REPUBLIC OF HONDURAS

August 15, 2002

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433

Re: **HONDURAS**: Credit No 3640-HO (Health System Reform Project)
Implementation Letter

Dear Sirs:

Please refer to the Development Credit Agreement (Health System Reform Project) of even date herewith entered into by and between Republic of Honduras (the Borrower) and International Development Association (the Association).

This letter is the Implementation Letter referred to in Section 1.02 (q) of the Development Credit Agreement.

With respect to Section 1.02 (q)(iii) of the Development Credit Agreement, annex 7 to this letter sets forth the IPDP.

With respect to Section 3.09 (a) of the Development Credit Agreement, annex 1 to this letter sets forth the Project indicators.

With respect to Section 7.01 (d) of, and paragraph 3 (b) (i), (c) (i), (d) (i) and (e) (i) of Schedule 1 to, the Development Credit Agreement, annexes 2, 3, 4, 5 and 6 to this letter set forth the actions to be met by the Borrower and/or IHSS, respectively.

Please confirm your agreement with the above and with the annexes by signing this letter in the space provided below.

Very truly yours,

REPUBLIC OF HONDURAS

By: Arturo Alvarado
Authorized Representative

INSTITUTO HONDUREÑO DE SEGURIDAD SOCIAL

By: Richard Zablah Authorized Representative

AGREED AND CONFIRMED:

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: Joseph Owen
Authorized Representative

Date: August 15, 2002

ANNEX 1

PROJECT INDICATORS

Honduras Health System Reform Project

Key Performance Indicators	Monitoring & Evaluation
Sector Indicators:	**Sector/ country reports:**
• Maternal mortality ratio falls from 108/100,000 live births (1997) to no more than 75 per 100,000 live births in 2004. • Infant mortality falls from 36/1000 in 1996 to no more than 30/1000 in 2004. • Under 5 child mortality rate decreases from 48/1000 in 1996 (ENESF) to 35/1000 in 2004. • Incidence of HIV/AIDS (goal is to reduce growth in incidence) Note: these declines would be consistent with achievement of the Millennium Development Goals of reducing infant mortality rates and maternal mortality ratios by two-thirds between 1990 and 2015.	• Maternal Mortality Surveillance data 2004. • Reproductive Age Mortality Survey to be repeated in 2003 or 2004. • Demographic and Health Survey to be repeated in 2004. Note: Vital statistics, if further strengthened over the period, could potentially be used to measure infant mortality by 2004 instead of the DHS. External financing expected for DHS and Reproductive Age Mortality Surveys.
Coverage	• Project reports and PAS program reviews.

• IHSS coverage for direct insured increases from 376,000 direct insured to at least 600,000. • Percent of children under five with access to a health facility able to provide integrated management of childhood illness • Percent of sick children correctly assessed and treated in health facility. Quality • Percent of deliveries with skilled attendance. • Satisfaction of mothers with care provided to sick children (exit interviews). Efficiency • 30% of public and private primary care establishments have been licensed according to quality standards defined by the project. • At least 10 satisfactory contracting mechanisms being implemented between (a) the IHSS and MOH, and/or (b) IHSS or MOH and other private health service providers. **Component I. Health Policy Design and Implementation** 1. Regulation (MOH) • Regulatory framework for licensing public and private PHC facilities approved. • Regulation, if necessary, for MOH being able to contract services (sell and purchase services form others) approved.	• M&E system. • MOH and IHSS Facility Surveys, including observation of health workers diagnosis and treatment and exit interviews (baseline collected following project effectiveness and repeated during project implementation—targets to be agreed once baseline measurements collected) • Project progress reports. • M&E system. • PAS Program Reviews. • Relevant National regulations approved.

Key Performance Indicators cont.	Monitoring & Evaluation
2. MOH Resource allocation and IHSS Financial sustainability. • Agreed debt payment of Government debt made to IHSS as scheduled. • Annual GOH contributions to IHSS included in National Budget. • Internal IHSS debt payments from health insurance system to pension system made as agreed. • IHSS Contribution rates implemented according to Decree No 140 1959 • All health regions applied satisfactory new procedures for budgeting process. 3. Institutional Modernization of IHSS • Modernization Plan approved by IHSS Board • Early retirement plan approved for IHSS personnel • Financial accounting according to health insurance and pension benefit schemes separated. 4. Health Care Service Delivery (MOH and IHSS) • Hospital improvement plans, linked with MCH targets and other performance targets established by the project, approved for regional and district hospitals. • Innovative management schemes for IHSS approved and implemented • At least 10 contracts in underserved health areas signed between both institutions or between each institution and other private health service providers. • Quality enhancement teams worked satisfactorily in at least 80% of the hospitals supported by the subprojects of both institutions. • Innovative management subprojects for MOH implemented and evaluated. **Component II. Health Delivery and Management Subprojects** • Developed acceptable proposals for subprojects focusing on coverage extension, health care quality extension and efficiency improvements. Selection of proposals follow criteria agreed at negotiations and include among others: (a) Number of beneficiaries for project, (b) Targeting to poor populations, (c)	See above. See above.

