive alliances. Investments made through this operation have already stimulated market participation, agricultural productivity and competitiveness, namely related to coffee, vegetables, and livestock, although cacao is becoming an increasingly important commodity. Through an additional financing to COMRURAL, the WBG will continue to make value chains not just more competitive, but also more inclusive for vulnerable groups such as youth, women and indigenous, creating new and higher skilled employment opportunities along the value chain, such as in agro-processing, marketing, and logistics. In addition, the Project is expected to crowd-in financial intermediaries into the agricultural sector, and strengthen SMEs and rural productive alliances, including on procurement processes, financial management, marketing and negotiations, as a means of reducing poverty and boosting shared prosperity among the rural poor. Moreover, with a grant from the Japanese Social Development Fund, the WBG has been working with small-scale cacao producers to increase productivity and lower the production costs of cacao through environmentally sensitive farming and production methods, such as agroforestry. To take advantage of improved production and quality of cacao, these efforts are complemented by educational activities to help farmers better market their products and negotiate prices. Considering that COMRURAL focuses on producer groups that have already achieved a

certain level of capacity, and matching grants are awarded competitively to groups with financially viable business plans and approved counterpart funding from the financial sector, there is a need to target poor subsistence farmers, spurring them to increase their productivity, diversify into higher value crops and off-farm activities (often more accessible for rural women), and form and strengthen producer groups. This support is being provided by the *Corredor Seco* Food Security Project (P148737). Once “graduated” from this Project, the producer groups should have high enough capacity to benefit from COMRURAL. The Rural Infrastructure Project (P086775), which finances basic national infrastructure (roads, water and sanitation, and electricity), is also expected to have significant positive spillovers on agricultural productivity. Given the potential impact of weather and climate shocks on agriculture, resilience needs to be embedded in agricultural policies and promoted through smart agricultural practices. Through the interventions described above, support to the widespread adoption of climate-smart agriculture will be financed in an effort to secure the triple win of higher agricultural productivity, increased resilience to climate change, and lower greenhouse gas emissions. Technical assistance will also be provided to support ongoing Government efforts to formulate its Water Resources Policy and Strategy, and promote regional actions among the countries in the Dry Corridor to improve the sustainability of water resources management systems and manage hydro-climatic risks.

99. The WBG continues to work closely and, where possible, ensure complementarity of operations and strategies with key development partners. Given the importance of the agriculture sector, the Government is trying to avoid potential duplication of interventions. Agriculture activities are coordinated by the Ministry of Economic Development and the Ministry of Agriculture, with donors and private sector mapped according to geographical regions and thematic areas of interventions, such as climate change, competitiveness, food security, productivity, resilience, financial inclusion and subsistence agriculture, among others. One such example is that of the Alliance for the Dry Corridor (*Alianza para el Corredor Seco*), which includes the following organizations: AECID, the Andalusian Agency for International Cooperation, the Canadian International Development Agency, CABEI, the European Union, the Export-Import Bank of India and China, the German Development Agency, IDB, the OPEC International Fund, the Swiss Agency for Development and Cooperation, the United Nations Development Program, USAID, and the World Wildlife Fund. Other initiatives are also being supported and coordinated with the Government, such as the small producer’s financial inclusion initiative through the National Association of Private Banks.

100. The expected outcome of this objective is increased productivity and market access for rural producers. This will be measured by a percentage increase in the volume of sales of rural producers, as well as new rural producer organizations linked to emerging markets and rural poor who benefit from increased food production and rural household income generation (both disaggregated by gender).

Box 9: Overview of WBG Engagement on Honduras' Rural Development Agenda

The WBG's current engagement includes support to rural development, land administration and food security. With support from COMRURAL in the amount of US\$20.9 million, over 6,000 organized rural small-scale producers have increased productivity and competitiveness through their participation in productive alliances. Complementary, with support from the Rural Infrastructure Project, the Government has improved access, quality and sustainability of infrastructure services (roads, water, sanitation and electricity) for the rural poor, benefiting over 16,800 beneficiaries with access to rural electricity, and 15,000 with access to potable water and sanitation. Also with support from the WBG, the Government is implementing a long-term and far-reaching legal, institutional, and technological program to facilitate access to land by the poor. The US\$32.8 million Land Administration Program has contributed in the modernization of the legal framework, institutional strengthening and development of a fully integrated and decentralized National System for Property Administration. The time needed to register a land transaction has been reduced from 21 days to 15 days, and over 50,000 rural and urban poor have received land titling. Finally, a US\$30 million grant will improve food security, under-nutrition and rural poverty in the *Corredor Seco*. Through the WBG-administered GAFSP, funds will be provided to increase the rural income of over 12,000 households, improve nutritional status (especially for women and children), and increase national capacity for monitoring and evaluation under the Government's Alliance for the Dry Corridor Initiative, in coordination with USAID, the European Union and other development partners in Honduras.

The *Bajo Aguán* region exemplifies the challenges observed in rural areas. A comprehensive programmatic intervention is needed to unlock the development potential, increase livelihood improvement opportunities and help reduce violence. The ongoing stakeholder engagement process in the *Bajo Aguán* supported by IFC, through the Consensus Building Institute, has facilitated the crowd-sourced design and socialization of a Road Map for helping address the root causes of disputes based on land conflict and lack of economic opportunity that has been posted on IFC's Website since August 2015. The Road Map is seen by the multiple stakeholder groups (*campesino* organizations, private companies, local communities and civil society organizations) as an accurate reflection of the issues that concern them and of possible options for addressing these issues. In this regard, the Road Map identifies possible interventions for the Government, donors, the WBG and others to help begin to address long-standing structural issues that have led to ongoing instability and rural violence in the region. For example, the Road Map suggests the need for technical assistance for the design and implementation of an inclusive socio-economic development plan for the *Bajo Aguán* region, and additional support for Government efforts to develop effective land administration processes. The Government has endorsed the ongoing dialogue process and welcomed possible deployment of technical assistance and use of the WBG's convening power to help lay the groundwork for a process which can lead to the development of a comprehensive *Bajo Aguán* Inclusive Development Plan. Initial WBG inputs have outlined possible options for generating new economic opportunities and improved social conditions for the rural poor by diversifying sources of income, increasing tenure security and access to markets, developing off-farm skills, decreasing land market transaction costs, and increasing access to credit and land.

Pillar 3: Reducing Vulnerabilities

101. Honduras faces a set of vulnerabilities that if unaddressed, pose a threat to the sustainability of development gains. These vulnerabilities are on the environment, fiscal, and social fronts and require the country to bolster its resilience so as to be able to manage shocks as efficiently and effectively as possible.

102. The country is susceptible to extreme weather events, exacerbated by anthropic actions and the impact of climate change, which disproportionately impact the poor. Honduras' inherent vulnerability to natural hazards and climate change is an additional source of macroeconomic uncertainty. The country is highly exposed to hurricanes and tropical storms, mainly from the Atlantic, as well as periods of drought associated with the El Niño weather cycles. Between 1994 and 2013, Honduras suffered on average economic losses due to climate-related disasters of 2.5 percent of GDP per year.¹⁵ Subsequent extreme meteorological events since then suggest that the country's vulnerability to disasters is on the rise and while the country has not suffered frequent earthquakes, it is not exempt to seismic hazards. Globally, Honduras ranks 9th among countries at relatively high mortality risk from exposure to two or more natural hazards.¹⁶ Population growth and increasing concentration of settlements and assets in high-risk areas – exacerbated by considerable environmental degradation and global climate change – render the country increasingly vulnerable to natural hazards. In turn, the output volatility and exogenous shocks associated with these types of events may negatively impact growth prospects (for example, in the agricultural sector). Moreover, disasters associated with natural hazards may have a particularly harmful effect on the poor, who can become trapped in poverty as they face multiple shocks with little protection. The SCD highlights that catastrophic events can lead to significant drops in household consumption per capita, compelling individuals to decrease calorie consumption, sell vital assets, work longer hours and pull children out of school.¹⁷ The adverse impacts of disasters can also disproportionately affect women, who often experience higher rates of mortality, morbidity, and diminishment in livelihoods post-disaster.¹⁸

103. Another important source of vulnerability derives from the high levels of crime and violence which leave the country in a precarious state, affecting not only growth and opportunity but also its social fabric. Honduras has become the country with the highest homicide rate in the world. Since 2005, Honduras has experienced increasingly high levels of crime and violence, particularly in urban areas (65 percent of homicides occur in 5 percent of the municipalities). High rates of crime and violence result in significant business costs, and the human toll is greater on the poor as it makes neighborhoods unsafe, threatens livelihoods, destroys opportunities for advancement, and significantly impacts the youth's prospects for improved education and gainful employment. Honduras has also experienced one of the highest urbanization rates in LAC and continues to struggle with related challenges, in particular providing basic services to precarious neighborhoods. The average annual urban population growth rate in Honduras was 3.8 percent between 1980 and 2010 (the LAC average was 2.3 percent) and is expected to stay above 2 percent until 2030. This pace of urbanization, especially the growing urban poor (60 percent of the urban population in 2010), will continue to strain the Government's ability to provide adequate basic services, including citizen security. While key service delivery and citizen participation functions have been increasingly decentralized, challenges regarding municipal capacity and financial resources to complete such tasks persist.

¹⁵ Global Climate Risk Index 2015. *Germanwatch*: November 2014.

¹⁶ World Bank Group. Natural Disasters Hotspots: A Global Risk Analysis. 2005. (DRM Series No. 5).

¹⁷ Baez, Genoni, Lucchetti and Salazar, 2013: *Quantifying the value of risk management for poverty reduction and boosting shared prosperity*, World Bank.

¹⁸ *East Asia and the Pacific DRM Knowledge Notes No. 24: Making women's voices count in disaster programs in East Asia and the Pacific*. Several underlying factors exacerbate women's vulnerability to the impacts of disasters, such as lack of means to recoup lost assets, limited livelihood options, restricted access to education and basic services, and in many cases, also socio-cultural norms.

104. Thus this Pillar seeks to reduce the country's vulnerabilities to strengthen its resilience in the long-run. The objectives of the Pillar are to: (i) boost resilience to disasters and climate change; and (ii) build crime and violence prevention capacity of local government. These objectives include a component focused on institution strengthening at the relevant level to improve service delivery, whether disaster risk management (DRM) and climate related planning and prevention services, or crime and violence prevention services.

Objective 6: Boost resilience to disasters and climate change

105. Given the devastating impacts of disasters, Honduras requires significant investments and continued efforts to strengthen institutions and activities aimed at enhancing resilience to climate change and natural hazards. Continuing the efforts to move from a reactive to a preventive response to disasters associated with natural events will be key to lowering social and economic costs. To do so, there is a need to address unsustainable land use practices and deforestation, which affect critical ecosystem services such as soil fertility and watershed protection, with negative implications for poor rural households. Given that these households depend on environmental services not only as a primary source of income, but also benefit from the buffer function these services provide against natural disasters, improving management and conservation of critical natural resources and assets will provide cost-effective and long-term adaptation measures. This will also complement mainstreaming climate and DRM considerations into Honduras' strategies, policies and investments. Honduras can effectively reduce risk if public expenditure can be translated into effective prevention. Deaths and damages from natural hazards can largely be mitigated and reduced when individuals and governments take proper actions and do effective pre-disaster spending, including: (i) identifying risks; (ii) implementing risk reduction measures (strengthen and enforce construction codes and land use regulations, design/construction of infrastructure, etc.); (iii) strengthening disaster preparedness (early warning systems and public training/awareness); and (iv) financial protection (contingency funding, budget planning, risk transfer instruments as insurance, etc.).

106. Effective risk reduction requires an institutional setup that enables subnational governments to improve the integration of hazard risk information in development planning decisions. To enhance DRM and reduce vulnerability, substantial efforts are needed to expand the knowledge base of disaster risk at the local and sectoral levels. This includes improving the coverage and access to climate, hydrological and geophysical information for decision making and ensuring better integration of DRM into development planning and public investment decision-making processes. As such, the improvement and application of risk management in planning tools is needed to reduce the constant regeneration of unacceptably high levels of vulnerability generated from inadequate land use and water management, as well as inappropriate building practices.

107. Improving Honduras' financial response capacity in the aftermath of disasters is also critical to reduce the country's financial vulnerability to disasters while protecting its long-term fiscal balance. This requires development of a number of tools, including (i) catastrophe risk modeling; (ii) assessments of economic and fiscal impacts of disasters; (iii) evaluation of a country's fiscal management of disasters; and (iv) elaboration of a risk financing strategy, with various options and mechanisms for risk financing.

108. The WBG will continue strengthening Honduras' capacity for integrated climate change resilience and DRM at the municipal and national level through investment and grant financing, and technical assistance. With IDA support, through the on-going Disaster Risk Management Project (P131094), DRM will continue to be mainstreamed into national policy-making as well as development practices in 20 municipalities,¹⁹ while disaster risk knowledge and prevention awareness will be improved at the municipal level through participatory methodologies, including ecosystem-based risk and vulnerability analysis, territorial planning, and prioritizing and investing in mitigation. Coordination between central institutions and key local actors will also be strengthened, with a focus on community participation and social inclusion, technical quality, and environmental sustainability. On the response side, municipal and local emergency committees will be equipped and trained to ensure a rapid response during and following a disaster. Going forward, all new IDA operations will be screened for short- and long-term climate change and disaster risks and, where risks exist, appropriate resilience measures will be included. Through a combination of technical assistance and investments provided under IDA17 and the Climate Investment Funds (Pilot Program for Climate Resilience and Forest Investment Program), support will be provided to Honduras in conducting a multi-sectoral development planning process with the objective of preparing a positive list of prioritized investment needs, which embed sound natural resources management as well as climate and disaster resilience measures and are informed by cost-benefit analyses. This will enable the WBG to provide comprehensive advisory services to effectively enable the Government to design and implement bankable climate-smart projects and leverage climate financing from different sources. The WBG will also continue its technical assistance, including: (i) providing communications support, in parallel to the DRM Project, to increase awareness surrounding disaster risk and create a greater sense of empowerment amongst Hondurans in managing disaster risk; (ii) a *Cities and Climate Change Adaptation* regional study which features *El Progreso* as a case study city; and (iii) a three-year Japanese-funded grant to strengthen climate information and early warning systems, protocols and institutions. The climate risk information activities will not only inform the WBG's engagement in Honduras but also enhance the development of an excess rainfall insurance product for Central American countries. All of this technical assistance will be managed under the umbrella of the Programmatic Approach for Enhancing Disaster Risk Management in Central America (P145227).

109. IDB is a key partner in this area of development. Indeed, WBG support is relatively small compared to the financing of IDB, which is financing a DRM project for US\$75 million and a parametric contingency loan in the amount of US\$100 million. The activities under the Climate Investment Funds will also be implemented jointly with IDB, with the WBG in the lead.

110. The expected outcome for this objective is an increased ability of the Government to respond to natural disasters and manage climate change resilience risks, while at the same time, prioritizing better management of natural resources. Success under this objective will be measured by an increase of the number of national and municipal governments that gather, analyze, and utilize data and information on climate change adaptation and mitigation, and DRM for evidence-based policy-making and informed decision-making.

¹⁹ In Region 1 in the Departments of Atlantida, Cortes, Santa Barbara and Yoro.

Objective 7: Build crime & violence prevention capacity of local government

111. Crime and violence has become one of the main obstacles to development. According to SCD analysis, tackling crime and violence requires raising the opportunity costs of crime through increased law enforcement and prevention through better opportunities. Thus, prevention should be a key component of any sustainable strategy for the promotion of citizen security and social development. This calls for capacity building for national, regional and local authorities and alignment of strategies across them as well as coordination across sectors such as health, education, and criminal justice.

112. The Government's efforts to tackle crime and thus enhance citizen security, have focused on increased control and enforcement, with some crime and violence prevention elements. On the law enforcement side, the Government has implemented reforms to strengthen criminal justice institutions, address police corruption, and provide training to police forces combined with new equipment and technologies. While citizen security policy made some progress in recent years, the overall policy environment has been disjointed and erratic. The Government has tried to adopt a more comprehensive approach to reducing violence, combining traditional focus on control and enforcement with a new emphasis on prevention through the design of its flagship Safer Municipalities Program. The approval of a National Citizen Security Policy along with the creation of public coordination bodies, including the Security and Prevention Cabinet to coordinate policy, are also good examples of such progress. However, the institutions responsible for implementation tend to be weak and under pressure to resort to short-term and repressive measures to show quick wins. Thus increasing capacity of local governments to undertake crime and violence prevention activities is paramount.

113. WBG efforts will therefore focus on building capacity at the local level to engage on citizen security issues, with an emphasis on prevention. The CPF Program seeks to contribute to improving the capacities of national and local actors in violence prevention, while helping to support urban municipalities in addressing crime and violence risk factors. Past WBG experience in Honduras with the *Barrio-Ciudad* Project, the Employment Generation in Poor Urban Neighborhoods Project (P124157), as well as the first years of implementation of the Safer Municipalities Project (P130819) has shown that combining the delivery of basic urban infrastructure (such as water and sanitation connections, access roads, street lightening, recreation center and other community facilities) with a range of social development activities while strengthening both community organization and municipal capacity is an effective way of addressing community-based violence. An integrated approach and highly participatory methodology proved to be key for the positive development outcomes of the project. Therefore, the CPF will continue to support the design of municipal violence prevention plans and interventions that are evidence-informed, while investing in integrated approaches that address the multiple risk factors contributing to specific types of violence, particularly intra-family and gender-based, school-based, and community-based violence.

114. To achieve these objectives, the WBG program will include investment project lending and technical assistance. Building upon previous WBG efforts, the CPF will continue to support the implementation of the Government's flagship Program and its efforts to strengthening evidence-based decision-making at both the national and local levels through the on-going Safer

Municipalities Project, the Community-Based Approaches to Intimate Partner Violence technical assistance (P151081), and the State and Peace Building Fund Grant (P151951) for community policing, strengthening municipal capacity to address citizen security, and social accountability. Other knowledge and convening services work will be continued, including to share best practices from other countries and deepen partnerships with other actors to improve the results of crime and violence prevention efforts. Furthermore, the WBG will provide technical assistance on the implementation of violence prevention initiatives that reduce specific risk factors, particularly those related to youth-at-risk and gender-based violence. Finally, the planned impact evaluation (P152314) of two social interventions implemented through the Safer Municipalities Project will be an important source of information in terms of understanding the impact of the Project's integrated approach focused on prevention in vulnerable municipalities.

