

THE INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

HONDURAS

**Decision Point Document for the Enhanced Heavily
Indebted Poor Countries (HIPC) Initiative**

Prepared by the Staffs of the International Monetary Fund and the World Bank¹
(In collaboration with the Staff of the Inter-American Development Bank)

June 20, 2000

Contents

	Page
I. Introduction	4
II. Background and Adjustment Record	4
A. Macroeconomic Performance and Structural Reforms	4
B. Social Policies and Poverty	5
C. Recent Developments	6
III. Medium-Term Challenges	7
IV. The Completion Point	13
A. Floating Completion Point Conditions	13
B. Monitoring of the Completion Point Conditions	16
V. Debt Sustainability Analysis and Assistance Under the Enhanced HIPC Initiative ...	16
A. Debt Sustainability Analysis (DSA)	16
B. Assistance Under the Enhanced HIPC Initiative	19
C. The Use of HIPC Debt Relief	22
VI. Issues for Discussion	23

¹ Approved by Kemal Dervi^o and David de Ferranti (IDA); and Claudio M. Loser and Jesús Seade (IMF).

Text Boxes

1.	The Government's Strategy In Key Social Sectors.....	8
2.	Summary of Planned Macroeconomic and Structural Reforms Under the PRGF, 2000–2002	10
3.	Summary of IDA Operations in Honduras.....	11
4.	Future Policy Reforms and Major Actions Supported by Current and Planned IDB-Financed Loans	12
5.	HIPC and Participatory Processes.....	15
6.	Main Macroeconomic Assumptions for the DSA.....	18
7.	CABEI Debt Relief Agreement.....	21

Figures

1.	Selected Economic Indicators, 1990–2000	25
2.	Composition of Stock of External Debt, End-December 1999	26
3.	External Debt Profile	27
4.	Projected Multilateral Debt Service Due and Social Expenditures, Before and After HIPC Relief	28

Tables

1.	Selected Economic Indicators, 1990–2002	29
2.	Selected Social Sector Indicators	30
3.	Comparative Performance of Honduras for Selected Social Indicators	31
4.	Nominal and Net Present Value of External Debt Outstanding as of End-December 1999	32
5.	Net Present Value of External Debt Before an After Reschedulings, 1999–2019	33
6.	Discount and Exchange Rate Assumptions, End-December 1999	34
7.	Main Macroeconomic Indicators	35
8.	Balance of Payments Projections, 1999–2019	36
9.	External Debt Indicators—Baseline Scenario and Sensitivity Analysis, 1999–2019.....	37
10.	Projected Assistance Under the HIPC Initiative	38
11.	Possible Delivery of IDA Assistance Under the HIPC Initiative.....	39
12.	Possible Delivery of IMF Assistance Under the HIPC Initiative.....	40
13.	External Debt Service Before and After Traditional Debt Relief, 2000–2019	41
14.	External Debt Service After Enhanced HIPC Initiative, 2000–2019.....	42
15.	Additional HIPC Funds for Use in the Central Government's Poverty Reduction Support Fund.....	43
16.	Central Government Operations Before and After HIPC Interim Debt Relief, 1999–2002.....	44

Appendices

1.	Progress with Structural and Social Reforms in the 1990s and Challenges Ahead	45
2.	Timetable for Preparation and Implementation of the PRSP	50
3.	Preliminary Allocation of Additional Social Expenditure for HIPC Relief	51
4.	External Debt Policy and Debt Management Issues.....	54
5.	HIPC Initiative—Status of Country Cases Considered Under the Initiative, May 2000.....	55

I. INTRODUCTION

1. **In December 1999, the Executive Boards of IDA and the IMF discussed the preliminary document on the Heavily Indebted Poor Countries (HIPC) Initiative for Honduras** (IDA/R99-183, 11/23/99, and EBS/99/210, 11/24/99). Executive Directors agreed that Honduras should be eligible for assistance under the Initiative in view of its status as a Poverty Reduction and Growth Facility (PRGF)-eligible and IDA-only country, its track record of reforms, and the heavy fiscal burden of servicing its debt. Executive Directors acknowledged Honduras' progress in stabilizing its economy and in carrying out structural reforms, and emphasized the importance of implementing a broad reform agenda on transparency and governance, as part of the future structural reforms required for the completion point. In concluding the discussion of the preliminary document, Executive Directors also agreed that Honduras could reach the decision point in 2000, conditional on: (i) completion of the second review of the PRGF-supported program; (ii) progress on key structural reforms, particularly the privatization program; and (iii) satisfactory progress toward the development of the Poverty Reduction Strategy Paper (PRSP).