Investment strategy clearly linked to project objectives to extend coverage, improve quality and obtain expected results in key project indicators, (d) Estimate of the financial sustainability of the investment and proposed specific mechanisms to ensure sustainability, (e) Proposals to implement innovative delivery mechanisms: private or NGOs as providers, IHSS as provider to MOH, MOH as provider to IHSS, (f) satisfactory environmental criteria following local regulation and recommendations of the 1995 updated management waste disposal study, (g) Definition of a specific monitoring and evaluation plan for the subproject. **Component III. Project Management** • PIU personnel fully operational and functioning according to IDA standards. • Administrative and Financial Agency fully operational according to agreed terms of reference.	See above.

ANNEX 2

Actions Referred to in Section 7.01 (d) of the Development Credit Agreement Pertaining to IHSS

1. The Borrower has approved and furnished to IHSS a debt payment plan of the Borrower's accumulated debt to IHSS as of December 31, 2001 in respect of the Borrower's mandatory contributions to IHSS pursuant to Decree No. 140-1959 which plan shall include a payment schedule of said debt.

2. IHSS has approved and furnished to the Association a plan for the use of the proceeds to be paid by the Borrower to IHSS in accordance with the debt payment plan referred to in paragraph 1 above which plan shall include a payment schedule that sets forth the accumulated amount of IHSS' pension fund proceeds as of March 31, 2002 which were transferred to IHSS' health insurance fund to finance said fund's outstanding obligations and the obligation to reimburse said proceeds to the IHSS' pension fund on the dates established therein.

ANNEX 3

Actions Referred to in Paragraph 3(b) (i) of Schedule 1 to the Development Credit Agreement

1. MOH has issued a Ministerial Resolution establishing standards of care for the licensing of public and private primary health care facilities.

2. At least ten percent (10%) of the public and private primary health care facilities, currently registered in MOH's registry of primary health care facilities, have been licensed by MOH in accordance with the standards of care referred to in paragraph 1 above.

3. At least three (3) hospitals under the jurisdiction of MOH are implementing a budget evaluation and monitoring system which system is consistent with the Borrower's integrated financial management system (*Sistema Integrado de Administración Financiera*).

4. At least three (3) contracts for assisting MOH in the provision of health care services and support related services have been executed between: (a) MOH and IHSS on terms and conditions acceptable to the Association; and/or (b) MOH and Health Services Providers (also referred as Health Services Agreements).

ANNEX 4

Actions Referred to in Paragraph 3 (c) (i) of Schedule 1 to the Development Credit Agreement

The results of the evaluation of those MOH Subprojects I and MOH Subprojects II which consist of expanding the health care coverage provided by MOH indicate that said subprojects have been able to achieve at least fifty (50%) of the maternal-child health care coverage indicators set forth in the proposals of each said subprojects.

ANNEX 5

Actions Referred to in Paragraph 3(d) (i) of Schedule 1 to the Development Credit Agreement

1. The Borrower is in compliance with the payment schedule referred to in paragraph 1 of Annex 2 to this Implementation Letter.

2. IHSS is in compliance with the payment schedule referred to in paragraph 2 of Annex 2 to this Implementation Letter.

3. IHSS: (a) is complying with the provisions of Article 58 of Decree No. 140-1959 with respect to the obligation to maintain separate accounting for its health insurance fund and pension fund; and (b) has made available to the public audited financial statements of said funds for the calendar semester preceding the calendar month in which the exchange of views referred to in Section 3.10 (a) (ii) of the Development Credit Agreement shall occur.

4. At least three (3) contracts for assisting IHSS in the provision of health care services and supported related services have been executed between: (a) IHSS and MOH on terms and conditions acceptable to the Association; and/or (b) IHSS and Health Services Providers (also referred as Health Services Agreements).

5. The Borrower has included in its annual budget the amount of mandatory contributions, that the Borrower is required to pay to IHSS pursuant to Decree No. 140-1959, for the year in which the exchange of views referred to in Section 3.10 (a) (ii) of the Development Credit Agreement shall occur.