115. As in other sectors, the WBG is working closely with a number of development partners engaged on citizen security issues. The IDB is supporting the Ministry of Security on law enforcement and crime control, as well as on violence prevention. The WBG is closely collaborating with the IDB on violence prevention ensuring synergies and complementarity of activities. The WBG is also working closely with the United Nations Development Program in the implementation of the State and Peace Building Fund Grant, and with USAID on potential partnership on its Central America strategy for security issues, with a focus on evidence-based interventions for violence prevention. The German Agency for International Cooperation is also working on the implementation of evidence-based interventions for violence prevention.

116. The expected outcome of this objective is enhanced government capacity to undertake crime and violence prevention. Indicators to measure success include increase in evidence-informed interventions implemented in the participating communities that address the main risk factors affecting them, beneficiaries reached through school-based violence prevention initiatives, youth-at-risk participating in employability initiatives, and community public spaces rehabilitated and/or constructed in targeted neighborhoods. Indicators will be disaggregated by gender, where applicable.

IV. IMPLEMENTING THE CPF

117. The CPF will feature a mix of instruments, drawing on the strengths of the three institutions of the WBG, to provide Honduras with a package of assistance to best address the country's ambitious development objectives. Strategic orientation and selectivity will be major principles of the CPF. The CPF period spans two IDA cycles, IDA17 and IDA18. Indicative IDA17 allocations to support the CPF could be in the range of US\$135-140 million, of which about US\$48 million (SDR 34.1 million) are firm allocations in FY16. In outer years, IDA18 amounts are indicative and actual allocations will depend on: (i) the total IDA resources available; (ii) the country's performance rating, per capita gross national income, and population; (iii) the terms of IDA assistance (grants/credits); (iv) the allocation deductions associated with Multilateral Debt Relief Initiative annual debt service foregone as applicable; (v) the performance, other allocation parameters, and IDA assistance terms for other IDA borrowers; and (vi) the number of IDA-eligible countries. Given the limited IDA resources available to help address Honduras' ambitious development agenda, the persistent implementation constraints, and lessons learned, this CPF will contribute to the national development agenda strategically and selectively. During the first two years, the proposed program would include: (i) continued implementation of on-going projects,

with a focus on improving quality and results on the ground; (ii) DPF to support continued fiscal consolidation and better targeting of social programs; and (iii) additional financing for the Rural Competitiveness Project. Depending on the progress on the portfolio, the WBG may consider scaling up well performing projects. Continuing to work with other development partners to maximize limited IDA resources and using all available instruments across the three WBG institutions will also be important. IFC will continue to pursue its active strategy of support for private sector-led growth focusing on infrastructure, particularly the electricity sector, strengthening the local financial sector, and competitive manufacturing and agribusiness. It will also continue to provide programmatic advisory services on investment climate improvements and competitiveness. MIGA has no pre-determined envelope for guarantees over the CPF period, but will actively seek opportunities to meet requests from foreign investors.

118. The implementation period of this CPF is four years (2016-2020). This duration will allow for the framework to be aligned with the political cycle of the country, with an additional year to respond to the needs of the in-coming Government while a new CPF is under development. The scope of the proposed engagement is limited as compared to the size of the financial needs of the country and the development challenges it faces. In this context, the CPF takes a long-term view that building on solid progress and consolidating efforts in key priority areas, as well as targeting the most vulnerable populations, will have the best likelihood of achieving results. Thus, while striving to maximize the development impact of its program of support, the CPF will also define its expected results in modest, pragmatic, and realistic terms. Should Honduras achieve a blend IDA-IBRD status in the course of this CPF period, IDA and IBRD resources would be utilized in complementary ways. A Performance and Learning Review will be an opportunity to take stock of program implementation and introduce modifications, as needed, to the framework.

119. While Honduras has made progress in strengthening its country systems and Public Financial Management, challenges remain. The country's Integrated Financial Management System is being updated and the authorities have continued to strengthen public financial management in key areas, including by: (i) reducing unreported extra-budgetary funds to an acceptable level; (ii) enhancing the transparency in the publication of budgetary information (the annual budget proposal and the approved budget, as well as the quarterly budget execution reports are made publicly available within an adequate timeframe); and (iii) improving the efficiency of human resource controls. However, there are still elements to address, as external audit coverage is still low, financial statements of the central Government are not fully consolidated, and challenges in the management of budgetary deviations persist. The upgraded Integrated Financial Management System will allow: (i) integration of planning and budgeting, and use of the multi-year expenditure framework; (ii) payroll audits in key sectors strengthening payroll controls; and (iii) implementation of International Public Sector Accounting Standards. While the annual budget is prepared on a timely basis and approved by the Legislative Assembly prior to the beginning of the fiscal year, overall budget credibility and predictability are considerably affected by fiscal constraints, undermining efficiency and effectiveness of different programs, including those financed with external funds. WBG operations²⁰ are, in most cases, included in Honduras' budgetary and financial management systems, including in the Integrated Financial Management System, therefore, are subject to the System's budgetary and internal controls. Use of this System is complemented by a module designed for externally financed projects, which facilitates the

²⁰ Those operations that are implemented by Government institutions.

preparation of project financial reports. Going forward, to fully take advantage of Integrated Financial Management System, some accuracy and functionality issues will need to be addressed.

120. The Honduran authorities recognize that the modernization of procurement systems is critical for fostering accountability and efficiency in public sector activities. The restructuring of the Executive Branch resulted in the transfer of the National Procurement Office from the Secretariat of Finance to a newly created Presidential Directorate of Transparency and State Modernization. Although the administrative capacity of the National Procurement Office remains limited, the Government has taken steps to strengthen its role as the normative agency that guides the national public procurement policy. In August 2014, the Government adopted a legal framework²¹ to promote the use of electronic procurement (e-Procurement) through the information technology platform for procurement processes (*Honducompras*) for all public purchases by Central Government and decentralized institutions, including the legislative and judiciary branches. Transparency is a guiding principle of the new e-procurement legislation, which lays out criteria for simplified procurement processes to maximize public procurement efficiency and stimulate broad participation in public bidding processes. WBG operations use *Honducompras* as the main source for advertising procurement opportunities, including for methods that do not require advertisement according to WBG Guidelines. This Procurement Portal may be further enhanced to include more functions and activities other than procurement advertisements (such as transactions, record keeping and statistics).

V. MANAGING RISKS TO THE CPF PROGRAM

121. Risk in Honduras is assessed as Substantial, with six key potential risks that may impact the achievement of CPF results (Table 3). These risks include uncertain political and governance traction (given presidential elections in 2017), the macroeconomic environment, weak institutional and fiduciary capacity, environment and social conditions, and crime and violence.

Table 3: Risks to the CPF Objectives in Honduras

Risk Categories	Rating (H, S, M, L)
1. Political and governance	S
2. Macroeconomic	S
3. Sector strategies and policies	M
4. Technical design of project or program	M
5. Institutional capacity for implementation and sustainability	S
6. Fiduciary	H
7. Environment and social	S
8. Stakeholders	M
9. Crime and Violence	S
Overall	S

122. Polarization and lack of majority in the National Congress may delay approval of WBG operations. Given that the governing party does not have a majority in Congress, holding just 48 of the 128 seats, alliance with opposition parties is required to have legislation passed. In

²¹ Legislative Decree N°36-2013.

this context, there is a substantial risk related to ability to secure Congressional approval for WBG-financed operations, which in turn would result in delays in implementation of the CPF Program. To mitigate this risk, the WBG is focusing on areas of critical importance for the country's development, such as the fiscal consolidation agenda and social inclusion. This risk is deemed substantial and may require modification of the Program at the Performance and Learning Review stage.

123. CPF implementation may also be affected by existing economic vulnerabilities. Despite ongoing efforts to improve fiscal dynamics through consolidation, the lack of fiscal space limits the Government's ability to invest in social and productive sectors. This risk is considered substantial. To mitigate this risk, the WBG is supporting the country through technical assistance and policy-based operations and working closely with key partners, including the IDB and the IMF. Moreover, the recent events in the context of the problems of *Grupo Continental* also may affect CPF implementation. While as discussed above, the Government is taking appropriate steps, lack of installed capacity to manage the seized assets of the conglomerate and an inadequate legal framework could negatively impact an orderly resolution and distract the authorities from CPF objectives. To mitigate this risk, the WBG is providing technical assistance to the Government in asset management and coordinating with the IMF, who is providing assistance with to reform the legal framework, and the US Treasury.

124. Another substantial risk to the proposed Program is the country's significant vulnerability to natural hazards. In particular, the country is vulnerable to the adverse effects of earthquakes, hurricanes and other major hydro-meteorological events, such as excessive rainfall. Given the heavy emphasis on modernizing transport and agriculture sectors and investing in social protection for the most vulnerable, the risk that natural hazards could impact the achievement of CPF objectives is substantial. Should a disaster occur, funds may be needed to respond to the disaster or implementation might be delayed due to disaster response. Also, depending on the severity of the natural hazard, gains already achieved may be reversed and the achievement of critical development outcomes may be delayed, such as enhancing rural productivity, among other. To mitigate this risk, flexibility to respond to disasters and other emergencies is built into the portfolio through the integration of a contingency component (or immediate response mechanism) into every project that can be triggered in the event of a disaster, enabling the Government to respond as quickly as possible. Moreover, the WBG will provide its global knowledge to support the integration of DRM into longer-term national investment policies and development strategies. In addition, going forward, potential climate impacts in priority areas over the longer term (i.e., increase in number of hotter days, changes in rainfall pattern, and seasonal variability, among others) will be included in the screening process for proposed operations and, where risks exist, appropriate resilience measures integrated to mitigate negative effects on development outcomes.

125. Weak capacity of public institutions is an important institutional risk. Capacity of public institutions at national and municipal levels remains a critical challenge. Limited institutional capacity has in the past delayed project implementation by up to 18 months. This risk is somewhat minimized by ensuring that WBG financing is implemented by agencies that have some experience with WBG processes and procedures, especially procurement. Nonetheless, the WBG will work closely with counterpart institutions and provide continuous training and capacity building interventions to ensure effective implementation and better results on the ground.

126. Due to budget management and fiduciary challenges, fiduciary risk is high in Honduras. Risks are related to: (i) substantial delays in planning and preparation of the national budget resulting in delays in project managers accessing funds, mainly for the first year of implementation; (ii) insufficient budget allocations and/or budget restrictions even when originally approved, resulting in payments under on-going contracts going through an “unfreezing” process without clear rules and procedures; (iii) weaknesses in contract management, including issues related to conflict resolution; (iv) delays in project implementation due to lack of knowledge of WBG procurement procedures by Project Implementation Units, including requests to use practices and contract conditions that may affect the economy and efficiency of project procurement; and (v) weak fiduciary capacity in certain Government institutions. To mitigate these risks, the WBG will continue to closely support implementing entities with timely and regular capacity building for procurement and financial management, together with other related technical and operational matters, including contract management. The WBG will also seek opportunities to further simplify and strengthen project design, and whenever possible, build on the capacity and experience developed by some Government agencies to support a more structured approach for institutional strengthening in specific operations. Other mitigating measures include use of the upgraded Integrated Financial Management System to facilitate the integration of planning and budgeting; upgrade of the System’s project module to simplify financial reporting (undertaken in collaboration with IDB); and a strengthened external audit approach. These measures are expected to contribute to improving project implementation, strengthening internal controls and ensuring the availability of reliable financial information for monitoring purposes.

127. Finally, the risk related to high crime and violence in Honduras remains substantial. Honduras has become one of the most violent countries in the world, with a persistently high crime rate and volatile security environment. This risk may impact implementation of the portfolio and supervision efforts of the WBG to ensure that results are being achieved on the ground, and thus remains substantial. The teams will continue to maintain intensive dialogue with sectoral counterparts and provide close implementation support. Moreover, a highly experienced new security adviser was recently recruited for the sub-region and will be based in Honduras. The adviser will closely monitor the security situation in partnership with other international and bilateral agencies and advise the various teams on safety of movement.

Annex 1: CPF Results Monitoring Matrix

Pillar 1: Fostering Inclusion
<p>Fostering inclusion in Honduras requires the poor and most vulnerable to have access to social programs. In 2010, in line with international good practice, the Government of Honduras developed a CCT Program, <i>Bono 10,000</i>, to protect the poor and improve their human capital. The Program provided resources to poor families with children to incentivize child health monitoring (for 0-5 year olds) and school attendance (primary level). Evidence to date shows that the Program has reduced extreme poverty among beneficiaries and increased primary school enrollment and visits to health centers for children aged 0-3. While these effects have been positive, more can be done to ensure greater coverage of the extreme poor. Food security and malnutrition are also critical issues in some parts of the country, especially the <i>Corredor Seco</i>. Financial inclusion also remains a challenge in Honduras, with a majority of the population not using formal financial services. In this context, this Pillar supports the objective of expanding coverage of social programs, with the ultimate view of fostering both social and financial inclusion. Honduras suffers from low rates of labor force participation, high unemployment among certain groups such as youth and women, and a large concentration of workers in low-productivity jobs. One of the main components of the Government's Social Development Strategy seeks to link beneficiaries of the social protection programs to employment and entrepreneurship opportunities. The CCT Program could also help to provide linkages between the beneficiaries and productive inclusion interventions through increasing employability, particularly among the youth.</p>
Objective 1: Expand coverage of social programs
<p><i>Bono Vida Mejor</i> (formerly <i>Bono 10,000</i>) has become the main social assistance program in Honduras. The Program's objective is to protect consumption and prevent families falling into poverty in the short run, while increasing use of health and education services. In 2014, the new Government developed a social development strategy and consolidated social programs for the poor called <i>Platform Vida Mejor</i>, including <i>Bono Vida Mejor</i>, under a new Secretary of Development and Social Inclusion. The Government seeks to expand coverage of the extreme poor, by enhancing the targeting of the <i>Bono Vida Mejor</i> Program while ensuring its fiscal sustainability. It has set a preliminary target of reaching 300,000 extreme poor families by 2017. To this end, the Program's proxy-means test has been adjusted to ensure better identification of the extreme poor, and beneficiary data is being updated using the latest vulnerability maps from the National Statistical Institute and other poverty information. Changes are also being made to the Program's eligibility rules and benefit levels to increase coverage of excluded families in extreme poverty. By end 2015, the Program will begin covering students in lower secondary education (Grades 7-9), given that school dropouts tend to take place in the transition from primary (Grade 6) to lower secondary (Grade 7). Benefits will be higher for children in lower secondary school than in primary school to reflect their higher opportunity cost and the importance of economic causes in driving the country's high dropout rates. Moreover, benefits will be paid according to the number of children complying with co-responsibilities, instead of a flat benefit per family. Areas with the highest rates of poverty, vulnerability, violence and high child migration will be prioritized for Program expansion, including the <i>Corredor Seco</i>. In line with the Government's National Financial Inclusion Strategy, and as part of strengthening implementation of the <i>Bono Vida Mejor Program</i>, the Government also plans to partner with at least one regulated financial institution to improve the Program's payment mechanisms. The CPF will support institutional strengthening to ensure that the CCT Program is managed more efficiently, cost effectively and transparently. The expected outcome of WBG interventions under this objective is improved coverage of the extreme poor by social programs.</p>

CPF Indicators	Supplementary Progress Indicators	WBG Program
<p>Percentage of extreme poor households that receive conditional cash transfers from the <i>Bono Vida Mejor</i>:</p> <p><i>Baseline</i> (2014): 27 percent <i>Target</i> (2019): 34 percent</p> <p>Percentage of Program beneficiary children aged 16-18 years that completed lower secondary education (ninth grade):</p> <p><i>Baseline</i> (2014): Boys: 19 percent Girls: 22 percent <i>Target</i> (2019): Boys: 30 percent Girls: 30 percent</p>	<p>Number of indigenous & afro-Hondurans households registered in the Program & financed by the Project:</p> <p><i>Baseline</i> (2015): 1,504 <i>Target</i> (2019): 10,000</p> <p>Grievance and complaints module of Management Information System operational. (2016)</p> <p>Unique Registry of Participants used as targeting instrument for at least 18 social programs. (2017)</p> <p>Percentage of beneficiary households in rural areas who receive their payment through basic accounts or other financial products of regulated financial institutions:</p> <p><i>Baseline</i> (2014): 12.6 percent <i>Target</i> (2019): 30.0 percent</p> <p>Number of children under age of two attending the growth monitoring program in GAFSP targeted areas in the <i>Corredor Seco</i> (disaggregated by gender):</p> <p><i>Baseline</i> (2015): 0 <i>Target</i> (2019): 1,800</p>	<p><i>On-going</i></p> <ul style="list-style-type: none"> •Honduras Social Protection Project (P115592) •<i>Corredor Seco</i> Food Security Project (P148737) <p><i>New</i></p> <ul style="list-style-type: none"> •First Fiscal Sustainability and Enhanced Competitiveness DPF (P155920) FY16 •Second Fiscal Sustainability and Enhanced Competitiveness DPF FY17 •Social Protection and Employment Project FY17 •Global Partnership for Education - Education Sector Development Plan Grant

Pillar 2: Bolstering Conditions for Growth

Stimulating growth in Honduras will require addressing a number of challenges to growth and creating new opportunities. Honduras faces a number of structural constraints to growth. The SCD outlines some of these challenges, including: (i) a lack of fiscal discipline and high levels of debt which have undermined macroeconomic stability in Honduras; (ii) inadequate infrastructure resulting from public spending decisions; (iii) a persistent shortage of skills and limited access to school for much of the population; and (iv) relatively low access to capital (finance and property rights), particularly for SMEs and vulnerable groups, such as indigenous people, women and youth. Macroeconomic stability has been a chronic challenge for Honduras over the last decade, with uneven fiscal discipline and increasing levels of debt. Thus, a key Government priority is to strengthen fiscal management and maintain momentum on its comprehensive reform program to stabilize its fiscal position. It also seeks to position

itself as one of the largest providers of trade logistics services in the Americas and has proposed a robust strategy for addressing the existing constraints to growth. At the core of this strategy are efforts to reduce the high costs of doing business by increasing efficiency of public investment and regulatory structures, improve reliability of infrastructure, with a particular focus energy and transport. Finally, it aims to ensure more equitable growth by intensifying efforts in rural areas. Within this context, this Pillar's objectives are to: (i) improve reliability of key infrastructure; (ii) increase access to finance; (iii) strengthen the regulatory framework and institutional capacity; and (iv) enhance rural productivity.