2. **The conditions for reaching the decision point have been met.** The second review of the PRGF-supported program was completed on June 7, and privatization has advanced (see below). Satisfactory progress has also been made toward the preparation of a PRSP by completing the Interim Poverty Reduction Strategy Paper (I-PRSP). It was examined by IMF Executive Directors on June 7, 2000 (EBS/00/32, 4/14/00), and is being discussed together with this document by IDA's Board (IDA/SecM200-177, 4/18/00). Discussions on issues related to the HIPC decision point, between the authorities and the staffs of the Fund, the World Bank and the IDB took place in Washington between May 22–26, 2000.¹

II. BACKGROUND AND ADJUSTMENT RECORD

3. **Honduras' track record of reform was extensively discussed in the preliminary HIPC document.** This section summarizes the country's main achievements in stabilization, structural, and social sector areas. Additional details are provided in Appendix I.

A. Macroeconomic Performance and Structural Reforms

4. **Honduras has made progress over the past decade in structural reform and stabilization despite policy slippages and a natural disaster.** The worst distortions in the functioning of markets have been eliminated, the role of the private sector increased, and the

¹ The Honduran delegation was led by Ms. Nuñez de Reyes, Minister of Finance. The World Bank team consisted of Mr. López (Head), and Ms. Le Manchec; and the Fund team of Mmes. Sorsa (Head), Carvalho, Dabrowska, and Mercer-Blackman, and Mr. Op de Beke. Mr. Richter and Mr. Brackowitz from the IDB also participated in the discussions.

economy largely stabilized, improving conditions for growth toward the end of the decade. Although there is some evidence that poverty has declined over the decade, growth has not been robust enough to increase per-capita incomes, specially given the losses in 1998–99 due to Hurricane Mitch (Table 1 and Figure 1). End-year inflation has gradually declined toward single digits in recent years, but was relatively high at 20 percent on average for the decade. This mixed performance was partly the result of policy disruptions in election years that led to temporary increases in external and internal imbalances. In 1998, Hurricane Mitch devastated the economy and caused enormous social losses, from which the country is gradually recovering.

B. Social Policies and Poverty

5. **Social indicators have improved over the decade, reflecting the targeting of expenditures on primary social services** (Table 2). Progress was made especially in the health and education sectors where key indicators are above those of countries with similar incomes (Table 3). In part this was the result of channeling more than 80 percent of public social expenditures (or about 25 percent of total government expenditures), to programs designed to expand primary health care and basic education facilities and enhance the quality of these services.

6. **Important safety net programs have been operating since 1990 to build social infrastructure and target assistance to compensate the neediest groups.** The Honduran Social Investment Fund (FHIS) was originally conceived as a temporary agency to mitigate the impact of adjustment on the poor. However, due to its successful performance (as shown in different evaluations of the program) it has been extended until 2012. The Family Assistance Program (PRAF) gives support to vulnerable groups through five core programs: the School Bond and the School Pack Programs for primary school children; the Maternal-Child Bond for pregnant and lactating women and children under five; the Program for Development of Women to assist them in micro enterprise and training; and the Bond for the Elderly.

7. **Despite progress with social indicators, success in reducing poverty over the decade has been mixed.** While poverty trends reported in the I-PRSP suggest that the incidence of poverty declined over the decade, about two-thirds of Hondurans continue to live in poverty. Also, according to World Bank estimates, each percentage point of GDP growth in Honduras reduces the number of people living in poverty by only 0.6 percent, which is well below the Latin American average of 1 percent. These data also suggest that in Honduras, growth explains only about 40 percent of the variation in poverty over time, underlining the importance of other factors, especially social policies. To enhance the impact of growth on poverty, the government has begun work to reassess social conditions and poverty in Honduras as part of its preparation for the PRSP.

C. Recent Developments

8. **The economy has been recovering from the devastation caused by Hurricane Mitch, while maintaining macroeconomic stability.** GDP declined in 1999 by only 1.9 percent (compared to a programmed 3 percent) and end-year inflation fell to 10.9 percent, the lowest since 1992. A combination of large aid flows and slower-than-expected implementation of reconstruction projects resulted in lower-than-expected fiscal and current account deficits, and boosted the international reserve to cover about four months of imports of goods and services. The economic recovery has continued in 2000, led by agriculture and manufacturing, and the outlook for exports and growth has improved with the recent passage of enhanced trade benefits in the United States Congress. Inflation was on the upturn during the first few months of 2000 (it reached a 12.2 percent annual rate in May compared to the 10 percent program objective for end-year) reflecting higher food and energy prices. The high liquidity of the banking system boosted by capital inflows has helped reduce real interest rates.

