

HONDURAS COUNTRY REPORT 2008

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| Background and debt sustainability | <p>Honduras is a Post HIPC/MDRI Lower Middle Income Country with a per capita GNI of US\$1,600 as of 2007 (WB Atlas Method). Its real growth rate has been significantly positive during the last decade, except in 1999 due to Hurricane Mitch. During 2006-07 it averaged 6.3%, though inflation rose slightly to 9% in 2007.</p> <p>Honduras reached HIPC decision point in July 2000 and completion point in March 2005. In assessing its debt sustainability, Honduras is using DSF indicators for external debt and CBP indicators for domestic debt. Its external debt burden has considerably decreased in the last decade, from 82% of GDP in 1997 to only 17% in 2007 compared to its DSF threshold of 50%. External and Domestic debt are sustainable according to the indicators used, but there is some concern about Domestic Debt impact from new securities issues for public sector entities in financial problems.</p> |
| CBP support and impact | <p>Honduras assistance from the CBP began with a demand assessment mission in July 1998. Thereafter it has participated in 10 regional workshops, had 5 national workshops in 2000 and 2001 (preparing for and analysing the impact of decision point), 2004 (preparing for completion point), and 2006 and 2008 (analysing post-HIPC debt sustainability); a period of intensive capacity-building assistance through regular missions with SECO and SIDA cofinancing during 1998-2000, and 5 institutional support missions since 2003. The CBP also played a key role in supporting Honduras to advocate an early decision point in 2000, with Honduras playing a leading role as co-chair of the HIPC Finance Ministers' Network.</p> <p>During phase IV Honduras has benefited from a National Workshop in June 2006, which concluded that public debt was sustainable, especially after MDRI relief, allowing a little more scope for borrowing (including small non-concessional amounts) to accelerate its achievement of the MDGs. A second National Workshop in 2007 was considerably shorter, because Honduran officials carried out the bulk of technical work with no need for external support. Its results showed that public debt is sustainable, due to the impact of HIPC/MDRI, and there is a low risk of debt distress under the BWI LIC-DSF framework. However, it also indicated that much more can be done by government and donors to improve the effectiveness of the aid it receives (implementing Paris Declaration commitments), and that it is important to set clear national debt ceilings to prevent a rapid re-accumulation of debt. A third workshop in 2008 placed more emphasis on risk management to ensure that Honduras has a debt strategy which covers all necessary aspects. Honduras also participated in Regional Workshops on the LIC-DSF (2006), Domestic Debt (2007) and Training for Trainers (2008), received two institutional support missions, and enrolled 4 students in the second intake of the CBP distance learning programme.</p> <p>Honduras has shown significant improvements in all aspects of its debt management capacity during the period of the CBP, partly as a result of the CBP interventions. After sharp improvements in 1998-2001, there was some decline during 2002-04, largely as a result of staff turnover at the Ministry of Finance. Since 2005, there have again been considerable improvements. The debt strategy score (MT2a) has risen from 2 to 4.4, and the strategy is now up to date, approved and implemented. Legal and institutional frameworks (MT2b) have improved from 2 to 3.3, due to new procedures and improved coordination and information flows. Staff stability has also allowed Honduras to increase the numbers of trained staff to high levels (ST3a), though it could widen the numbers of trainers on new domestic and external financing policy. It has also designed a high-quality capacity-building plan (ST3c), which needs to be formally approved and implemented. The main challenges going forward will be to implement a prudent new financing policy and to improve risk and domestic debt analysis, as well as to retain qualified Ministry staff in spite of salary competition from the private sector.</p> |

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| Objectives and content of proposed country assistance | <p>Consistent with the previous results, the work plan states the following activities for the remainder of Phase IV:</p> <ul style="list-style-type: none"> • One sensitization seminar addressed to Government Ministers and senior officials to improve prospects of implementing the strategy, legal changes and the capacity-building plan, and to comply with the law that mandates incorporating the debt strategy into the budget approval process. This will improve MT2a/b and ST 3c scores). • Participation in Medium Term Debt Strategy for improving risk analysis. • One institutional mission to assist the country in updating debt strategy. <p>Given the rapid progress so far during phase 4, it looks possible that Honduras will attain its CBP targets by end-2009.</p> |
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| Country Debt Strategy Progress | | | | | |
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| Progress and Intended Results | CBP Logical Framework Performance Indicators | Initial Score (DRI - 1998) | Phase IV Baseline | Current Score (Aug.08) | Phase IV Target |
| | LT 1. Debt sustainability | 3.0 | 3.0 | 4.0 | 3.0 |
| | MT 2a. Debt management strategy updated at least once a year. | 2.0 | 3.1 | 4.4 | 4.0 |
| | MT2b. High-quality legal and institutional frameworks for debt strategy | 2.0 | 3.2 | 3.3 | 3.6 |
| | ST 3a Availability of trained personnel capable of formulating and executing national debt strategies | 1.0 | 3.0 | 3.5 | 4.0 |
| | ST 3c. High-quality capacity building plans which are implemented and annually updated. | 1.0 | 1.0 | 2.6 | 3.0 |
| Expenditure and Budget | Overall spending on Honduras since the start of CBP activity has been US\$291,889. Total expenditure allocated to support specific events for Honduras in phase 4 is US\$225,797. | | | | |

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