Objective 2: Improve reliability of key infrastructure

Weaknesses in core infrastructure, especially transportation and energy, inhibit economic growth by reducing gains from trade and increasing prices for traded goods. Despite efforts to increase infrastructure coverage, Honduras still lags behind neighboring countries. Road density in Honduras is only 15 percent of Costa Rica's road density, and it lags behind Nicaragua, Panama, and El Salvador. Despite the importance of the road network, it has deteriorated due to limited public investment, environmental shocks, and weak institutional capacity within the state agencies responsible for paving roads. In addition, high levels of crime and violence and logistical weaknesses contribute to the high costs of road transport and further exacerbate the already slow transport time. Given the significance of agriculture for both economic growth and household consumption, and due to the perishable nature of most agricultural products, improving the reliability of Honduras' road network is critical for connecting producers to markets and markets to buyers and stimulating growth. Honduras also has one of the lowest rural electrification rates in LAC, with a quarter of the rural population lacking access to electricity, and high costs of power generation and unreliable power supply inhibit growth. Recognizing the important role of the private sector, the Government has already awarded several infrastructure improvement projects to private sector partners through PPP instruments. The WBG will use broad mix of interventions (knowledge and convening services, DPF, MIGA guarantees, and IFC credits) to support efforts to foster private sector involvement in Honduras' transport and logistics agenda and electric power sector in order to stimulate growth.

CPF Indicators	Supplementary Progress Indicators	WBG Program
Roads rehabilitated and/or expanded and under operation: <i>Baseline</i> (2015): 0 km <i>Target</i> (2018): 220 km	Rehabilitation of key bridges on the corridor <i>Turistico</i> : <i>Baseline</i> (2015): 0 <i>Target</i> (2018): 2	<p><i>On-going</i></p> <ul style="list-style-type: none"> •IFC wind & photovoltaic investments (<i>Cohessa</i> 787485; <i>Energia Cinco/Aura Solar</i> 792387; <i>Choluteca 2/Sunedison</i> 802124; & <i>Cohersa/La Vegona</i> 631552) •MIGA Wind, Photovoltaic & Tourism Corridor Guarantees •Honduras Rural Infrastructure Project (P086775) •Honduras Building Regulatory Capacity for the Extractive Industries Trust Fund (P148376) <p><i>New</i></p> <ul style="list-style-type: none"> •Possible IFC investments (Energy & Financial Sector) •Possible MIGA Guarantees •Korea Green Growth Trust Fund: Tackling Power Sector Barriers for Green Growth in Honduras FY16 •Scaling up Renewable Energy in Honduras (P131602) FY16
People provided with new or improved access to electricity: <i>Baseline</i> (2015): 0 <i>Target</i> (2019): 444,000	Expanded conventional and renewable energy (Gwh): <i>Baseline</i> (2015): 0 <i>Target</i> (2019): 575	

Objective 3: Increase access to finance		
SMEs are critical for economic development, yet they face a significant financing gap hindering their growth and productivity potential. Access to finance remains an important challenge in Honduras. As of 2014, only 17 percent of firms in Honduras had investments financed by a bank, compared to 33 percent in LAC. This negatively impacts development and growth of SMEs, undermining SME competitiveness. Thus, expansion of financial services is a key element in helping increase the availability and affordability of financial services for individuals, as well as SMEs. Overcoming access to finance challenge and providing SMEs with the opportunity to grow and expand is crucial for fostering new jobs, higher wages, and increased access to markets.		
CPF Indicators	Supplementary Progress Indicators	WBG Program
People, microenterprises and SMEs reached with financial services: <i>Baseline</i> (2014): 20,650 <i>Target</i> (2019): 23,400	Volume of micro and SME outstanding portfolio (US\$ million): <i>Baseline</i> (2014): 444 <i>Target</i> (2019): 510	<i>On-going</i> <ul style="list-style-type: none">• IFC investments (Ficohsa 615918); Ficensa Honduras 642990; Banco Popular 562997)• Honduras Rural Competitiveness Project (P101209) <i>New</i> <ul style="list-style-type: none">• Possible IFC investments (SMEs)
Objective 4: Strengthen the regulatory framework and institutional capacity		
Promoting competitiveness in Honduras is essential for the country to move to a path of increased and more sustainable growth. In the context of ongoing trade liberalization as a result of CAFTA, Honduras is increasingly integrating into the global economy. However, it faces a number of challenges to attracting and retaining investors, both domestic and foreign. It is, therefore, critical that steps are taken to improve the overall competitiveness of the country, including, among others, reinforcing the investment climate, reducing red tape, improving the regulatory framework to ensure competition and trade facilitation, enhancing land regularization and strengthening the financial sector, to attract new business, nurture and grow existing business, support diversification of exports, increase inflow of foreign investment, and increase participation of the private sector. Moreover, strengthening fiscal management institutions and capacity through continued implementation of fiscal consolidation measures is critical to improving Honduras' fiscal position and enhancing the framework to promote competitiveness.		
CPF Indicators	Supplementary Progress	WBG Program
Increase in share of the public sector workforce that has been evaluated through an institutional functional review: <i>Baseline</i> (2014): 0 percent <i>Target</i> (2019): 50 percent	Decree restructuring ENEE issued. (2016) <i>MiEmpresaEnLínea</i> electronic platform to simplify procedures to start a business operational. (2017)	<i>Ongoing</i> <ul style="list-style-type: none">• Honduras Land Administration (P106680)• Central America Trade Facilitation Programmatic Approach (P156050)• Support on the implementation of the World Trade Organization - Bali Trade Facilitation Agreement in Central America (P156050)• Programmatic Approach on Central America Energy Assessments (P155068)
Reduction in average number of days to start a business: <i>Baseline</i> (2014): 14 days <i>Target</i> (2019): 10 days	Clear and transparent procedures adopted by OABI to deal with seized assets. (2017)	

<p>Reduction in number of days required to export and import:</p> <p><i>Baseline</i> (2014): Exports: 12 days Imports: 16 days</p> <p><i>Target</i> (2019): Exports: 11 days Imports: 14 days</p>	<p>New property registration model implemented in at least one of the major regional registries. (2017)</p> <p>Fiscal Responsibility and Transparency Law enacted. (2017)</p>	<p><i>New</i></p> <ul style="list-style-type: none"> •First Fiscal Sustainability and Enhanced Competitiveness DPF (P155920) FY16 •Second Fiscal Sustainability and Enhanced Competitiveness DPF FY17 •WBG Technical Assistance on Trade Facilitation FY16-17 •WBG Technical Assistance to OABI on asset management FY16-17 •Competition & Competition Policy-Rapid Response in Latin America (P152124)
<p>Increase in families with land titles:</p> <p><i>Baseline</i> (2015): 40,000</p> <p><i>Target</i> (2017): 50,000</p>	<p>Electronic system to process sanitary certifications for selected agricultural products operational. (2018)</p> <p>Budget module (Integrated Financial Management System) implemented in line with the medium-term macroeconomic and fiscal framework in at least 88 central government institutions. (2018)</p> <p>New electricity tariff framework approved. (2018)</p> <p>OABI has the tools to carry out a financial diagnostic of seized assets. (2018)</p>	

Objective 5: Enhance rural productivity

Agriculture is an important driver of growth and employer of many of the extreme poor, but it is vulnerable to disasters and productivity is low. Despite efforts to adapt, small producers remain largely excluded from modernization efforts and have not significantly benefited from economic growth. Female producers face additional challenges: they have lower access to training, capital, inputs, and markets for their goods. When women do have access to land, they have smaller plots on less fertile soil, and are less likely to produce export crops than male farmers. The Government's strategy for enhancing rural competitiveness demonstrates a multi-pronged approach focused on increasing returns to agriculture and stimulating robust supply chain participation through productive alliances. Adoption of new technologies and access to greater market intelligence to more efficiently use available resources are key components to increasing profitability and competitiveness in agriculture. In the context of food insecurity and high levels of malnutrition, enhancing women's participation, improving productivity, adapting to climate change, modifying the

composition of its basket of products produced while introducing nutrition education are critical components for both insulating the population against exogenous shocks (such as the food crisis of 2008) and investing in modernization of the agricultural sector.

CPF Indicators	Supplementary Progress Indicators	WBG Program
Percentage increase in volume of sales of rural producers: <i>Baseline</i> (2015): 10 percent <i>Target</i> (2019): 60 percent	<p>Number of new rural producer organizations linked to emerging markets (e.g. cacao) (members disaggregated by gender): <i>Baseline</i> (2015): 0 <i>Target</i> (2019): 80</p> <p>Number of rural poor who benefit from increased food production and rural household income generation (disaggregated by gender): <i>Baseline</i> (2015): 0 <i>Target</i> (2019): 5,500</p>	<p><i>On-going</i></p> <ul style="list-style-type: none"> • Honduras Rural Competitiveness Project (P101209) • Honduras Rural Infrastructure Project (P086775) • Honduras Environmentally Sustainable Cacao Production for small-scale Indigenous Peoples and Afro-descendant Farmers in Honduras (P130418) Japanese Social Development Fund Grant • Honduras <i>Corredor Seco</i> Food Security Project (P148737) FY16 • Central America Regional Agribusiness Trade Logistics – Sanitary Registration project (599066) <p><i>New</i></p> <ul style="list-style-type: none"> • COMRURAL Additional Financing FY16

Pillar 3: Reducing Vulnerabilities

Honduras faces a set of vulnerabilities that, if unaddressed, pose a threat to the sustainability of development gains. These vulnerabilities are on the environment, fiscal and social fronts and require the country to bolster its resilience so as to be able to manage shocks as efficiently and effectively as possible. Population growth and increasing concentration of settlements and assets in high-risk areas – coupled with considerable environmental degradation and global climate change – render the country increasingly vulnerable to natural hazards. In turn, the output volatility associated with these types of events may negatively impact growth prospects. Another important source of vulnerability derives from the country's high levels of crime and violence, which leave it in a precarious state, affecting not only growth and opportunity but also its social fabric. Since 2005, Honduras has experienced increasingly high levels of crime and violence, particularly in urban areas, resulting in significant business costs, and the human toll is greater on the poor. Within this context, this Pillar seeks to reduce the country's vulnerabilities to strengthen its resilience in the long-run. The objectives of the Pillar are to: (i) boost resilience to natural disasters and climate change; and (ii) build crime and violence prevention capacity of local government.

Objective 6: Boost resilience to natural disasters and climate change

Given the devastating impacts of natural hazards, Honduras requires significant investments and continued efforts to strengthen institutions and activities aimed at enhancing resilience to climate change and natural hazards as well as addressing land degradation and deforestation. Honduras can effectively reduce risk if public expenditure can be translated into effective prevention. Deaths and damages from natural hazards can largely be mitigated and reduced when individuals and governments take proper actions and do effective pre-disaster spending. Effective risk reduction requires an institutional setup that enables subnational governments to improve the integration of hazard risk information in development planning decisions. Improving Honduras' financial response capacity in the aftermath of disasters is also critical to reduce the country's financial

vulnerability to disasters while protecting its long-term fiscal balance. The expected outcome for this objective is an increased ability of the Government to respond to natural disasters and manage climate change resilience risks.

CPF Indicators	Supplementary Progress Indicators	WBG Program
National and municipal governments that gather, analyze, and utilize data and information on climate change adaptation and mitigation, and DRM for evidence-based policymaking and informed decision-making: <i>Baseline</i> (2015): 0 <i>Target</i> (2019): 16	National DRM and Climate Change Resilience Strategic Plan prepared. (2017) National Water Resources Policy and Strategy formulated. (2017) Municipalities having adopted DRM Plans, Land Use Plans & Emergency Plans: <i>Baseline</i> (2015): 0 <i>Target</i> (2019): 16	<i>On-going</i> <ul style="list-style-type: none"> •Honduras Disaster Risk Management Project (P131094) •Programmatic Approach for Enhancing Disaster Risk Management in Central America (P145227) •Honduras Forests and Rural Productivity Trust Fund (P064914) •Honduras Communication support to DRM Project Trust Fund (P131094) •Honduras Pilot Program for Climate Resilience (P157795) •Forest Investment Program (P157805)

Objective 7: Build crime & violence prevention capacity of local government

Crime and violence has become one of the main obstacles to development, but it is mostly preventable. According to SCD analysis, tackling crime and violence requires raising the opportunity costs of crime through increased law enforcement and prevention through better opportunities. Thus prevention should be a key component of any sustainable strategy for the promotion of citizen security and social development. This calls for capacity building for national, regional and local authorities and alignment of strategies across them as well as coordination across sectors such as health, education, and criminal justice. The Government has adopted a more comprehensive approach to reducing violence, combining traditional focus on control and enforcement with a new emphasis on prevention through the design of its flagship Safer Municipalities Program. However, the institutions responsible for implementation tend to be weak and under pressure to resort to short-term and repressive measures to show quick wins. Thus increasing capacity of local governments to undertake crime and violence prevention activities is paramount. WBG efforts will therefore focus on building capacity at the local level to engage on citizen security issues, with an emphasis on prevention and thus the expected outcome of this objective is enhanced government capacity to undertake crime and violence prevention.

CPF Indicators	Supplementary Progress Indicators	WBG Program
Communities implementing evidence-informed interventions that address the main risk factors affecting them: <i>Baseline</i> (2015): 8 <i>Target</i> (2019): 15	Neighborhoods where gender-based violence prevention interventions are being implemented: <i>Baseline</i> (2015): 0 <i>Target</i> (2019): 9	<i>On-going</i> <ul style="list-style-type: none"> •Honduras Safer Municipalities Project (P130819) •Honduras State and Peace Building Fund Grant on Municipal Citizen Security (P151951) •Moving youth away from the market for crime: Interventions in the Honduras Safer Municipalities Project (P152314) •Programmatic Approach to Citizen Security in Central America (P147266)

	<p>Beneficiaries reached through school-based violence prevention initiatives (disaggregated by gender):</p> <p><i>Baseline</i> (2015): 0 <i>Target</i> (2018): 7,000</p> <p>Community public spaces rehabilitated and/or constructed in targeted neighborhoods utilizing the Crime Prevention Through Environmental Design approach:</p> <p><i>Baseline</i> (2015): 21 <i>Target</i> (2019): 41</p> <p>Youth-at-risk participating in employability initiatives (disaggregated by gender):</p> <p><i>Baseline</i> (2015): 0 <i>Target</i> (2019): 700</p>	<ul style="list-style-type: none"> Community-Based Approaches to Intimate Partner Violence (P151081)
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Monitoring and Evaluation of the CPF Results Matrix

INDICATORS	OPERATIONAL DEFINITIONS AND SOURCES OF DATA
Objective 1: Expand coverage of social programs	
Percentage of extreme poor households that receive conditional cash transfers from the Bono Vida Mejor	<p>Number of households in the extreme poor quintile that receive CCTs from Bono Vida Mejor divided by total number of households in the extreme poor quintile, multiplied by 100.</p> <p>Baseline (2014): 27 percent Target (2019): 34 percent</p> <p>Source of data: Secretariat of Development and Social Inclusion. Data will be collected on an annual basis.</p>
Percentage of Program beneficiary children aged 16-18 years that completed	<p>Number of Program beneficiary children aged 16-17 years in the previous year that completed lower secondary education (ninth grade) divided by total number children in households that received program benefits during the previous year aged 16-17 years in the previous year, multiplied by 100.22</p> <p>Baseline (2014): Boys: 19 percent; Girls: 22 percent</p>

²² The definition may be revised upon review of accuracy in capturing this indicator.

lower secondary education (ninth grade)	Target (2019): Boys: 30 percent; Girls: 30 percent Source of data: Secretariat of Development and Social Inclusion. Data will be collected on an annual basis.
Objective 2: Improve reliability of key infrastructure	
Roads rehabilitated and/or expanded and under operation	Distance in kilometers (km) of roadways that have been either (i) rehabilitated, (ii) expanded (namely, from 2 lanes to 4 lanes); or (iii) newly constructed that are under operation. Baseline (2015): 0 km Target (2018): 220 km Source of data: MIGA. Data will be collected on an annual basis.
People provided with new or improved access to electricity	Number of people, in millions, that have received a new connection or improved service thanks to increased power generation or new or upgraded distribution/transmission lines as a result of WBG-supported operations. World Bank contribution includes the number of people who have received a new grid or off-grid electricity connection and the number of people that have benefitted from increased generation capacity, a proportion of whose output is reasonably estimated to be powering residential customers. IFC contribution includes the estimated number of full service-equivalent residential customers that have access to power with power generated by the project and the number of residential customers benefiting from power distribution. Baseline (2015): 0 Target (2019): 444,000 Source of data: Development Outcome Tracking System. Data will be collected on an annual basis.
Objective 3: Increase access to finance	
People, microenterprises and SMEs reached with financial services	Number of people, microenterprises, and SMEs reached with financial services supported by WBG-financed operations. Efforts to harmonize definitions across World Bank and IFC will be deepened to allow the disaggregation of reporting of individuals/micro enterprises and SMEs reached. For the World Bank, financial services refer primarily to loans outstanding to individuals, microenterprises, and SMEs. Efforts will be made in the future to also cover additional financial services supported by the World Bank, such as access to deposit accounts. IFC includes a broad range of financial services with data disaggregated between individuals/micro enterprises and SMEs, including: Individuals/Micro Finance: This category includes deposit accounts, the number of outstanding micro, housing, and retail loans as well as clients reached with insurance and pensions. IFC counts the year-end number of outstanding loans, clients insured, and deposit accounts. Microfinance loan is defined as a commercial loan with amount at origination up to US\$10,000. Retail loans include consumer credit cards, store cards, motor (auto) finance, personal loans (installment loans), consumer lines of credit, and retail loans (retail installment loans). SME Finance: SME finance includes SME loans, leasing, as well as enterprise insurance. SME loan is defined as a commercial loan with amount at origination between US\$10,000 to US\$1,000,000 (or to US\$2,000,000 in more advanced economies). Enterprise insurance includes the number of non-life commercial lines and agribusiness. Baseline (2014): 20,650 Target (2019): 23,400