9. **Progress has continued in the structural area.** In the financial sector, the government has been strengthening banking supervision and improving the regulatory framework by limiting banks' external indebtedness, connected lending, and certain off-balance sheet transactions. The Board of the Social Security Institute (IHSS) approved in May 2000 a reform plan aimed at improving health and pension benefits and restructuring the institution. In privatization, the bidding for the management of airports was concluded in March 2000, and the winning bid for the telecommunications company (HONDUTEL) is expected to be announced in mid-July.² However, approval of the new Electricity Sector Framework Law, that would permit the privatization of electricity distribution, has been delayed beyond the June congressional recess; the law is expected to be approved once congress reconvenes in July.

10. **Measures have been taken to improve transparency and governance.** Following Hurricane Mitch the government adopted a governance strategy that focuses on six key elements. First, the Comptroller's Office is being strengthened with donor assistance. Second, reconstruction projects have to be approved by the Reconstruction Cabinet before implementation, increasing accountability. Third, an advisory group will be set up, with IDB assistance, to monitor the procurement process. Fourth, a General Project Inspection Unit to review the quality, financing and transparency of projects is planned for the near future. Fifth, the government is involving civil society in the monitoring of the reconstruction plan. Sixth, the government is planning to expand the Integrated Financial Management System (SIAFI) throughout the public sector to increase the transparency of the budgetary process.

² This was expected to be announced in June. However, two of the bidders requested two additional weeks to present their bids, which the government accepted to ensure a successful transaction.

11. **A Consultative Group meeting in February 2000 discussed Honduras' progress in coping with the effects of the Hurricane, and the quality and feasibility of the Master Plan for Reconstruction and Transformation (MPRT).** There was broad participation by government, private sector, and civil society. Donors commended Honduras for its impressive progress over the year, both in addressing the immediate effects of the hurricane and in continuing with its reform agenda, and encouraged it to persevere.

III. MEDIUM-TERM CHALLENGES

12. **Despite progress, many challenges remain to achieve faster, poverty-reducing growth.** The **financial sector** and its regulatory framework needs further strengthening. Average lending rates, at nearly 27 percent (interest rate spreads average 12 percent), are high³ and long-term credit scarce. The **privatization** of electricity distribution and other utilities remains to be achieved, and the **pension and social security reform** action plan has to be implemented. The reform of **public sector management** and employment policies need to be deepened. The **investment framework**, although improved, still contains bureaucratic barriers and excessive regulations that increase the cost of doing business. **Transparency and governance** need to be strengthened further to enhance investor confidence and efficiency of resource use. **Export capacity** and earnings are affected by an overregulated transport sector, and inadequate ports infrastructure. **The quality of education and health services**, despite progress, remains low.

13. **The government's medium-term strategy addresses many of these challenges.** It aims at a significant reduction in poverty through an acceleration of economic growth and an increase in the efficiency and equity of social expenditures. Maintenance of macroeconomic stability, and continued structural reforms are important elements of the strategy contained in the PRGF-supported program. In the social area, the strategy described in the I-PRSP focuses on improving the quality, targeting and coverage of basic services in education, health, water, sanitation and housing, and mitigation of extreme poverty (Box 1). The strategy is supported by existing IMF, World Bank and IDB programs, and will be thoroughly reviewed in the PRSP process.

14. **The authorities' PRGF-supported macroeconomic program covering 2000–02 aims at consolidating stabilization gains and securing faster economic growth.** The program's medium-term objectives include raising growth to 6 percent a year, and reducing inflation to single digits (see Table 1). While in the near term, growth would be supported by reconstruction projects and recovery in agriculture, its main engines in the medium term would be exports and tourism. After 2000, the reconstruction-related large fiscal and current account deficits are expected to decline to sustainable levels, while the international reserve

³ These rates are about average in the regional context.

Box 1. The Government's Strategy in Key Social Sectors

The draft poverty strategy includes the main elements of the government's priorities in social programs:

In education, expanded coverage and better quality of primary education, reduction in urban-rural discrepancies, and easing transition problems between primary and secondary education are at the center of the government's strategy. Education problems affect not only poverty levels but also the overall development of the country through low productivity of workers. To achieve the above targets Honduras, with IDA support, is implementing a decentralized system to allow community participation in the management and administration of the schools in rural areas, including the creation of education committees at a community level (PROHECO program). The program improves *quality of education* as PROHECO schools are operated by parents organized in a locally elected community education association (ACE). ACEs select teachers, and closely monitor their attendance and performance. *Rural-urban discrepancies* are reduced as PROHECO schools are mainly located in rural areas lacking pre and primary schools and hence, aim at increasing enrollment in those areas. The program aims at achieving higher intakes in the secondary level. In addition, the government, with broad civil society participation, is designing a comprehensive plan to restructure the education sector covering new curricula, teacher qualifications, and objective standards for monitoring student achievement.