ANNEX 6

Actions Referred to in Paragraph 3(e) (i) of Schedule 1 to the Development Credit Agreement

1. The Borrower is in compliance with the payment schedule referred to in paragraph 1 of Annex 2 to this Implementation Letter.

2. IHSS is in compliance with the payment schedule referred to in paragraph 2 of Annex 2 to this Implementation Letter.

3. IHSS has increased health insurance coverage to insured employees from 450,00 insured employees to 600,000 insured employees.

4. At least ten (10) contracts (in addition to those contracts referred to in paragraph 4 of Annex 5 to this Implementation Letter) for assisting IHSS in the provision of health care services and supported related services have been executed between: (a) IHSS and MOH on terms and conditions acceptable to the Association; and/or (b) IHSS and Health Services Providers (also referred as Health Services Agreements).

5. The Borrower has included in its annual budget the amount of mandatory contributions, that the Borrower is required to pay to IHSS pursuant to Decree No. 140-1959, for the year in which the exchange of views referred to in Section 3.11 (a) (ii) of the Development Credit Agreement shall occur.

ANNEX 7

Indigenous Peoples Development Plan

Indigenous People Development Plan (IPDP):
Strategy for Reaching Indigenous Peoples and African Descendents

Scope	The project covers the entire country. Subprojects are to be financed as grants under Component II: Subprojects are expected to be implemented in some of the poorest areas. There are eight groups of indigenous peoples and African descendents who could be potential beneficiaries of these subprojects: *Lencas, Tolupanes, Chortís, Pech*, *Tawahkas, Misquitos* and *Garifunas*. The size of these groups is estimated to be about 0.7 million individuals, representing about 15 percent of the Honduran population.
Legal framework	Articles 172, 173 and 346 of the 1982 Constitution recognize the legal existence of indigenous peoples and the right of each of their communities to live and organize according to their culture and norms. Article 172 recognizes the anthropological, archeological, historical and artistic heritage of the country as part of the wealth of the entire nation. *("Toda la riqueza antropológica, arqueológica, histórica y artística de Honduras forma parte del patrimonio cultural de la nación).* Article 173 establishes as a duty of the State the protection of the native culture *("El Estado preservará y estimulará las culturas nativas, así como las genuinas expresiones del folklore nacional, artes y las artesanías".)* Finally, Article 346 recognizes that indigenous communities have the right to have their interests protected, including their access to land *("Es deber del estado dictar medidas de protección de los derechos e intereses de las comunidades indígenas existentes en el país, especialmente de las tierras y bosques donde estuvieran asentadas.")* In 1994, the Honduran Government ratified Convention 169 of the International Labor Office on Indigenous Peoples and Tribal Populations.
Baseline data.	The Indigenous Profiles have been the first source of information to systematically identify the areas populated by indigenous peoples and African descendent communities, their social structure, sources of income, social capital, values and expectations regarding health This follows the example of the Mexico Biological Mesoamerican Biological Corridor where the Profiles have also been the main baseline source of information for the Indigenous Peoples Strategy Matrix.. The Profiles are based upon information gathering from workshops and focus groups undertaken with all ethnic groups, including representatives of indigenous and

	African descendent major organizations. In addition, the 2000 Socio-Ethnographic Survey provides information on the health status of indigenous and African descendent population living in coastal areas. The survey, under the responsibility of the Ministry of Tourism, interviewed 427 individuals. Finally, during project implementation, as part of the M&E system, specific indicators will be developed to include data for unexpected needs for adaptations of subprojects and for innovative approaches to delivering health services to these communities.
Land Tenure	The Indigenous Peoples Profile confirms that land tenure is a major issue for indigenous peoples. The IDA is supporting the Government in addressing land issues in Honduras through the Coastal Tourism Project.
Consultations	During the last few years, the Government has undertaken three important initiatives in which indigenous peoples were consulted on health issues. First, the **Indigenous Peoples Profiles** (undertaken from 1990 to 2000) organized participatory workshops and interviews with all major organizations in all ethnic regions and with representatives of all eight groups. Second, for the Sustainable Coastal **Tourism Project**, the Ministry of Tourism has consulted *Pechs*, Islanders, *Misquitos* and *Garifunas* on their health status through twelve focus groups with community leaders, small entrepreneurs, and non-governmental organizations. The **2001 PRSP** consulted with ethnic organizations about the major issues related confronting poverty in the country, including health. Finally the Department of Indigenous Health at the MOH works under the **Integrated Health Project for Indigenous and Creoles People in Honduras (2002-2006)**, which has been developed as a result of a substantive consultation process between national officials and different indigenous federations.
Needs Assessment	The main health problems as considered by indigenous peoples that require priority interventions are, in order of importance, respiratory infections, parasitic infections and HIV/AIDS. Following and by them considered as less common are mental disorders, occupational accidents, malaria and dengue. In addition, there are elevated rates of child malnutrition, although not fully accounted by African descendants in the Caribbean Region of the country. Child mortality and maternal mortality are also high and associated with low reproductive health and limited access to health services. Institutional weaknesses and low quality of services are other recognized problem, with attention lacking particularly for those living in the South, Mid-South and Occidental Regions. Finally, environmental degradation, land and water contamination, particularly for those close to or in urban areas, lead to high levels of diarrhea and high incidence of dehydrated children and to death. Other studies conducted about these populations (Torres 2001