	Source of data: Development Outcome Tracking System. Data will be collected on an annual basis.
Objective 4: Strengthen the regulatory framework and institutional capacity	
Increase in share of the public sector workforce that has been evaluated through an institutional functional review	Evaluations refer to use of an institutional functional review. The share of the public sector workforce refers to total individuals undergoing institutional functional review compared to total individuals employed in the public sector, based on Government estimates. Baseline (2014): 0 percent Target (2019): 50 percent Source of data: Ministry of Finance. Data will be collected on an annual basis.
Reduction in the average number of days to start a business	Number of days it takes start a new business. Baseline (2014): 14 days Target (2019): 10 days Source of data: Doing Business Report. Data will be collected on an annual basis.
Reduction in the number of days required to export and import	Time to export or import is the time necessary to comply with all procedures required to export or import goods. Time is recorded in calendar days. The time calculation for a procedure starts from the moment it is initiated and runs until it is completed. Baseline (2014): Exports: 12 days; Imports: 16 days Target (2019): Exports: 11 days; Imports: 14 days Source of data: Doing Business Report. Data will be collected on an annual basis.
Increase in families with land titles	Number of families that have received titles for their land. Baseline (2015): 40,000 Target (2017): 50,000 Source of data: National Property Administration System. Data will be collected on an annual basis.
Objective 5: Enhance rural productivity	
Percentage increase in volume of sales of rural producers	Percentage increase in the volume of gross sales of rural producer organizations in Lempiras. Baseline (2015): 10 percent Target (2019): 60 percent Source of Data: Honduran Strategic Investment Office. Data will be collected on an annual basis.
Objective 6: Boost resilience to disasters and climate change	
National and municipal governments that gather, analyze, and utilize data and information on climate change adaptation and mitigation, and DRM for evidence-based policy-	Number of entities at the National and municipal level that develop planning instruments utilizing data and information on climate change adaptation and mitigation, and DRM for evidence-based policymaking and informed decision-making. For example, in development of Climate Change and Disaster Risk Management Strategic Plans, Land Use Plans, and Emergency Plans that will guide decision and policy-making. Baseline (2015): 0 Target (2019): 16 Source of Data: The Comisión Permanente de Contingencias and MiAmbiente Annual Reports, Climate Investment Fund Annual reports.

making and informed decision-making	Data will be collected on an annual basis.
Objective 7: Build crime & violence prevention capacity of local government	
Communities implementing evidence-informed interventions that address the main risk factors affecting them	<p>Evidence-informed interventions refers to those interventions whose design made use of programs, practices, policies, strategies, and supports on violence prevention that research has shown to be effective. Risk factors refers to behaviors/attitudes/thoughts/ circumstances that produce or lead to crime and violence. The program will focus on the following categories of risk factors: school, personal family, community and environment. The main risk factors are identified in the Community Violence Prevention Plans, developed under the Safer Municipalities Project. These Plans identify crime and violence issues at the community level, based on social and physical characteristics of the communities, and prioritize areas of intervention, including: school-based, family-based, community-based, and gender-based violence prevention, and youth employment. There are eight initiatives (two large-scale, five small-scale) being implemented in the target communities in three lines of work (psychosocial, situational, and community Based interventions). At least seven additional larger-scale initiatives in four main lines of work (gender based violence, school, family and youth employment) are expected to be implemented in the next few years. The three participating municipalities are: Choloma, El Progreso, and La Ceiba. The nine participating communities are: Barrio Ceden, Colonia INFOP, Colonia (Choloma); Colonia Melgar 1, Colonia Melgar 2, Barrio Danto (La Ceiba); and Fátima, Palermo, Policarpo (El Progreso).</p> <p>Baseline (2015): 8 Target (2019): 15 Source of data: Institute of Community Development, Water and Sanitation/Honduran Social Investment Fund. Data will be collected on an annual basis.</p>

Annex 2: Selected Indicators* of Bank Portfolio Performance and Management
As of 9/30/2015

Indicator	FY13	FY14	FY15	FY16
Portfolio Assessment				
Number of Projects Under Implementation ^a	10.0	10.0	9.0	9.0
Average Implementation Period (years) ^b	3.6	4.6	4.8	5.1
Percent of Problem Projects by Number ^{a, c}	10.0	10.0	11.1	22.2
Percent of Problem Projects by Amount ^{a, c}	5.0	4.9	11.3	30.2
Percent of Projects at Risk by Number ^{a, d}	10.0	10.0	11.1	22.2
Percent of Projects at Risk by Amount ^{a, d}	5.0	4.9	11.3	30.2
Disbursement Ratio (%) ^e	42.4	35.6	30.2	6.8
Portfolio Management				
CPPR during the year (yes/no)				
Supervision Resources (total US\$)				
Average Supervision (US\$/project)				

Memorandum Item	Since FY80	Last Five FYs
Proj Eval by OED by Number	66	5
Proj Eval by OED by Amt (US\$ millions)	2,292.6	146.5
% of OED Projects Rated U or HU by Number	27.3	60.0
% of OED Projects Rated U or HU by Amt	21.0	79.5

a. As shown in the Annual Report on Portfolio Performance (except for current FY).

b. Average age of projects in the World Bank's country portfolio.

c. Percent of projects rated Unsatisfactory or Highly Unsatisfactory on development objectives and/or implementation progress.

d. As defined under the Portfolio Improvement Program.

e. Ratio of disbursements during the year to the undisbursed balance of the World Bank's portfolio at the beginning of the year: Investment projects only.

*All indicators are for projects active in the Portfolio, with the exception of Disbursement Ratio, which includes all active projects as well as projects which exited during the fiscal year.

Annex 3: Operations Portfolio (IDA and Grants)
As of 8/31/2015

Closed Projects	85
<u>IBRD/IDA*</u>	
Total Disbursed (Active)	244.79
of which has been repaid	0.00
Total Disbursed (Closed)	831.54
of which has been repaid	178.71
Total Disbursed (Active + Closed)	1,076.33
of which has been repaid	178.71
Total Undisbursed (Active)	100.37
Total Undisbursed (Closed)	0.00
Total Undisbursed (Active + Closed)	100.37

Active Projects		Last ISR		Original Amount in US\$ Millions			Difference Between Exp. & Actual Disb.^a			
		Supervision Rating		FY	IBRD	IDA	Cancel.	Undisb.	Orig.	Frm Rev'd
Project ID	Project Name	Dev. Obj.	Implem. Progress							
P106680	HN (APL2) Land Administration Project	S	S	2011	0.0	32.8	0.0	2.2	0.0	0.7
P086775	HN (CRL1) Rural Infrastructure Project	MU	MU	2006	0.0	67.0	0.0	12.8	-8.7	-8.7
P131094	HN Disaster Risk Management Project	S	S	2013	0.0	30.0	4.0	18.2	0.5	0.0
P151803	HN Fiscal Sustainability DPC	#	#	2015	0.0	55.0	0.0	0.0	0.0	0.0
P110050	HN Improving Public Sector Performance	MS	MS	2012	0.0	18.2	0.0	12.6	0.0	0.0
P101209	HN Rural Competitiveness Project	S	S	2008	0.0	30.0	7.0	4.8	13.8	13.8
P130819	HN Safer Municipalities	MS	MS	2013	0.0	15.0	0.0	10.6	0.0	0.0
P115592	HN Social Protection	MS	MS	2010	0.0	77.3	0.0	31.3	-6.2	-33.9
P103881	HN Water and Sanitation Program	MS	MU	2007	0.0	40.0	0.0	8.0	-2.1	0.0
Total					365.3	11.0	100.4			

Annex 4: IFC Committed and Outstanding Portfolio
as of 09/30/2015 (in US\$ millions)

Commitment Fiscal Year	Institution	LN Cmtd - IFC	LN Repayment - IFC	ET Cmtd - IFC	QL + QE Cmtd - IFC	GT Cmtd - IFC	RM Cmtd - IFC	ALL Cmtd - IFC	ALL Cmtd - Part	LN Out - IFC	ET Out - IFC	QL + QE Out - IFC	GT Out - IFC	RM Out - IFC	ALL Out - IFC	ALL Out - Part
2008/ 2010/ 2015	B. Popular	0	0	1.82	0	0	0	1.82	0	0	1.82	0	0	0	1.82	0.00
2009/ 2010/ 2011/ 2012/ 2013/ 2014/ 2015	Banco Atlantida	31.50	13.50	0	0	0	0	31.50	0	31.50	0	0	0	0	31.50	0.00
2011/ 2012/ 2013/ 2014/ 2015	Banco LAFISE HN	0	0	0	0	5.59	0	5.59	0	0	0	0	5.59	0	5.59	0.00
2012	COHERSA	18.28	1.72	0	9.14	0	0	27.41	41.12	18.28	0	9.14	0	0	27.41	41.12
2015	COHESSA	30.00	0	0	0	0	0	30.00	18.50	0	0	0	0	0	0	0.00
2015	Choluteca Dos	41.66	0	0	4.00	0	3.34	48.99	0	34.30	0	4.00	0	3.34	41.64	0.00
2009	DINANT	25.50	4.50	0	0	0	0	25.50	0	10.50	0	0	0	0	10.50	0.00
2014/ 2015/ 2016	Davivienda HN	0	0	0	0	21.15	0	21.15	0	0	0	0	21.15	0	21.15	0.00
2015	Energia Cinco	24.38	0	0	0	0	2.70	27.08	0	21.16	0	0	0	2.22	23.38	0.00
2008/ 2009/ 2010/ 2011/ 2012/ 2013/ 2014/ 2015/ 2016	Ficohsa	4.29	15.71	0	0	8.17	0	12.46	0	4.29	0	0	8.17	0	12.46	0.00
2013/ 2014/ 2015/ 2016	Ficensa Honduras	5.00	1.00	0	0	8.80	0	13.80	0	5.00	0	0	8.80	0	13.80	0.00
2006/ 2008/ 2010	ISCH	19.11	18.89	0	0	0	0	19.11	0	19.11	0	0	0	0	19.11	0.00
Total Portfolio		199.70	55.33	1.82	13.14	43.71	6.04	264.41	59.62	144.13	1.82	13.14	43.71	5.56	208.35	41.12

Date only includes IFC + B loans

Annex 5: Honduras CPS Completion and Learning Review FY12-15

Date of CPS:	November 1, 2011 (Report No. 63370-HN)
Date of CPS Progress Report:	May 8, 2013 (Report No. 76352-HN)
Period covered by the CPS Completion Report:	November 1, 2011 to June 30, 2015

Completion and Learning Review prepared by: Jovana Stojanovic (LCC2C) and Martin Ochoa (LCCHN) with inputs from Javier Posas and Mia Rodriguez (IFC), and the Honduras Country Team.

ABREVIATIONS AND ACRONYMS

AGROCACAO	Japanese Social Development Fund Cacao Trust Fund
CCT	Conditional Cash Transfer
CLR	Completion and Learning Review
COMRURAL	Rural Competitiveness Project
CPS	Country Partnership Strategy
CSO	Civil Society Organizations
DPC	Development Policy Credit
DRM	Disaster Risk Management
EITI	Extractives Industries Transparency Initiative
ENEE	National Power Company (<i>Empresa Nacional de Energía Eléctrica</i>)
GDP	Gross Domestic Product
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
INPREMA	Teachers' Pension System (<i>Instituto Nacional de Previsión del Magisterio</i>)
JSDF	Japanese Social Development Fund
LAC	Latin America and the Caribbean
MIGA	Multilateral Investment Guarantee Agency
MSME	Micro, Small and Medium Enterprises
NGO	Non-Governmental Organization
PEFA	Public Expenditure and Financial Accountability Assessment
PROHECO	Honduran Community Education Program
SANAA	Honduras Water and Sanitation Agency
SIAFI	Integrated Administrative Financial System (<i>Sistema Integrado de Administración Financiera</i>)
SME	Small and Medium Enterprises
SMP	Safer Municipalities Program
WBG	World Bank Group

I. INTRODUCTION

1. **This Completion and Learning Review (CLR) presents a self-evaluation by the World Bank Group (WBG) of the joint International Development Association (IDA)-International Finance Corporation (IFC) Honduras Country Partnership Strategy (CPS) for FY12-15.** The CLR: (a) evaluates the CPS program performance in achieving WBG expected outcomes; (b) assesses WBG performance in the design and implementation of the program and discusses its alignment with the WBG's twin goals of eradicating extreme poverty and increasing shared prosperity; and (c) draws lessons for the new Country Partnership Framework. The CLR uses the updated CPS Progress Report Results Framework to assess the CPS program as well as other inputs where the Results Framework did not fully reflect the contributions of the WBG program, in particular IFC and Multilateral Investment Guarantee Agency (MIGA) activities.

2. **Overall progress toward achieving CPS Outcomes was Moderately Satisfactory.** At the time of the CPS Board discussion in November 2011, the country was facing daunting challenges related to political reconciliation, implementing structural reforms to improve macroeconomic performance, strengthening crime and violence prevention and high poverty rates. These challenges have remained key development constraints throughout the CPS implementation. The three CPS strategic objectives were, thus, relevant for the Honduran context by focusing on: (i) improving citizen security; (ii) expanding opportunities through reducing vulnerabilities; and (iii) enhancing good governance. However, progress in addressing these development challenges has been mixed and all three strategic objectives are assessed as Moderately Satisfactory. Out of 18 outcomes, nine were achieved, three mostly achieved, five partially achieved and one not achieved.

3. **WBG performance is assessed as Good.** The design of the CPS was flexible and relevant. It allowed the WBG to adapt to the challenging and changing country circumstances and priorities spanning two Government administrations. The CPS was designed to respond to the priorities of the Lobo Administration 2011-2014, including improving social investments and opportunities, crime and violence prevention, reaching those in extreme poverty, improving growth, and modernizing state institutions. The Progress Report extended the CPS for one year to allow the preparation of a new Country Partnership Framework with the Hernandez administration that took office in 2014. The CPS was responsive to country priorities and requests of both administrations, delivering US\$283.5 million in IDA financing. During this CPS, IFC significantly increased its role as strategic advisor and investor by providing around US\$300 million to the private sector, while MIGA was instrumental to attracting new foreign investment in infrastructure of US\$181 million. However, the design of the Results Framework was not sufficient enough to measure progress on the CPS given that the outcomes were at times too broadly formulated or had inadequate indicators often measuring only one dimension of the outcome. Also, the Progress Report failed to meaningfully adjust the Results Framework, or include any IFC or MIGA activities and areas of support.

II. PROGRESS TOWARDS COUNTRY DEVELOPMENT OUTCOMES

4. **Honduras remains a lower middle income country facing significant fiscal and structural challenges, with more than two-thirds of its population living in poverty, of which almost half suffer from extreme poverty.** The CPS period was marked by modest and uneven

economic recovery following the turbulent period of 2008-2009 when the country was impacted by the global financial crisis and a political conflict. While significant strides have been made towards improving some social development indicators (e.g., decreasing infant mortality, and increasing years of schooling), sustained poverty reduction has proven challenging and inequality remains high. In January 2014, Honduras launched the *Vida Mejor* (Better Life) strategy to create an umbrella framework for social policies and target the extreme poor by prioritizing access to basic social services, improved housing and social protection programs. The centerpiece of this strategy is *Bono Vida Mejor* (previously named *Bono 10,000*) Conditional Cash Transfer (CCT).

5. A number of challenges constrained the capacity of the Government to accelerate its path towards inclusive growth. In 2009, the combination of a political crisis in Honduras and the global financial crisis led real Gross Domestic Product (GDP) to contract by 2.4 percent as aide from much of the international community was temporarily suspended, and export demand, foreign investment, remittances, and availability of credit all contracted. Following a significant increase in the Central Government's fiscal deficit from 2.4 percent of GDP in 2008 to 6 percent in 2009, the authorities began a fiscal consolidation program that resulted in partial recovery of economic growth and some improvements in the country's macroeconomic stance. However, the fiscal situation deteriorated significantly during 2012-2013. This was mainly due to a lack of fiscal discipline characterized by higher current expenditures and rising debt costs, in a context of worsening terms of trade combined with economic and political uncertainty prior to the presidential elections of November 2013. The combined public sector's fiscal deficit increased from 4.6 percent of GDP in 2011 to 7.9 percent in 2013, higher than the crisis-driven 2009 deficit. In response to these challenges, the authorities have been implementing a comprehensive reform program to boost revenues, reduce expenditures, and improve key dimensions of fiscal management. In November 2014, the Government also secured a Stand-by Arrangement with the International Monetary Fund (IMF) for the period 2014-2017.

6. Citizen Security remains one of the major bottlenecks to development and poverty alleviation. Recognizing that measures to prevent crime and violence have been marginal and fragmented, in 2011, the Government approved a comprehensive and integrated National Citizen Security and Co-existence Policy for 2011-22. The new policy acknowledges that sound decision-making should be based on accurate information systems and emphasizes the importance of improving the quality and collection of criminal justice information and strengthening crime observatories. The new policy is being supported by a broad coalition of international partners. While progress has been made in reducing homicide rates from 86 per 100,000 people in 2011 to a rate of 67.5 per 100,000 by 2014, these levels are still among the highest in the world outside areas of active conflict.

III. PROGRAM PERFORMANCE

Strategic Objective 1- Improving Citizen Security

7. To support Honduras' efforts in improving citizen security, the WBG focused on: (i) strengthening national capacity to address citizen security; and (ii) linking national interventions to regional approaches on citizen security. Given the importance of this agenda for the future development of Honduras, this objective was included for the first time as a strategic objective in

a CPS and was intentionally placed first to underline its significance. However, crime and violence is inherently complex, and a relatively new area of experience for the WBG, and thus, the CPS outcomes are modest and their impact minor, although steps have been made on building a strong foundation for crime and violence prevention. A key lesson from CPS implementation is that translating policy into action requires sector leadership, resources, cross sectoral approaches and donor coordination to achieve sustainable improvements in citizen security. Of the four outcomes, one was achieved, one was mostly achieved, one partially achieved and one not achieved. This Strategic Objective is rated Moderately Satisfactory.

(i) *Results area 1.1: Strengthening National Capacity to Address Citizen Security*

8. **The policy environment for crime and violence prevention improved, and an integrated national citizen security strategy is being implemented.** To address some of the key underlying factors contributing to heightened insecurity, the WBG supported the Government's efforts to build and strengthen its capacity to implement a multi-sectoral and integrated citizen security strategy through different instruments, including a First Programmatic Reducing Vulnerabilities for Growth Development Policy Credit (P127331), a Barrio Ciudad Project (P088319), a Safer Municipalities Project (P130819) and a variety of technical assistance projects. As a first step, the Government approved a National Citizen Security and Co-existence Policy 2011-2022, outlining a long-term comprehensive approach to this challenge, with crime prevention as a central pillar and focus on strengthening the National Violence Observatory to provide data to design crime and violence prevention programs. This was the first time the Government adopted a policy combining the more traditional emphasis on crime control with a strong emphasis on prevention of crime and violence. To implement the policy, the Government mandated the Security, Defense, and Governance Cabinet to be responsible for intra-governmental coordination. Moreover, a security tax on financial transactions was introduced to fund security and crime prevention initiatives, generating an additional US\$90 million in 2014 alone. To complement these efforts, in 2014, a Security and Prevention Cabinet was established to regularly monitor progress in reducing crime and violence. The WBG also supported increasing oversight capacity of financial sector regulators to detect money laundering activities and combat financing of illicit activities. In particular, with support from the Financial Sector Technical Assistance Project (P040177), the National Commission of Banks and Securities, and the Central Bank of Honduras developed a risk-based supervision banking framework, including new inspection procedures and early warning systems to detect vulnerabilities of the financial system. Also, a new financial payment system came into operation to increase transparency of financial transactions and an action plan was prepared to reduce the risk of recycling of proceeds of crime in the Honduran economy.

9. **Important steps have been made to increase capacity of local governments and communities to undertake crime and violence prevention efforts.** The WBG is supporting the implementation of the Government's flagship Safer Municipalities Program (SMP) aimed at improving citizen security across municipalities. This Program supports the preparation and implementation of integrated municipal citizen security plans, designed by multi-stakeholder citizen security councils led by the mayor. The WBG's support has been focused on the poorest urban municipalities with high levels of crime, and to date, six municipal security plans,²³ including

²³ Six cities with high homicide rates above 80 per 100,000 inhabitants.

geo-referenced crime statistics data, have been developed and are under implementation. These plans include: (i) social prevention interventions, in particular to address school-based, gender-based, family-based, community-based and at-risk youth-based violence; (ii) situational prevention interventions, including small scale community infrastructure projects; and (iii) interventions to strengthen the community social fabric and cohesion. In addition, over 600 municipal staff and community representatives (particularly women) involved in crime and violence prevention as well as over 8,500 local community development leaders were trained. In parallel, the WBG provided technical assistance and equipment to increase the capacity of the National Violence Observatory (managed by the University Institute for Democracy, Peace and Security) to collect, process and validate violence-related data for evidence-based policymaking and to inform the municipal security plans. A survey to evaluate the impact of the municipal citizen security plans, as reflected by perception of security in the targeted municipalities, is underway and results are expected to be available in 2016. However, there are positive improvements at the national level, and similar trends are expected in the SMP municipalities. In 2015, according to the latest national data, 71 percent felt insecure, compared to 91 percent in 2010. Another survey targeting victims of school-based violence was recently completed and results will also be available in 2016. The WBG also financed the Barrio Ciudad Project (P088319), which was instrumental in the design of the SMP, and supported efforts to address community-based violence through urban infrastructure upgrading, social development interventions, and community mobilization. Indeed, 54 percent of households felt safe in 2013 compared to 45 percent in 2005.²⁴

10. Access to employment opportunities for at-risk youth improved. With support from the Nutrition and Social Protection Project (P088242), the Government implemented the First Employment Program, a skills-based training initiative to increase employability amongst at-risk youth. The Program focused on adolescents with low skills for the job market or who were out of school. Over 4,800 participants (of which about half were female) completed a six-month training course designed to build technical and life skills, enhancing their opportunities to access the labor market. After graduating from the Program, 30 percent of participants had paid employment or self-employment, and others either went back to school to seek further education or continued to search for employment opportunities.²⁵ The WBG supported the creation of an intermediation service (*Servicio Orientación de Empleo*) within the National Employment Center. This Center continues to provide support to youth seeking employment, working as an intermediary between job seekers and job providers. The First Employment Program has informed a Euro 40 million program being implemented by the Ministry of Planning and Technical Cooperation, the Professional Training Institute, and the German Development Agency to provide job training to at-risk youth and professionals. To complement these efforts, the WBG also implemented a Japan Social Development Fund focused on Employment Generation (P124157) through which over 3,200 poor urban beneficiaries from high-crime neighborhoods had temporary employment while receiving skills training to enable them to find better employment opportunities.

²⁴ This is a significant achievement given that the perception of security in the control group stayed the same (50 percent in 2006 vs. 49 percent in 2013).

²⁵ Longitudinal Study of the First Employment Program in Honduras, World Bank, 2013.

(ii) Results area 1.2: Linking National Interventions to Regional Approaches on Citizen Security

11. The countries of the Northern Triangle (Honduras, Guatemala and El Salvador) drafted an Alliance for Prosperity initiative, which among other, identifies a regional approach to tackling crime and violence. In September 2014, the three countries presented a Plan to tackle security challenges and create new opportunities in the Northern Triangle, focused on (i) boosting programs to prevent violence; (ii) strengthening institutions responsible for public safety; and (iii) modernizing the justice system. One of the first critical steps in the regional initiative will be to coordinate approaches, policies and activities to improve citizen security, including harmonizing data for information on violence and crime. Honduras is playing an active role in lobbying efforts to secure funding for this comprehensive Plan. The WBG has supported Honduran participation in regional citizen security initiatives through a number of trust-funded technical assistance projects. In particular, the Regional Program for Municipal Citizen Security in Central America's Northern Triangle State and Peace-building Fund Grant (P146031) and several South-South knowledge exchanges with Colombian authorities to learn about the regional best practices for preventing crime, provided the Hondurans with the necessary knowledge to inform the Alliance for Prosperity initiative.

Strategic Objective 2 - Expanding Opportunities through Reducing Vulnerabilities

12. The second strategic objective of the CPS supported Honduras' effort to expand opportunities by reducing economic, social, and climatic vulnerabilities. In particular, the WBG program focused on: (i) improving pensions, energy utility, and public sector wage bill discipline; (ii) improving the investment climate and competitiveness; (iii) improving quality of education; (v) consolidating and strengthening the social protection system; and (vi) improving disaster risk management. With more than half of the outcomes of the CPS falling under this strategic objective, it is the core of WBG support under this CPS period. Of the ten outcomes, six were achieved, one mostly achieved, two partially achieved, and one not achieved. Overall, this strategic objective is rated Moderately Satisfactory. IFC and MIGA results are discussed below (although these are not captured in the Results Framework), given their additional significant contribution to the achievement of this strategic objective, as well as additional IDA support to fiscal consolidation that was not envisioned at the time of the CPS Progress Report.

(i) Results area 2.1: Pension, Energy Utility and Public Sector Wage Bill Discipline

13. The WBG supported the country's efforts to consolidate its fiscal position and address some of the long-standing structural issues with notable achievements. The CPS program focused on a number of related, but distinct, reforms promoting macroeconomic stability and increasing the fiscal space needed for social protection programs. The first set of reforms undertaken in 2011 under the Lobo Administration were supported through the Programmatic Reducing Vulnerabilities for Growth Development Policy Credit (DPC, P127331) and accompanying technical assistance and analytical work.²⁶ The reforms focused on improving: (i) tax administration by expanding the tax base, approving and implementing the large taxpayer inclusion criteria and census of large taxpayers, and selecting and training auditors in the large

²⁶ Public Expenditure Review (P089456); Technical Assistance Report on Pension System (P105243); Fiscal Emergency Non-Lending Technical Assistance (P085462).

taxpayers unit according to international best practices; (ii) pension systems of the Teacher's Pension Institute (INPREMA) and the Public Servant's Pension Institute (INJUPEMP) by increasing the minimum retirement age, contribution rates and years of service for full pension as well as integrating community-based teachers, who were part of the Honduran Program for Community Education (PROHECO), into INPREMA²⁷; and (iii) sustainability of the wage bill by establishing a uniform pay adjustment methodology for all public servants and strengthening the monitoring of the teacher payroll by creating a single database and a payroll management unit. As a result of these reforms, the number of large taxpayers increased from 335 in 2010 to 560 at the end of 2013, a 67 percent increase, exceeding the CPS target of 20 percent. INPREMA's deficit was reduced by 43 percent and INJUPEMP's by 51 percent, moving these pension systems away from bankruptcy and towards financial sustainability. Lastly, the Central Government's wage bill was reduced from 11 percent of GDP in 2010 to 9.4 percent in 2013, surpassing the 0.7 percent CPS target. Further reforms were undertaken under the current Hernandez administration in 2014 and supported by the Fiscal Sustainability and Enhanced Social Protection DPC (P151803). In particular, the WBG supported the verification of the number of employees working in the Central Government as the first step of the reform to reduce wage expenditure and the fiscal deficit. This exercise resulted in greater transparency of the payroll lists and facilitated the elimination of ghost staff positions, with a reduction in the number of Government employees from 210,000 positions in 2014 to 180,000 in 2015.

14. The authorities are taking steps to curb the National Power Utility's (ENEE) losses. ENEE's losses in distribution and transmission are among the highest in Central America, and its financial losses are putting a strain on fiscal stability. In 2013, ENEE registered a loss of nearly US\$372 million, the largest loss in its history, equivalent to 1.8 percent of GDP. The WBG supported the Government's efforts to rehabilitate distribution networks and improve ENEE's management practices through the Power Sector Efficiency Enhancement Project (P104034). To date, 3,000 automated meters, 1,000 transformers were installed, and an incidence recording and management system was put in place. Also, a Unit for the implementation of the Project for Sustainable Income Recovery through Automatic Telemetering was established and helped monitor 5,000 of the largest electricity consumers (representing 45 percent of billable electric services). As a result, in the first 18 months since the creation of the Unit, US\$57 million in revenue was recovered that would have otherwise been lost due to fraud, theft, and invoicing mistakes. Although technical and non-technical losses increased from 29 percent in 2012 to 31.3 percent in 2014, the overall increase without the rehabilitation efforts and improvements in management practices would have been around 36 percent. To address these challenges, the Hernandez Administration is implementing a comprehensive power sector reform, supported by the Fiscal Sustainability and Enhanced Social Protection DPC (P151803). Reforms to date include, among other: (i) reduction in the direct electricity subsidy threshold from 150 kWh to 75 kWh, which is expected to reduce subsidies from US\$51 million to US\$10 million per year; (ii) separation of distribution, transmission, and generation activities, with the creation of a distribution subsidiary company; (iii) launch of ENEE's restructuring through the creation of an interim Distribution Engineering Planning Unit and an interim Planning and Commercial Management Unit within ENEE; and (iv) installation of a national Integrated Commercial Management System in ENEE.

²⁷ Although INPREMA received contributions from the PROHECO Program, the teachers were never formally registered and thus, were not entitled to social security benefits.

(ii) Results area 2.2: Improved Investment Climate and Competitiveness

15. IFC and MIGA supported Honduras' strategy to increase generation of renewable energy, and mobilized private sector investments for public infrastructure projects. IFC's investments (US\$129 million and US\$402 million in mobilization), and advisory projects in hydro and solar power for small scale renewable energy projects contributed to the transformation of the energy matrix and reduced dependency on costly thermal energy power sources, creating additional aggregate capacity of 210.5 megawatts, accounting for around 15 percent of the country's installed capacity. MIGA provided guarantees to address political risk, enabling investments of US\$139.1 million for one photovoltaic and one wind power plant with combined installed capacity of 104 megawatts. By the end of 2015, Honduras is expected to rank second in Latin America and the Caribbean (LAC) with installed photovoltaic capacity of 460 megawatts, outranked only by Chile. In mobilizing private sector investment for public infrastructure investments, IFC provided a risk-sharing facility of US\$53 million to local banks to finance the city of Tegucigalpa's urban transport infrastructure plan. The proceeds of the loan were used mainly to develop key road underpasses at major junctions, rehabilitate and maintain the urban road network, and contribute to community projects delivering basic infrastructure. MIGA also supported investments in Honduras' Tourist Corridor with a US\$124.3 million guarantee to support a major transport concession that includes road network improvements and maintenance of over 220 km of roads of this key corridor. The project will connect the cities of *San Pedro Sula*, *La Barca*, *El Progreso*, *Tela*, and *La Ceiba* port on the Atlantic Coast and is expected to increase economic activity and transportation safety in northern Honduras.

16. Incomes of rural producers increased through development of agricultural value chains and implementation of productivity-enhancing initiatives for rural business. Recognizing that raising rural productivity requires a multi-sectoral effort, the WBG focused on providing: (i) technological innovation to raise productivity; (ii) targeted market intelligence to enhance market access; and (iii) financial capital to boost access to productive assets. In particular, through the Rural Competitiveness Project (COMRURAL, P101209), the WBG helped small-scale rural producers prepare business plans, provided matching grants to co-finance the implementation of approved business plans, and created productive alliances between rural producers and commercial partners. To date, more than 70 productive alliances have been established (in cacao, coffee and other high-value agribusiness) benefitting over 7,000 rural producers, whose net revenues increased by 28 percent. Rural producer organizations in turn secured US\$9 million in loans from 15 local financial institutions, which have also benefitted from increased capacity to review business proposals, including financial information such as liquidity and solvency of small-rural producer organizations. The WBG helped successfully implement a Japanese Social Development Fund Cacao Trust Fund (AGROCACAO, P130418) that focused on increasing the productivity of rural, indigenous, and afro-descendant farmers by lowering production costs through environmentally friendly production systems, and establishing strategic partnerships to improve trade and commercialization. AGROCACAO benefitted 1,181 farmers, increasing their household income by 10 percent; rehabilitated about 1,000 cocoa farms; developed a facility with processing capacity of 600 tons of cacao paste per year significantly increasing production capacity; and created 40 productive alliances. The IFC supported key agri-commodities, such as palm oil and sugar, through its investments in *Corporation Dinant* and *Pantaleon*, reaching 2,500 farmers and contributing to nearly 7,500 direct jobs, out of which 1,600 (21 percent) were women. Regional expansion of the Guatemala-based *Grupo Pantaleon* in the

southern part of Honduras was critical to generate employment opportunities in one of the poorest areas in the country. The IFC also contributed to improvements in agribusiness by helping to reduce the processing time for obtaining import and export permits of agribusiness products, including online phyto-sanitary permits, from three days in 2012 to one day in 2014 (IFC Honduras Agribusiness Trade Logistics Project). Lastly, WBG supported the establishment of a US\$6 million revolving line of credit to allow microfinance institutions to expand access to photovoltaic systems in rural areas, strengthening the role that microfinance institutions play in the rural sector. To date, US\$1.5 million in microfinance loans were provided to 2,345 rural poor beneficiaries for the purchase of photovoltaic systems from local energy distributors.

17. The WBG contributed to reducing logistics constraints, mainly through constructing or rehabilitating primary and rural roads, although maintenance of unpaved roads is lagging. The Rural Infrastructure Project (P086775) contributed to rehabilitating 599 km of rural roads, exceeding the target of 445 km, while the Road Rehabilitation Project (P108058) supported paving of 127 km of major primary roads (*San Lorenzo-Olanchito-El Provenir-Marale*), building of five bridges, and rehabilitating of two major road sections affected by geological faults. To date, operating costs for cars and trucks were reduced from 0.22 cents per km in 2008 to 0.16 cents per km in 2014, and 0.89 cents per km in 2008 to 0.85 cents per km, respectively. The *San Lorenzo – Olanchito* section is part of the main east-west corridor and one of the principal agricultural production centers of Honduras. Road improvements are expected to enhance competitiveness in this area of the country and improve access to economic opportunities for the beneficiary population. The WBG also supported a successful pilot program for community-based road maintenance, “*Caminos para Una Vida Mejor*”, creating 16 microenterprises employing 254 permanent staff, of which 30 percent are women. These microenterprises provide maintenance for 532 km of unpaved roads. However, at the national level, the percent of unpaved roads under maintenance decreased from 33 percent in 2008 to 16.1 percent in 2013. Given the success of the WBG-supported community-based road maintenance program, the Government scaled it up, creating an additional 16 microenterprises to maintain some 1,300 km of roads.

18. Land tenure security improved. The WBG has been engaged in strengthening the cadastral land registration system for a decade given its important contribution to empowering the rural poor and indigenous people, and recognizing that weak property rights discourage investments and restrict access to credit, constraining small and medium enterprise development. The WBG through the Second Land Administration Project (P106680) upgraded the Unified Registry System for land titling, helped reduce the processing time for registration of land titles by eight days, and issued more than 40,000 land titles in rural areas. Setting a historic precedent, three collective land titles were granted to territorial councils of the Miskito people (*Katainasta, Auhya Yari, and Finzmos*). In addition, to contribute to the Government’s strategy for protecting environmentally sensitive areas, the WBG supported the demarcation of the two protected nature reserves.

19. IFC contributed to expanding access to finance for micro, small and medium enterprises (MSME). IFC provided critical funding to MSMEs by supporting seven out of seventeen banks in the country, including the two largest banks, *Banco Ficohsa* and *Atlantida*. Its committed portfolio as of September 2015 was US\$190.5 million, including US\$75.5 million of IFC’s Asset Management Company investment in the *Banco Ficohsa*. IFC through the Asset

Management Company invested equity and quasi-equity in *Ficohsa* to foster regional expansion of financial services, for example by contributing to the acquisition of Citi Honduras and Nicaragua. IFC currently provides credit lines to domestic banks to support a Small and Medium Enterprise (SME) lending portfolio of about US\$385.5 million, benefitting close to 3,000 SMEs and its MSME lending investments are reaching over 18,000 firms worth about US\$35 million.

(iii) *Results area 2.3: Improved Quality of Education*

20. Coverage of the basic education system expanded, and important steps were taken to improve governance and accountability. The Education Quality, Governance and Institutional Strengthening Project (P101218) supported Honduras' effort to expand access to pre-school and increase primary school completion rates in community-managed schools in rural and remote areas, targeting the most disadvantaged population. By 2013, 781 new pre-school institutions were opened, 2,700 furniture sets and 800 pedagogical packages were distributed, and over 300 pre-school teachers were trained in the use of methodological packages. Pre-school enrollment increased from 45 percent in 2008 to 67 percent in 2013. To improve primary school completion rates, training in multi-grade pedagogical techniques and didactic materials was provided to 3,711 community-managed school teachers, and over 250,000 textbooks were distributed. Completion rates for students attending community-managed primary schools improved significantly from 45 percent in 2007 to 98 percent in 2012. As a first step to improve quality, National Assessments of student learning were carried out in November 2012 and November 2013, enabling the Ministry of Education to identify learning gaps in primary education. In 2012, Honduras also participated for the first time in the International Trends in International Mathematics and Science Study. To improve accountability and transparency in the basic education system in community-managed schools, close to 6,000 schools now have Transparency Bulletin Boards, fostering a greater degree of citizen engagement, especially through social audit of schools by parents to report on teacher absenteeism. The Ministry of Education has developed a fully integrated Education Management Information System to improve data collection on teachers and students, and better inform policy decision-makers.