	Cristina Torres PAHO. Indigenous People Health in Latin America. "Ethnicity and Health: Another Perspective Towards Equity") have also stressed: (a) geographical, language and cost barriers that are derived from historically physical segregation. As Torres indicates, physical segregation superimposes on the urban/rural dichotomy, with indigenous and Afro populations located in rural areas where there is also limited access to services, for example where the Garifuna communities predominate; (b) different and sometimes conflictive belief systems, originated from different cosmic visions on health and diseases; and (c) central role that traditional healers, herbalists and midwives play in the culture and health system of indigenous peoples but which contrasted with occidental medicine.
Strategy for Local Participation	Local participation will be an integral part of the project through, when applicable: (a) periodic participatory assessments of benefits reaching indigenous and African descendents communities; and (b) subprojects that support subcontracting with local NGOs and thus support local ownership. IDA social specialists will be consulted in the design and supervision of the M&E system and the implementation of the local participation on the ground.
Technical Identification of Development and Preservation Activities.	The first component of the project - Technical Assistance for Policy Design and Implementation - will finance technical assistance and studies to support the project's development objectives. The recent experience with the PRSP, the Indigenous Peoples Profile, the Socio-Ethnographic Survey, the Social Assessment for the 2001 Sustainable Tourism Project, the preparation of the Access to Land Pilot Project, and the implementation of the 1999 Honduras Interactive Environmental Learning and Science Promotion Project, have proved to be important sources of capacity building for the government on culturally appropriate sectorial interventions. In addition, under the first Component, capacity building will be provided for staff at the central level to deal with issues specifically related to indigenous peoples' health. Finally, the following will complement the targeting of indigenous peoples and African descendent communities: (a) (To be financed under the Component I) Technical assistance to tabulate data obtained from community mapping plans in order to provide a snapshot of (i) the major constraints that each cluster of beneficiaries (children, youth, mothers, workers, etc.) have to access health services (time, distance, quality, lack of cultural communication, etc.); (ii) local resources and local knowledge on health (traditional medicine, local specialists as midwives, etc.) to be mobilized by the new institutional arrangements that will be developed during the implementation of sub-projects; and (iii) available services, distance, quality of personal, time spent (including campaigns) and how useful they are felt to be by beneficiaries based on results specific interventions targeted towards these groups will be incorporated into terms of

	reference used in the second component. These results should be discussed with indigenous and African descent organizations as recommended by the civil society strategy of the PRSP. (b) (To be used in the Operations Manual – Component II) Eligibility criteria for sub-projects in areas where indigenous and African descent groups are resident to ensure that the new proposed institutional framework: (i) is compatible with existing community-based arrangements; and (ii) properly addresses the main health issues faced by these populations as mapped. (c) (To be used in the Operations Manual – Second Component). Terms of reference to call for sub-projects in Departments where residents include indigenous peoples and African descent communities will specifically include: (i) targeting of these population as a condition; (ii) participatory quality control as part of their financing; (iii) dissemination activities and campaigns designed with participation of local community groups with whom their efficacy will be tested; and (iv) where appropriated, dissemination will use local language and institutions providing health services to indigenous peoples and African descendents, when appropriate, will be staffed with professionals able to communicate in local languages or via translators.
Monitoring and Evaluation	Participatory assessments financed under the project will provide the elements to evaluate and adapt, if necessary, how proposed actions are reaching indigenous peoples and groups of African descendents.
Timeline and costing	1. Technical assistance for data analysis and tabulation of community mapping plans to evaluate project activities reaching indigenous people's and groups of African descent 2. Training on capacity building for central level staff to deal with different aspects related with indigenous peoples' health. 1. Budget: US$50,000 2. Budget: US$50,000