(iv) *Results area 2.4: Consolidated and Strengthened Social Protection System*

21. The most vulnerable poor benefited from social protection programs. The Lobo Administration introduced the *Bono Vida Mejor* (*Bono 10,000*) CCT Program which became an important pillar of the social protection system, impacting the livelihoods of 350,000 beneficiary families, 73 percent of which lived in extreme poverty. The Program provides up to US\$500 per year in benefits to these households. With support from the Social Protection Project (P115592), 30,413 families received CCTs contingent upon school enrollment and the regular use of health services, including child growth monitoring. In 2014, 100 percent of associated schools and 91 percent of associated health centers reported compliance in accordance with transfer cycles. A 2013 impact evaluation of the Program in rural areas suggests that: (i) poverty among beneficiaries diminished by 3 percentage points (in a context of increasing poverty nationwide), while per capita consumption increased by 7 percent; (ii) primary school enrollment increased by 2.8 percentage points; and (iii) visits to health centers for children aged 0-3 increased by 2.6 percentage points. In addition, the Government approved a new targeting formula for social programs, including the CCT *Bono Vida Mejor*, which identifies beneficiaries using a model that predicts rural and urban

extreme poverty and mandated the use of Unique Registry of Participants to identify and track beneficiaries of social assistance programs. The reforms related to improving the efficiency of the social protection system were supported under the Fiscal Sustainability and Enhanced Social Protection DPC (P151803).

(v) *Results area 2.5: More Effective Disaster Risk Management*

22. **Strengthening disaster risk management (DRM) is underway.** Honduras has made important steps in strengthening DRM. In particular, 36 municipality and disaster emergency committees were established, five municipalities adopted land use plans that integrate DRM considerations, and an additional seven municipalities have adopted methodologies to prepare their own risk assessments. In coordination with the Regional Coordination Center for Disaster Prevention in Central America, Honduras updated and published its humanitarian aid coordination manual for disaster emergencies. These efforts were supported by the Disaster Risk Management Project (P131094). The Honduras Water and Sanitation Agency (SANAA), the National Autonomous University, and the Disaster Management Agency prepared a draft report on seismic risk assessment of water and sanitation infrastructure using probabilistic seismic risk assessment tools to estimate potential damages to SANAA infrastructure. Lastly, the WBG approved the use of US\$8 million of regional IDA resources to assist Honduras' access to the Caribbean Catastrophe Risk Insurance Facility. By accessing this insurance facility, Honduras will have access to catastrophe risk coverage through an innovative mechanism of modeling disaster risks tailored to country specific climate change constraints and at low cost annual premiums.

Strategic Objective 3 - Enhancing Good Governance

23. To enhance good governance, the WBG support focused on: (i) improving accountability in public expenditures; (ii) strengthening decentralized structures; and iii) enhancing social accountability as part of demand-driven governance. All four outcomes were partially achieved, and the overall Strategic Objective is rated Moderately Satisfactory.

(i) *Results area 3.1: Improved Accountability in Public Expenditures*

24. **Progress in improving public financial management has been slower than expected.** The WBG has been focusing on strengthening management of public finances and establishing a more efficient, effective and transparent public procurement system through: (i) upgrading the public financial management system; (ii) upgrading the e-procurement platform; and (iii) improving controls over payroll management in all Central Government institutions. To date, several modules of the integrated financial management system (SIAFI) have been developed, allowing registration of 69 percent of central administration payments and 88 percent of payments of decentralized institutions. Development of other modules is underway and the WBG will provide technical assistance on their utilization.²⁸ In 2014, the Government enacted an Electronic Procurement Law mandating the use of framework agreements, which are expected to promote transparency in Government purchases. Moreover, as of 2015, all bidding opportunities are published in the *Honducompras* (e-platform for public procurement). Payroll audits in five key government institutions, accounting for 80 percent of the Central Government's payroll, were

²⁸ The Government has expressed its commitment to completing the upgrade with its own funds.

completed in 2015 and findings of these audits will be critical for developing corresponding action plans to help identify and manage floating debt. An institutional functional review was also carried out, an important first step towards a results-based human resource management system for greater professionalization of public service. To strengthen Government monitoring and evaluation capacity, the WBG has been supporting the development of a monitoring and evaluation system in line Ministries. To date, six line Ministries have drafted monitoring and evaluation indicators and corresponding sectorial strategies. Lastly, the WBG contributed to enhance public financial management monitoring and evaluation capacity by providing relevant analytical and technical assistance that underpinned and informed, among other, the policy reforms supported under the DPCs approved during this CPS. These inputs include the Honduras Public Expenditure Review (P129386), a Debt Management Performance Assessment (P148345) and a set of financial policy notes (P149056).

(ii) Results area 3.2: Stronger Decentralized Structures

25. Honduras has made strides in strengthening decentralized structures. A particular area of sustained WBG engagement in decentralized service delivery is in the water and sanitation sector. The Water and Sanitation Sector Modernization Project (P10388) supported decentralization of water and sanitation services in eight municipalities by establishing autonomous municipal water and sanitation service providers that collect revenue and provide increased coverage. More than 40,000 people have benefitted from increased coverage and revenues almost doubled between 2014 and 2015 (from about US\$38,000 in 2014 to about US\$77,000). Decentralization is expected to increase quality and tariff collection. In addition, with support from the Water and Sanitation Sector Modernization Project and the Water Sector Program, the WBG helped the authorities develop a strategy for the transfer of water and sanitation services to the City of Tegucigalpa, an important step in supporting the decentralization of the water and sanitation services. A number of analytical pieces was prepared to inform the decentralization process. Namely, a subnational Public Expenditure and Financial Accountability Assessment (PEFA) study was carried out for the municipality of Tegucigalpa (P124681) that helped identify gaps in the municipality's public financial management capacities. A Public Expenditure Review (P129386) was carried out identifying issues to be addressed in the context of increasing decentralization in Honduras at the national level, including an assessment of the municipal-debt financing potential, however, no financing framework for decentralized services has been approved at the national level yet.

26. Improved capacity of Civil Society Organizations (CSOs) to use demand-side governance tools contributed to increasing social accountability. Following the 2009 political conflict, the 2010 Institutional and Governance Review identified the need to foster enhanced mechanisms for transparency and accountability of policy-makers. In response, the WBG provided technical assistance, services and financial support for the creation of new permanent structures to facilitate country-based dialogue and engagement on enhancing good governance across several sectors, including education, roads, social protection, and extractive industries. Over 70 CSOs received WBG support for creating innovative platforms for monitoring and reporting on government performance: 30 of these CSOs are engaged in monitoring of the *Bono Vida Mejor* CCT Program, 15 CSOs work on monitoring the quality of education delivery, and 30 CSOs are working to ensure the accountability and transparency of road construction. Support for these

initiatives sought to increase demand-driven governance, measured by an increase in formal requests for public information to the Institute for Access to Public Information. However, in parallel, the Government enacted legislation to increase and enhance transparency portals for government agencies. As a result, due to increased use of government transparency portals, the number of formal requests for access to public information actually decreased.

IV. WORLD BANK GROUP PERFORMANCE

27. **Overall, the WBG performance FY12-15 CPS is rated Good.** The CPS was prepared in the context of daunting country challenges related to political reconciliation, high poverty, increasing crime and violence rates, and recovery from the effects of the 2009 global economic crisis. The flexible design of the strategy allowed the WBG to adapt to the challenging country circumstances and respond to the priorities of two administrations. The CPS strategic objectives were aligned with the Honduras Country Vision and National Plan 2010-2030, and was consistent with the priorities of both Lobo and Hernandez Administrations, and in particular, increasing social protection, reducing crime and violence, and improving fiscal performance. Furthermore, the WBG sought opportunities for stronger collaboration with the IFC and MIGA, and delivered results in key economic sectors, including energy and transport. The WBG's performance during the reporting period is assessed along two dimensions: (i) the design of CPS; and (ii) implementation of the CPS program.

Design and Relevance

28. **The design of the CPS was adequate and relevant for addressing the challenges facing the country at the time of preparation.** The CPS was designed to respond to the Honduran context, with the selection of areas of engagement focused on the country's most pressing issues, namely fiscal consolidation and poverty reduction, including delivering services in poor communities and strengthening the Government's social protection program. The CPS gave a prominent role to citizen security, recognizing the importance of this agenda for the future development of Honduras. The CPS also provided a flexible framework to respond to a change in administrations and extended the CPS for one year to support the new Government during its first year in office. At the time of the CPS Progress Report, CPS objectives remained relevant, although three planned lending operations were dropped: (i) an Urban Vulnerability Reduction Project, and instead the Safer Municipalities Project was approved; (ii) a Regional Crime and Violence Project, given that creating a conducive environment for such regional commitments was still at the initial stages and support was mainly provided through planned non-lending technical assistance and a number of trust funds; and (iii) a Second DPC of the series, due to weak macroeconomic performance and in the absence of an IMF program. The CPS Progress Report shifted resources to focus on delivering services in poor communities and strengthening the Government's social protection program, by scaling up existing projects with positive results. Following the new Government's fiscal reforms in 2013-14 and a renewed IMF Stand-by Arrangement, the WBG supported fiscal consolidation efforts and social protection system strengthening with a DPC.

29. **Although the design of the strategy was well-articulated, the Results Framework was poorly designed and in some instances, overly ambitious.** While the CPS included IFC and MIGA's planned areas of engagement, the results framework failed to integrate and account for their activities. The Results Framework, while focusing on three strategic objectives, relied on an

excessive number of outcomes and targets to measure and demonstrate results to accommodate ongoing projects initiated during the previous CPS. Moreover, in some instances, outcomes could not be evaluated solely based on the Results Framework, given that indicators at times only measured one dimension of the outcome or were more suitable as milestones (e.g. improved employment opportunities for youth). Some targets were overly ambitious considering the activities and the scope of work of the WBG (e.g., reducing energy losses per year in ENEE). Other indicators were too broad (e.g. Active Honduran participation in regional citizen security initiatives to measure strengthened regional approaches to combat crime and violence in Central America). Although the CPS Progress Report confirmed the design of the CPS and relevance of its objectives, it failed to meaningfully improve the Results Framework.

Program Implementation

30. **During this CPS period, the WBG delivered a solid package of support to Honduras.** IDA delivered a total of US\$283.5 million. During the first year of the CPS, IDA approved the Improving Public Sector Performance (P110050, US\$18.2 million) and the first Reducing Vulnerabilities for Growth DPC (P127331; US\$80 million) to support fiscal policies, protect the most vulnerable segments of the population, and address critical challenges related to citizen security. In FY13, IDA approved two new investment projects for a total of US\$45 million, as follows: (i) Safer Municipalities Project (P130819, US\$15 million); and (ii) Disaster Risk Management Project (P131094, US\$30 million). Given the lack of an IMF program and weak macroeconomic performance, the second DPC was dropped and additional financing was provided in FY13 to scale up well performing projects that target underserved segments of the population, the Water and Sanitation Sector Modernization Project (P103881, US\$10 million), and Rural Infrastructure Project (P086775, US\$20 million. Similarly, to increase support to *Bono Vida Mejor*, IDA approved additional US\$12.3 million in FY14. That same year, IDA approved the Caribbean Catastrophe Risk Insurance Facility which leveraged US\$4 million of country IDA to access an additional US\$8 million of regional IDA resources given the regional nature of the initiative. In the last year of the CPS, IDA further scaled up the Social Protection Project with US\$25 million in additional financing, and given the country's improved macroeconomic performance, delivered the Fiscal Sustainability and Enhanced Social Protection DPC (P151803; US\$80 million). To complement the IDA portfolio, the IFC increased its annual investments in Honduras from US\$218.1 million in FY11 to US\$290.7 million in FY15. IFC's total commitments with the private sector in Honduras was US\$537.3 million by the end of FY15, among the largest volume of investments in the region. MIGA also guaranteed significant investments in the energy and transportation sectors exceeding US\$181 million.

31. **Portfolio implementation was overall satisfactory, although challenges exist.** As of June 30, 2015, IDA's active portfolio consisted of nine operations for a total commitment of US\$354 million, of which US\$108 million remained undisbursed. During the CPS period, quality of the portfolio improved and disbursements were high. Honduras' disbursement ratio was consistently higher than Central America and LAC averages, peaking in FY13 at 42 percent, well above Central America (26 percent) and LAC averages (24 percent). This trend continued, although in the last year of implementation, the disbursement ratio fell to 30 percent due to Government's self-imposed budgetary restrictions to ensure fiscal discipline in line with the IMF Stand-by Arrangement. This is likely to impact disbursements going forward as well as the

achievement of development outcomes. The quality of the portfolio also improved over the years, with only two projects (Rural Infrastructure Project and the Water and Sanitation Project) currently rated as moderately unsatisfactory, compared to five projects at the beginning of the CPS. Both Projects are affected by low budget allocations. The most significant challenges facing the Honduras portfolio are institutional capacity and political risk within the implementing institutions in that with each change in administration, new and yet-to-be-tested institutional arrangements are put in place and there tends to be high staff turnover. To mitigate the impact of these challenges and proactively identify and address implementation bottlenecks, the WBG provided regular and additional support to address fiduciary, environmental, and safeguard weaknesses, intensified monitoring efforts (i.e., more frequent technical Country Portfolio Program Reviews, and organized regular meetings between Country Office and the Ministry of Finance).

32. Addressing social and environmental safeguards became a priority in the WBG portfolio. IFC investments in Honduras included a loan to Dinant, a large palm oil and food production corporation with extensive land tracts in the *Bajo Aguán* Valley in Northern Honduras. Following land conflicts between Dinant and local campesino organizations and complaints by human rights non-governmental organizations (NGOs), the Compliance Advisor Ombudsman, an independent recourse and accountability mechanism for IFC, conducted a compliance audit of IFC's environmental and social performance with regard to its investment in Dinant and identified a number of environmental and social due diligence shortcomings. In response, IFC and Dinant agreed on an Enhanced Action Plan to address both Dinant-specific needs for environmental and social improvements as well as some of the critical and more systemic land ownership and development issues in *Bajo Aguán*. As part of the Plan, IFC engaged the Consensus Building Institute and international legal counsel to carry out a stakeholder engagement and dispute resolution process as well as to monitor Dinant's security plan to ensure consistency with the Voluntary Principles for Security and Human Rights. Dinant has undertaken a social baseline study for all project sites to better inform engagement with communities, established a grievance management mechanism, hired new community liaison officers, and updated its security procedures to comply with the Voluntary Principles for Security and Human Rights framework. The company also carried out a security forum with communities in order to prepare Community Risk Assessments for some locations and is the first company in Honduras to disarm its security guards to reduce armed conflicts. The Government of Honduras has expressed support for this initiative and has indicated its interest in WBG support to find sustainable solutions to address the structural issues related to the *Bajo Aguán* conflict that will be discussed as part of the preparation of the new Country Partnership Framework.

33. The WBG successfully partnered with other International Financial Institutions and bilateral donors to strengthen program impact. Strategy and investment lending coordination was extensive during this CPS. The most notable partnerships included: (i) coordination with Inter-American Development Bank (US\$110 million) and Central American Bank of Economic Integration (US\$120 million) for the *Bono Mejor Vida* CCT Program for a total investment of US\$300 million; (ii) leveraging of US\$30 million from the Global Agriculture and Food Security Program to mobilize over US\$100 million in additional funds from the United States Agency for International Development; and (iii) with Swiss Cooperation (US\$6 million) to finance and support the strengthening of value chains in agriculture and the diversification of rural economies through COMRURAL, an investment of over US\$33 million. Finally, various donors worked

closely with the Government and CSOs to support Open Government Initiatives, particularly Construction Sector Transparency, Extractives Industries Transparency Initiative (EITI) and Open Government Partnership.

Alignment with WBG Corporate Goals

34. **The WBG Program was aligned with its corporate goals of eradicating extreme poverty and increasing shared prosperity.** The WBG Program targeted the most vulnerable poor in rural areas by supporting activities that increased social protection coverage and targeting; fostered opportunities for education; enhanced land titling; improved access to market and credit as well as basic infrastructure services. Some activities focused on supporting local indigenous peoples and afro-descendants with social and economic opportunities, particularly in the agriculture sector. The Program succeeded in strengthening the role of women in development, including in managing agricultural businesses and roads maintenance, and in leading citizen security initiatives. WBG support was instrumental in supporting Government efforts to protect vulnerable households and expand effective and well-targeted safety net programs. The *Bono Vida Mejor* CCT Program developed in partnership with the WBG, is the country's main tool for implementing social protection interventions, including increasing access to basic health, nutrition and education services, with attention to gender and indigenous peoples.

V. KEY LESSONS AND SUGGESTIONS FOR THE NEW CPF

35. **Recognizing the nature of Honduran politics “stop-go” characteristics in development efforts, the WBG should be prepared to make longer-term commitments to strategic sectors.** The implementation of projects is often spread over two administrations, and as such, tends to experience setbacks and delays given that the country's institutional framework and policy direction tends to be re-created every four years. In this context, the WBG should take a longer-term view in the design of the CPF by focusing on those sectors where the Government has demonstrated strong demand and commitment, which are of major development importance and where implementation capacity is satisfactory. Continuing to use DPCs to support critical Government reforms while complementing investment project financing in specific sectors may also contribute to overcoming the difficult implementation environment, such as in the case of the DPC series and complementary support through the Social Protection Project. Finally, given the limited IDA envelope it will be critical for the three WBG institutions, IDA, IFC and MIGA to jointly identify opportunities for development and provide a comprehensive set of development solutions leveraging their strengths to address the country's challenges.

36. **The WBG's contribution to the country's development agenda is not limited by the size of its portfolio.** The WBG's long experience in Honduras and the quality of its knowledge and convening services have been valued by successive Governments as well as by broader stakeholders. This allows the WBG to play an important convening and advisory role in policy and program design, and in facilitating coalition-building and important multi-stakeholder initiatives, beyond the WBG's immediate program. Most recently, the WBG has taken on the role of facilitating the implementation of the Open Government Initiative and other similar initiatives central to the country-led governance agenda. Furthermore, the WBG can help coordinate donor assistance activities and leverage IDA resources to mobilize private sector funding for critical

poverty reduction programs and infrastructure needs, building synergies among the three WBG institutions.

**CPS CLR Annex 1: Honduras CPS CLR Results Framework
(Summary Table)**

		CPS rating	
Strategic Objective 1: Improving Citizen Security			
(a) Strengthened National Capacity to Address Citizen Security			
1	Improved policy environment for implementation of an integrated national citizen security strategy.	Achieved	MS
2	Strengthened capacity of communities and local governments in social prevention of crime and violence	Partially Achieved	
3	Improved employment opportunities for youth	Mostly Achieved	
4	Strengthened regional approaches to combat crime and violence in Central America and harmonized Honduran policies with regional best practices	Not Achieved	
Strategic Objective 2: Expanding Opportunities through Reducing Vulnerabilities			
(c) Pension, Energy Utility and Public Sector Wage Bill Discipline			
5	Improved tax administration	Achieved	
6	Improved financial sustainability of major pensions systems (INMPREMA and INJUPEM)	Achieved	
7	Improved fiscal sustainability of the public wage bill	Achieved	
8	Strengthened institutional capacity and reduced losses of the national energy utility	Not Achieved	
(d) Improved Investment Climate and Competitiveness			
9	Enhanced capacity of and investment opportunities for small and medium enterprises and rural productive alliances	Mostly Achieved	
10	Reduced Logistics constraints	Partially Achieved	
11	Improved land tenure security	Achieved	
(e) Improved Quality of Education			
12	Improved coverage, governance, and accountability of the basic education system, with a particular emphasis on the most disadvantaged and rural communities	Achieved	
(f) Consolidated and Strengthened Social Protection System			
13	Improved coverage and governance of the national CCT program (Bono 10,000)	Achieved	
(g) More Effective Disaster Risk Management			
14	Improved risk mapping and planning capacity	Partially Achieved	
Strategic Objective 3: Enhancing Good Governance			
(a) Improved Accountability in Public Expenditures			
15	Improved public financial management, procurement, and results monitoring and evaluation capacity	Partially Achieved	
(b) Stronger Decentralized Structures			
16	Improved financing framework for decentralized service delivery	Partially Achieved	
17	Improved efficiency and accountability of autonomous municipal water and sanitation service providers	Partially Achieved	
(c) Enhanced Social Accountability as Part of Demand-Driven Governance			
18	Improved capacity of civil society organizations to use demand-side governance tools	Partially Achieved	

CPS CLR Annex 2: Honduras CPS CLR Results Framework

CPS Outcome/Cluster of Outcomes and Outcome Indicators	Status and Evaluation Summary	Lending and Non-Lending Activities that Contributed to the Outcome	Lessons and Suggestions for the New CPF
Strategic Objective 1: Improving Citizen Security Rating: Moderately Satisfactory			
Government Strategic Priority: Reduce the levels of criminality in Honduras to below international averages; adopt an integrated approach to citizen security through policies aimed at preventing crime and violence, by strengthening the justice sector and ensuring the protection of human rights.			
Results Area 1.1: Strengthened National Capacity to Address Citizen Security			
Outcome 1. Improved policy environment for implementation of an integrated national citizen security strategy - Achieved.			
i. A national policy on citizen security providing for social prevention activities is developed, financed, operationalized, and monitored.	<p>Achieved (2014). The National Citizen Security and Coexistence Policy was approved in December 2011. The Population Security Law passed on October 2011 established a tax on financial transactions and key economic activities to finance programs derived from the Citizen Security and Coexistence Policy. To implement the policy, the Government mandated the Security, Defense, and Governance Cabinet to be responsible for intra-governmental coordination and a Security and Prevention Cabinet was established to regularly monitor progress in reducing crime and violence.</p>	<p>First Programmatic Reducing Vulnerabilities for Growth Development Policy Credit (P127331)</p> <p>Barrio Ciudad Project (P088319)</p> <p>Safer Municipalities Project (P130819)</p>	<p>Policies/policy reforms are more effective when accompanied with adequate resources to operationalize them and clearly reflected budget instruments, at national and local levels.</p> <p>Crime and violence prevention activities require effective inter-institutional coordination capacity due to the multi-sectoral nature of policy.</p> <p>Public officials are under pressure to deliver short-term actions focusing on enforcement activities and less on crime and violence prevention activities, an approach that delivers gains over the long-term.</p> <p>Developing community-based violence prevention plans as suitable tools for stronger municipal and community-led crime and violence prevention activities.</p>
ii. Risk-based supervision by National Commission of Banks and Securities being carried out on the basis of a financial projection model.	<p>Achieved (2013). The National Commission of Banks and Securities developed a risk-based supervision banking framework. The National Commission of Banks and Securities regularly conducts risk-based supervision of the banking sector.</p>	<p>Financial Sector Technical Assistance Credit (P040177)</p> <p>Honduras Western Hemisphere Credit and Loan Reporting Initiative (P131418)</p> <p>Technical Assistance - Financial Sector Reform and Strengthening Initiative (P10236)</p>	

		Anti-Money Laundering Programmatic Technical Assistance (P040177)	
iii. New Financial Payments System in operation.	Achieved (2013). Following support to the National Commission of Banks and Securities, a new fully-functional Financial Payments System is operational since June 2013.	Financial Sector Technical Assistance Credit (P040177)	
iv. Action Plan under implementation to reduce the risk of recycling of proceeds of crime in the Honduran economy	Achieved (2013). The National Commission of Banks and Securities conducted a National Risk Assessment on crime proceeds and money laundering, and developed an action plan to address vulnerabilities. The Action Plan includes strengthening regulatory guidelines, developing operational manuals, adopting international standards, and fostering linkages with the Office of Foreign Assets Control.	Financial Sector Technical Assistance Credit (P040177)	Although the action plan is under implementation, progress has been slow in its execution and many challenges persist. Going forward, the National Commission of Banks and Securities will require support to better regulate and oversee financial institutions, the agricultural finance system, and the insurance sector as well as to further strengthen its capacity in the area of anti-money laundering/anti-terrorism activities, among others.
Outcome 2. Strengthened capacity of communities and local governments in social prevention of crime and violence - Partially Achieved.			
v. Average perception of insecurity in the municipalities where the “Safer Municipalities” Program is being implemented (Baseline 2010: 91 percent felt insecure; Target (2015): 65 percent feel insecure)	Mostly Achieved (2015). According to the National Autonomous University’s Institute for Democracy, Peace and Security, 70.5 percent of municipalities nation-wide felt insecure in 2015, significantly below the 2010 baseline for Safer Municipalities Project. While the specific perception assessment to be conducted in municipalities under the Safer Municipalities Project with support from the SMP is still pending, the Institute’s survey serves as a proxy and points to significant reduction in average perceptions of insecurity, from 91 in 2010 to 70.5 in 2015 at the national level.	Safer Municipalities Project (P130819) JSDF for Employment Generation in Poor Urban Neighborhoods Trust Fund (P124157)	Efficient crime and violence prevention calls for an integrated delivery of physical infrastructure and social interventions using community and local government participation, placing municipalities in the lead role and increasing their technical capacity.
vi. Barrio Ciudad Project beneficiaries polled and 65 percent of households feel safe in their home by project close. ²⁹	Partially Achieved (2013). The initial baseline for Barrio Ciudad households that felt safe in their home was 45 percent. The Barrio Ciudad Household survey data published in June 2013 reported that 54 percent of households felt safer in their homes.	Barrio Ciudad Project (P088319)	There is a need for a simple yet enforceable monitoring and evaluation framework, including methodologies that implementing entities can use throughout implementation to monitor progress.

²⁹ Measuring how secure or insecure households feel as an indicator of short term actions deemed to be overambitious considering the extend of the activities that the WBG supports, the nature of the crime and violence conflict affecting Honduras and the region, and the ambiguity that measuring how people feel towards a broad aspect.

vii. National and municipal governments collected, analyzed, and used data on crime and violence perpetration and victimization (disaggregated by gender and age) for evidence-based policymaking and actions under the Safer Municipalities Project.	Achieved (2013). At the national level, the Institute for Democracy, Peace and Security collects and analyzes data on crime and violence perpetration and victimization (disaggregated by gender and age) that is published online as national bulletins and, is available to the general public and help provide policy makers adjust nationwide interventions. At the municipal level, the Safer Municipalities Project supported development of 6 municipal security plans that incorporated geo-referenced crime statistics including hotspot areas and data on perpetration and victimization (disaggregated by gender and age).	Safer Municipalities Project (P130819)	
viii. Percentage of people that are victims of school-based violence in target schools, disaggregated by gender and age, under the Safer Municipalities Project.	Not Achieved (2015). Results from a recently completed survey targeting victims of school-based violence will be released in 2016.	Safer Municipalities Project (P130819)	
Outcome 3. Improved employment opportunities for youth - Mostly Achieved.			
ix. 6,600 direct beneficiaries of the <i>Mi Primer Empleo</i> initiative reached.	Mostly Achieved (2013). The Project baseline was established at 0 beneficiaries. By 2013, 4,883 beneficiaries (at-risk youth aged 15-19 years) received a full package of skills training, behavioral change, and labor market opportunities services.	Nutrition and Social Protection Credit and <i>Mi Primer Empleo</i> Additional Financing (P088242)	Youth employment programs are more effective when class work, counseling, internships and private sector participation are combined. Changing implementation arrangements, from non-governmental organizations to government institutions should have been thoroughly assessed and concluded promptly to avoid the delays experienced after a successful first phase.
x. 1,500 men aged 15-24 worked on sub-projects financed by JSDF employment generation. ³⁰	Mostly Achieved. In the age group 15-24, a total of 1,361 beneficiaries worked under sub-projects financed by the JSDF employment generation (685 female, 542 males), however the beneficiaries were expanded to include males and females up to 30 years of age, and the number of beneficiaries in that age group reached 3,262.	JDSF for Employment Generation in Poor Urban Neighborhoods Trust Fund (P124157)	The hiring and processing payment for non-governmental organizations through government entities should be assessed during project design. Transfers to beneficiaries through government platforms (SIAFI) should be carefully assessed, particularly on the legal and financial requirements needed for beneficiaries to receive transfers.

³⁰ Indicator x. only referenced men, however the CLR assumes that both men and women were to be included.

			Despite efforts of non-governmental organizations to attract target groups during implementation, the response was limited forcing the Social Investment Fund to expand the target groups. The limited response of target groups was due to delays in obtaining approvals from the Ministry of Labor to allow adolescents aged 15-18 to work, remuneration offered at less than the minimum wage, general distrust in government initiatives, and targeted neighborhoods lacking extremely poor populations.
Results Area 1.2: Linking National Interventions to Regional Approaches on Citizen Security			
Outcome 4. Strengthened regional approaches to combat crime and violence in Central America and harmonized Honduran policies with regional best practices - Not Achieved			
xi. Active Honduran participation in regional citizen security initiatives, especially related to prevention.	Not Achieved (2015). Honduras, along with Guatemala and El Salvador drafted the Alliance for Prosperity regional initiative to serve as a regional coordinating mechanism for citizen security initiatives, including those related to prevention.	Regional Program for Municipal Citizen Security in Central America's Northern Triangle State and Peace-Building Fund grant (P146031) “Juntos Para la Acción” International Conference. Alliances for the prevention of youth crime and violence in Latin America. (Antigua, Guatemala, November 5-6, 2014.	
<p align="center">Strategic Objective 2: Expanding Opportunities through Reducing Vulnerabilities</p> <p align="center">Rating: Moderately Satisfactory</p>			
<p>Government Strategic Priority: Ensure sound fiscal management. Improve equitable economic growth and strengthen social protection while increasing access to health, education and housing for the most vulnerable portions of the population.</p>			
Results Area 2.1: Pension, Energy Utility and Public Sector Wage Bill Discipline			
Outcome 5. Improved tax administration - Achieved.			
xii. The number of large taxpayers filing electronically increases by at least 20 percent (Baseline in 2010= 335 large taxpayers)	Achieved (2015). The number of large taxpayers filing electronically increased by 67 percent, from 335 in 2010 to 560 in 2015.	First Programmatic Reducing Vulnerabilities for Growth DPC (P127331)	

Outcome 6. Improved financial sustainability of major pensions systems (INPREMA and INJUPEMP) - Achieved.			
xiii. PROHECO teachers' pension contributions are flowing into INPREMA.	Achieved (2013). PROHECO teachers have been integrated into INPREMA and INPREMA now receives their pension contributions.	First Programmatic Reducing Vulnerabilities for Growth DPC (P127331) Honduras Education Quality, Governance, & Institutional Strengthening (P101218)	
Outcome 7. Improved fiscal sustainability of the public wage bill - Achieved.			
xiv. Central Government's wage bill falls by at least 0.7 percent of GDP (baseline: 2010 = 11 percent of GDP)	Achieved (2013). Government's wage bill fell from 11 percent in 2010 to 9.4 percent in 2013.	First Programmatic Reducing Vulnerabilities for Growth DPC (P127331) Honduras Fiscal Sustainability and Enhanced Social Protection DPC (P151803) Improved Public Sector Performance Project (P110050)	
Outcome 8. Strengthened institutional capacity and reduced losses of the national energy utility - Not Achieved.			
xv. Reduce electricity loses per year in ENEE from 29 percent (2012) to 21.5 percent (2015)	Not Achieved (2014). Technical and non-technical losses increased from 22.5 percent in 2010 to 31.3 percent in 2014 (Source: ENEE Annual Operations Report).	Power Sector Efficiency Enhancement Project (P104034) Honduras Fiscal Sustainability and Enhanced Social Protection DPC (P151803)	Reducing losses in the energy sector requires a combination of sector reforms and investments that need to go hand-in-hand to achieve sustained outcomes. Additionally, reducing energy losses requires an enhanced focus on governance conditions and political economics within ENEE and among key stakeholders, including consumers, decision makers and the private sector.
Results Area 2.2: Improved Investment Climate and Competitiveness			
Outcome 9. Enhanced capacity of and investment opportunities for small and medium enterprises and rural productive alliances - Mostly Achieved.			
xvi. 120 rural productive alliances supported with a 20 percent increase in net revenues for participating rural producers.	Mostly Achieved (2015). A total of 114 rural productive alliances (74 from COMRURAL and 40 from AGROCACAO) were established by June 2015. As of March 2015, COMRURAL rural producers reported a 28 percent increase in net revenues. As of June 2015, AGROCACAO rural producers reported annual sales of 14.8 metric tons of	Rural Competitiveness Project (P101209) Environmentally Sustainable Cacao Production for Small Scale Indigenous People and Afro-descendant Farmers-AGROCACAO (P130418)	Integrated technical assistance to rural producers, market access, research and development and increased business opportunities along the value chain contribute to reduce risks and enhance access to credit for rural producers.

	cacao. While no data was available to estimate the net revenues, sales are reported to have increased household income by 10 percent according to AGROCACAO monitoring system.		
xvii. At least US\$1.5 million in microfinance loans granted to rural beneficiaries of the Rural Infrastructure Project.	Achieved (2014). US\$1.55 million in microfinance loans were provided to 2,345 rural poor beneficiaries for the purchase of photovoltaic systems from local energy distributors.	Rural Infrastructure Project (P086775)	
xviii. Operational capacity of microfinance institutions is strengthened in conjunction with WBG-financed projects.	Achieved (2014). The operational capacity of microfinance institutions has been strengthened. A revolving line of credit in the amount of US\$6 million was provided to the microfinance institutions, which also benefitted from increased capacity to review business proposals, including financial information such as liquidity and solvency of small-rural producer organizations.	Rural Competitiveness Project (P101209) Financial Sector Strengthening Project (P040177) Rural Infrastructure Project (P086775)	
Outcome 10. Reduced Logistics constraints - Partially Achieved.			
xix. 70 percent of unpaved road network under regular maintenance (2008 baseline: 33 percent). ³¹	Not Achieved (2015) ³² . Government capacity to maintain unpaved road network diminished over time -- from 33 percent of the road network in 2008 (equivalent to 3,650 km) to 16.1 percent in 2013 (equivalent to 1,781 km).	Road Rehabilitation Project (P108058)	Even after project restructuring, implementing entity (<i>Fondo Vial</i>) has suffered from significant political interference, limited institutional implementation capacity, weak institutional accountability and financial framework for achieving results.
xx. 152 km of primary roads to be reconstructed, 4 bridges to be reconstructed and 800 km of rural roads to be put under regular routine maintenance.	Mostly Achieved (2015). Three major primary roads totaling 127 km (<i>San Lorenzo-Olanchito, El Porvenir-Marale</i>) were paved with asphalt concrete, 5 bridges were reconstructed. In addition 2 geological faults affecting sections of roads were rehabilitated. As of 2015, 532 km of rural roads were rehabilitated and placed under regular maintenance through 16 local roads maintenance microenterprises.	Road Rehabilitation Project (P108058) Rural Infrastructure Project (P086775)	

³¹ Honduras' total unpaved network consists of 11,060 km.

³² The target for this outcome was overly ambitious and beyond the scope of the project. 70 percent of the unpaved road network in Honduras is equivalent to 7,742 km. The Road Rehabilitation Project was only meant to directly finance maintenance of 200 km of roads (1.8 percent of the unpaved road network).

xxi. 445 km of rural roads rehabilitated ³³	Achieved (2015). 599 km of rural roads rehabilitated.	Rural Infrastructure Project (P086775)	The combined approach of contractors hired to rehabilitate roads with small micro-enterprises for road maintenance proved successful during project implementation. Sustainability of road maintenance remains a challenge as municipalities are required to continue financing the maintenance of rural roads within their districts.
Outcome 11. Improved land tenure security - Achieved.			
xxii. At least 30,000 families in rural and urban areas complete process to obtain new land titles (of which at least 30 percent are held by women).	Achieved (2014). 45,263 families in rural and urban areas completed the process to obtain new land titles. Data on percent held by women are 54 percent by September 2015.	Second Land Administration Project (P106680)	
xxiii. The average time to register a land transaction through the modernized land titling registries is 20 days (baseline 2011: 23 days).	Achieved (2015). The processing time for land titling registry in the Property Institute was reduced from 20 days in 2012 to 15 days in 2015.		
Results Area 2.3: Improved Quality of Education			
Outcome 12. Improved coverage, governance, and accountability of the basic education system, with a particular emphasis on the most disadvantaged and rural communities - Achieved.			
xxiv. 800 new pre-school institutions opened (2011 Baseline: 400 pre-schools opened).	Achieved (2013). 771 new pre-school institutions were opened (Community-Based Pre-School Institutions).	Honduras Education Quality, Governance, & Institutional Strengthening (P101218)	
xxv. 2,250 PROHECO (rural schools for basic education) teachers provided with new multi-grade teaching materials and training (Baseline: 0)	Achieved (2013). A total of 3,711 PROHECO teachers received didactic teaching materials and were trained in the use of new multi-grade techniques developed by the Ministry of Education.	Honduras Education Quality, Governance, & Institutional Strengthening (P101218)	
xxvi. National assessment of student learning for the country in place and country participating in international assessments of student learning (the International	Achieved (2012). Honduras participated for the first time in the International Trends in International Mathematics and Science Study and in the Progress in International Reading Literacy Study. The First National Assessment of Student Learning (census-based annual assessment) was implemented in November		

³³ Rehabilitation of roads includes roads coming under regular maintenance through service contracts between municipalities and local microenterprises.

Trends in International Mathematics and Science Study and the Progress in International Reading Literacy Study 2011)	2012. The second assessment was carried out in November 2013.		
Results Area 2.4: Consolidated and Strengthened Social Protection System			
Outcome 13. Improved coverage and governance of the national CCT program (Bono 10,000) - Achieved.			
xxvii. 30,000 families receiving regular payments from the <i>Bono Vida Mejor</i> CCT Program (formerly Bono 10,000)	Achieved (2015). 30,413 rural families received <i>Bono Vida Mejor</i> CCT regular payments with resources from the Social Protection Project.	Social Protection Project (P144928)	The <i>Bono Vida Mejor</i> CCT Program, reaching 350,000 persons, has become the main social assistance program in the country. While results have been positive, more can be done to ensure greater coverage of the extreme poor, while also ensuring fiscal sustainability of the Program.
Results Area 2.5: More Effective Disaster Risk Management			
Outcome 14. Improved risk mapping and planning capacity - Partially Achieved.			
xxx. Honduras benefits from regional disaster risk management initiatives and harmonized disaster planning as coordinated by the Regional Coordination Center for Disaster Prevention in Central America	Achieved (2014). In coordination with Regional Coordination Center for Disaster Prevention in Central America, Honduras updated, adopted and published its humanitarian aid coordination manual for disaster emergencies. Honduras benefits from Caribbean Catastrophe Risk Insurance Project (P149895).	Disaster Risk Management Project (P131094)	Strategies to support disaster risk management should be based on an understanding of the differences across actors. Municipalities in Honduras exhibit varying levels of technical, institutional and financial capacity for disaster risk management. In the municipalities that have Municipal Development / Land Use Plans, efforts should focus on the drafting of disaster risk management plans that are in line with existing mechanisms. In the remaining municipalities, the strategy begins with the development of basic inputs, technical training for professionals and resource management to reach those objectives.

xxxi. Central American Probabilistic Risk Assessment tools used to assess, understand and communicate disaster risk in Honduras	Partially Achieved (2015). SANAA, the National Autonomous University, and the Disaster Management Agency prepared a draft report on seismic risk assessment of water and sanitation infrastructure using Central American Probabilistic Risk Assessment tools.	Probabilistic Risk Assessment Program (P144982)	
xxxii. 10 municipalities have adopted DRM plans within the framework of their land use planning	Partially Achieved (2015). Five municipalities adopted land use plans that integrate DRM aspects, and an additional seven municipalities have adopted methodologies to prepare their own risk assessments.	Disaster Risk Management Project (P131094)	
xxxiii. 20 municipal and community disaster emergency committees established.	Achieved (2015). 36 municipal and community disaster emergency committees have been established.	Disaster Risk Management Project (P131094)	
Strategic Objective 3: Enhancing Good Governance Rating: Moderately Satisfactory			
Government Strategic Priority: Create a state that is modern, transparent, efficient and competitive. Improve Honduras' ranking in global transparency and corruption indicators. Transition public services to electronic platforms.			
Results Area 3.1: Improved Accountability in Public Expenditures			
Outcome 15. Improved public financial management, procurement, and results monitoring and evaluation capacity - Partially Achieved.			
xxxiv. 100 percent of central government and 80 percent of decentralized institutions operate with the updated SIAFI	Partially Achieved (2015). Technological upgrades made to SIAFI's payment module are currently registering 69 percent of the central administration payments and 88 percent of the decentralized institutions.	Improved Public Sector Performance Project (P110050)	Institutional capacity remains a significant challenge for the implementation of public sector reforms. High staff turnover, particularly after the change in government administration and understaffing of key units responsible for leading the reform process all remain as obstacles to achieving desired results.
xxxv. 80 percent publishing of bidding opportunities and contract award information through the e-procurement system	Achieved (2014). All bidding opportunities and contract award information are published on the <i>Honducompras</i> (e-platform for public procurement) website.	Improved Public Sector Performance Project (P110050)	
xxxvi. Reduction of floating debt related to payroll expenditures in Ministries of Health and Public Works	Not Achieved (2015). Results from the payroll audits are pending.		
xxxvii. Results monitoring being carried out regularly in 6 line ministries	Partially Achieved (2015). Six line ministries have drafted monitoring and evaluation systems and corresponding sectorial strategies.		Supporting long-term monitoring requires political will anchored at the highest levels of Government. Efforts made, while rooted within the Ministry of

			the Presidency, were derailed after the change in Government. Additional efforts are required to disseminate information beyond the inner circle of line ministries in order to empower CSOs and the private sector to be active participants in the monitoring process.
xxxviii. Timely and relevant technical inputs provided for budget and policy analysis	Achieved (2015). These inputs include the Honduras Public Expenditure Review (P129386), a Debt Management Performance Assessment (P148345) and a set of financial policy notes (P149056) that have informed the DPCs.	Honduras Policy Notes and Sector Project Briefs (P149056) Honduras Public Expenditure Review (P129386) Debt Management Performance Assessment (P148345) Honduras Diagnostic for National Action (Report 97361)	Client consistently uses WBG products as a reference for monitoring and decision-making activities, in particular in the area of fiscal consolidation and debt management. The timeliness, quality and dissemination approach of advisory services and analytics has been highly praised.
Results Area 3.2: Stronger Decentralized Structures			
Outcome 16. Improved financing framework for decentralized service delivery - Partially Achieved.			
xxxix. Assessment of municipal debt- financing potential completed	Achieved (2013). An assessment of municipal debt-financing potential was completed as part of the Public Expenditure Review and PEFA focusing on decentralization and Municipality of Tegucigalpa.	Public Expenditure Review with Special Focus on Decentralization (P129386) PEFA for Municipality of the Central District (Tegucigalpa) (P124681)	The PEFA framework is a Diagnostic tool and PEFA Assessments do not contain recommendations. Therefore, in order to take full advantage of this exercise, it is a good idea to combine it with an additional document to build on the results of this diagnostic and make recommendations (a blueprint for reform) so to better engage in public reform management reform with policymakers.
Outcome 17. Improved efficiency and accountability of autonomous municipal water and sanitation service providers- Partially Achieved.			
xl. At least 50 percent of cities above 40,000 inhabitants operate with sustainable and efficient autonomous municipal water and sanitation service providers	Mostly Achieved (2015). Eight municipalities with over 40,000 inhabitants (representing close to 50 percent of cities) now operate under autonomous municipal water and sanitation service providers that collect revenues and provide increased coverage in water and sanitation.	Water and Sanitation Sector Modernization Project (P103881) Municipal Water Decentralization in Tegucigalpa Trust Fund (P125903)	Fiscal constraints at the national level and municipal levels affect progress in water and sanitation reforms. Reform depends on the government's decision to decentralize SANAA and with the creation of incentives for municipalities to prioritize efficiency and accountability of Water and Sanitation Services provision.

		<p>Water and Sanitation Policy Reform - Strengthening Sanitation Planning in Honduras (P132282)</p> <p>Water Supply and Sanitation Sector in Honduras (P145974)</p> <p>Monitoring Country Progress in Water Supply and Sanitation (P132281)</p>	
Results Area 3.3: Enhanced Social Accountability as Part of Demand-Driven Governance			
Outcome 18. Improved capacity of civil society organizations to use demand-side governance tools - Partially Achieved.			
xli. Number of CSOs involved in social monitoring increased in the education, roads and social protection sectors	<p>Achieved (2015). 75 CSOs received WBG support for creating innovative platforms for monitoring and reporting on Government performance. The CSOs monitor the <i>Bono Vida Mejor</i> CCT Program (30 CSOs), the education sector (15 CSOs), and construction of roads (30 CSOs).</p>	<p>JSDF Building Trust in Public Policies and Public Institutions (P125269)</p> <p>Quality of Education Project (P101218)</p> <p>JSDF on Piloting New Forms of Community-Administered Education for Socially Vulnerable Communities (P150582)</p> <p>Road Rehabilitation and Improvement II (P109058)</p> <p>Stretching the Frontiers of Governance Work in Honduras (TF094038)</p> <p>Social Protection project (P144928)</p> <p>EITI Implementation (P144108)</p>	<p>Social accountability initiatives could be more effective in improving public services and public trust in institutions if authorities had a clear mandate to implement open government/public transparency initiatives and measures as well as to engage with CSOs and other stakeholders.</p>

xlii. Number of formal requests for public information doubles	Not Achieved (2013). The number of formal requests for public information decreased from 3,185 in 2011 to 3,158 in 2012, 2,234 in 2013, and to 2,786 in 2014, as reported by the Institute for Public Access to Information.		The Institute for Public Access to Information attributes the decreasing of requests for public information to increased implementation and enhancement of transparency portals for government agencies that by law, are required to maintain and regularly update these portals since 2012 and as such, there may be less need for citizens to file formal requests for access to information on public programs.
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CPS CLR Annex 3: Planned and Actual Lending Program (IDA)

CPS Lending Program (in US\$ million)		Status at CPSCLR
FY12 Plan		FY12 Actual
First Programmatic Reducing Vulnerabilities for Growth Development Policy Credit (P127331)	US\$86	Delivered (US\$86)
Improved Public Sector Performance Project (P110050)	US\$18	Delivered (US\$18.2)
Total Planned FY12	US\$104	US\$104.2 Delivered
FY13 Plan		FY13 Actual
Second Programmatic Reducing Vulnerabilities for Growth Development Policy Credit	US\$60	Dropped
Urban Vulnerability Reduction Project	#	Dropped
Safer Municipalities (P130819)	#	Delivered (US\$15)
Disaster Risk Management Project (P131094)	#	Delivered (US\$30)
Water and Sanitation Sector Modernization Project Additional Financing (P103881)	#	Delivered (US\$10)
Rural Infrastructure Project Additional Financing (P086775)	#	Delivered (US\$20)
Total Planned FY13	US\$60	US\$75 Delivered
FY14 Plan		FY14 Actual
Regional Crime and Violence Project	#	Dropped
Social Protection Additional Financing (P115592)	#	Delivered (US\$12.3)
Honduras and Nicaragua Catastrophe Risk Insurance Project (P149895)	#	Delivered (US\$12)
Total Planned FY14	TBD	US\$24.3 Delivered
FY15 Plan		FY15 Actual
Honduras Fiscal Sustainability and Enhanced Social Protection DPC (P151803)	#	Delivered (US\$55)
Social Protection Additional Financing (P115592)	#	Delivered (US\$25)
Total Planned FY15	TBD	US\$80 Delivered
		Total Delivered US\$283.5

CPS CLR Annex 4: Active Lending Portfolio as of June 30, 2015

Resp Dept	Proj ID	Project Name	TL Name	Date, Board App *	Rev Closing	Lst DO	Lst IP	Net Comm Amt (\$m)	Tot Disb (\$m)	Tot Undisb Bal (\$m)
GEE04	P086775	HN (CRL1) Rural Infrastructure Project	Koffi Ekouevi	07/07/2005	06/30/2016	MU	MU	67.00	54.55	13.88
GFA04	P101209	HN Rural Competitiveness Project	Norman Bentley Piccioni	06/17/2008	11/30/2015	S	S	22.95	16.23	4.80
GGOPS	P110050	HN Improving Public Sector Performance	Diego R. Dorado Hernandez	12/06/2011	12/31/2015	MS	MS	18.20	4.11	12.56
GMFD1	P151803	HN Fiscal Sustainability DPC	Marco Antonio Hernandez Ore	12/09/2014	03/01/2016	#	#	55.00	55.00	0.00
GSP04	P115592	HN Social Protection	Pablo Ariel Acosta	06/29/2010	12/31/2017	MS	MS	77.30	46.00	31.42
GSULN	P106680	HN (APL2) Land Administration	Enrique Pantoja	06/30/2011	01/30/2017	S	S	32.80	28.29	2.55
GSURB	P131094	HN Disaster Risk Management Project	Enrique Pantoja	12/13/2012	04/30/2019	S	S	26.00	5.65	18.58
GSUSD	P130819	HN Safer Municipalities	Marcelo Jorge Fabre	12/13/2012	08/31/2018	MS	MS	15.00	3.43	10.56
GWA04	P103881	HN Water and Sanitation Program	Carlos Ignacio Aguilar Delfin	06/21/2007	12/31/2016	MS	MU	40.00	31.52	9.30
Total	9							354.25	244.79	103.66

CPS CLR Annex 5: Planned and Actual Non-Lending Activities

CPS Program	Status
FY12 Plan	Status at the CPS CLR
Expenditure Analysis of the Water Sector	Public Expenditures for Decentralized Governance in Honduras (P129386), Delivered FY14
Roadmap for Strengthened Accounting and Auditing Macro Monitoring	The Financial Sector Reform and Strengthening Initiative: A Roadmap for Strengthened Accounting and Auditing (P111670), Delivered FY12
	Other:
	Environmentally Sustainable Cacao Production for small-scale Indigenous Peoples and Afro-descendant Farmers in Honduras (P130418), Ongoing
	Improving Performance Accountability by Strengthening Congressional Oversight (P125817), Ongoing
	Infrastructure Strategy for Growth and Infrastructure (P122790), Delivered FY12
	Logistics in Central America Report 75098, Delivered FY12
FY13 Plan	Status at the CPSCLR
Tegucigalpa Municipality PEFA Study	Tegucigalpa Municipality PEFA –Sub-National (P124681), Delivered FY13
Public Forum on Social Protection	Moved to FY15
Macro Monitoring	Monthly Honduras – Short Term Risk Monitoring Briefs, Delivered FY13
	Other:
	Honduras Education Quality, Governance, & Institutional Strengthening (P101218), Delivered FY13
	Regional Citizen Security Knowledge Network (P146031), Ongoing
	Water and Sanitation Monitoring Country Report (P149602), Ongoing
FY14 Plan	Status at the CPSCLR
Public Expenditure Review for Decentralized Governance in Honduras (includes Technical Assistance on Public Financial Management)	Public Expenditure Review for Decentralized Governance in Honduras (P129386), Delivered FY14
Macro Monitoring	Monthly Honduras – Short Term Risk Monitoring Briefs, Delivered FY14
	Other:
	Dialogue during the Transition (P149057), Delivered FY14
	Sustainable Development Briefs (P149061), Delivered FY14
	Portfolio Implementation Support Plan (P149060), Delivered FY14
	Honduras Social Protection Policy Note (P149055), Delivered FY14
	Utilities Reform Policy Note (P149054), Delivered FY14
	Macroeconomic Challenges Policy Note (P149052), Delivered FY14
	EITI Implementation (P144108), Ongoing
	Enhancing National Capacities (P151951), Ongoing
	Dissemination of the Water and Sanitation National Plan (P132282), Delivered FY14
	Validation of the National Water and Sanitation Plan Framework (P132282), Delivered FY14
	Certified training program for water sanitation managers-intermediate water and sanitation providers (P132283), Delivered FY14
	Presentation of results from the Commonwealth <i>Aguas del Valle</i> Systematization in the National Water and Sanitation Network Technical Meeting (P132283), Delivered FY14

	<p>Small Town Joint Provision Model of Water Supply and Sanitation Services - Sharing Lessons Learned between the National Water and Sanitation Network and the Latin American Association of Water and Sanitation Operators platforms (P132283), Delivered FY14</p> <p>Honduran Water and Sanitation Association to the Water Operators Partnerships (P132283), Delivered FY14</p> <p>Water Operator's Partnership between the Honduran Water and Sanitation Association and Mexico's Water and Sanitation Association (P132283), Delivered FY14</p> <p>Trade and Logistics and Honduras Note (P147880), Delivered FY14</p>
FY15 Plan	Status at the CPSCLR
Logistics and Transport Technical Assistance	Dropped
Macro Monitoring	Monthly Honduras – Short Term Risk Monitoring Briefs, Delivered FY15
Public Forum on Social Protection	Public Forum on Social Protection (under the Social Protection Project P115592), Delivered FY15
	<p>Other:</p> <p>Honduras Diagnostic for National Action (Report 97361), Delivered FY15</p> <p>Status of Disaster Risk Management in the Water Supply and Sanitation sector in Central America (P132057), Ongoing</p> <p>Monitoring Country Progress in Water Supply and Sanitation in Central America (P132281), Delivered FY15</p> <p>South-South Knowledge Exchange to support the DRM Project (P149145), Delivered FY15</p> <p>Strengthening Credit Reporting (P131418), Delivered FY15</p> <p>Debt Management Performance Assessment (P144725), Delivered FY15</p> <p>Debt Management Policy Assessment (P148345), Delivered FY15</p>
	<p>Water and Sanitation Monitoring Country Report workshop for El Salvador, Costa Rica, Honduras, Panama and the Dominican Republic (P149602), Delivered FY15</p> <p>Study Tour: Review Brazil's Water and Sanitation Financial Mechanisms (P145974), Delivered FY15</p> <p>Workshop on Water and Sanitation Initiatives within the Water and Sanitation Financial Policy Framework (P148645), Delivered FY15</p> <p>Employment Generation in Poor Urban Neighborhoods (P124157), Delivered FY15</p> <p>Central American Assembly on the Rural Water and Sanitation Information System (SIASAR) (P148645), Delivered FY15</p> <p>Building Trust in Public Policies and Public Institutions (P125269), Delivered FY15</p> <p>Integrated Urban Water Management in the Greater Tegucigalpa Area (P125903), Ongoing</p> <p>Piloting New Forms of Community-Administered Education for Socially Vulnerable Communities (P150582), Ongoing</p> <p>Doing Business in Central America (P147229), Ongoing</p> <p>Subnational Doing Business (P147229), Delivered FY15</p> <p>Central America Social Expenditures and Institutional Review – Honduras (Report 93739), Delivered FY15</p> <p>Western Hemisphere Credit and Loan Reporting Initiative (P131418), Delivered FY15</p>