In health the main objective is to improve efficiency of resource use especially in primary services. Key issues in the health sector are the inefficient allocation of resources stemming from the centralization of the ministry of health, the increasing deficit in all areas of the Social Security Institute (IHSS), and shortcomings in the provision of health services. The government strategy aims at reforming the social security system, decentralization of health services, and improving the delivery of basic health services.

In nutrition, the major goal is to reduce child malnutrition. To address the lack of progress in reducing child malnutrition in recent years, the authorities are implementing a pilot program (AIN, or Atención Integral a la Niñez). This is showing impressive results by focusing on preventing moderate malnutrition rather than concentrating on treating severe malnutrition. In communities where the program has functioned the longest there has been a dramatic reduction of malnutrition. This has been from 39 percent to 8 percent in communities with highest levels of malnutrition, from 25 to 20 percent in those with moderate levels, and from 9 percent to virtually zero in communities with low levels. More complete data and analysis is still required, but experienced nutrition programmers who have seen AIN, believe it is promising. Based on an evaluation underway, the government plans to expand the program.

In safety nets, the goal is to improve targeting to most vulnerable groups. FHIS played a critical role in the national emergency relief and rehabilitation effort in the aftermath of Hurricane Mitch. A recent IDA evaluation of the role of FHIS found that it was responding positively and efficiently to the enormous challenges. In the period ahead, many of FHIS' major programs that had to be postponed due to the emergency, will be restarted, including its pilot programs to strengthen local institutions and the development of viable rural water systems. PRAF will put in place a new targeting mechanism that is expected to improve the selection of beneficiaries and includes an appropriate evaluation of the results obtained. In its new phase, PRAF will also include a component to encourage supply, so as to ensure its beneficiaries of minimum standards in the provision of education and health services.

In water and sanitation, the priority is to improve services in rural areas. To ensure the sustainability of water and sanitation services in rural areas, the Water and Sanitation Law needs to be approved. This would allow the restructuring of the National Autonomous Water and Sewerage Service (SANAA) as the technical assistance entity responsible for providing support to rural areas in the implementation of water and sanitation projects. In addition financial mechanisms will be designed and implemented to enable users to cover the costs of technical assistance.

More attention will be given to rights and conditions of minorities. Despite progress with gender issues, greater efforts are required to change stereotypes and modify cultural behaviors that negatively affect women, especially through the education system. In addition, more attention is needed to improve the health status of women in the planned reform to the health sector. Social assessments carried out by IDA show that ethnic populations are extremely disadvantaged in access to basic social services and to economic opportunities. The government will continue its efforts to promote indigenous development. IDA is supporting capacity building and institutional strengthening in indigenous communities, focusing on project planning and execution. The government has also sought IDA support for a more integrated approach to be supported by a possible indigenous development project.

cover would remain comfortable. The share of social expenditures in total outlays is expected to increase.

15. **Prudent fiscal and monetary policies and accelerated structural reforms are expected to facilitate growth and reinforce social policies (Box 2).** Fiscal policy will aim at containing nonpriority current expenditures and maintaining good revenue performance (especially by increasing the efficiency of the tax system) to increase public savings. A reform of public sector wage policy will be key to fiscal sustainability. The efficiency of monetary policy will be enhanced by an increased reliance on open market operations, which together with stronger prudential regulation and supervision of the financial sector is expected to reduce distortions affecting real interest rates. In the structural area, privatization will be finalized in telecommunications and electricity distribution, and started in water and ports management. Trade liberalization will continue in the context of regional commitments. The reforms of the social security and pension systems supported by the program have potentially large social benefits. The program will also deal with constraints to foreign direct investment, labor-intensive exports, governance, and transparency.

16. **The World Bank's Country Assistance Strategy (CAS) for 1999–2002 supports the country's social sector and poverty reduction strategy and structural reforms (Box 3).** It emphasizes the need to improve the quality of human capital, and to strengthen the social safety nets and the conditions of disadvantaged groups. It also supports faster growth as an essential component of poverty reduction through infrastructure rehabilitation, financial sector strengthening, governance, rural development, and disaster preparedness. In addition to its existing portfolio and planned new operations, the ongoing Public Expenditure Review (PER) and Poverty Assessment (PA) will help identify priorities in social policy areas, and support the PRSP process.

17. **The IDB's assistance program for 1999–2001 (Box 4) focuses on support for public spending to meet social needs.**

18. **The overall development strategy of Honduras will be reviewed in the process of preparing the PRSP by early 2001 (Appendix II).** The I-PRSP of March 2000 was built on the MPRT and includes a comprehensive diagnosis of poverty, a critical assessment of the existing strategy, identification of data gaps, and the outlines of a potential strategy. It was judged by Bank and Fund staffs to meet the requirements for an I-PRSP under existing guidelines. For the full PRSP, the joint staff assessment encouraged the authorities to more clearly identify the lessons learned from the implementation of the existing strategy, select targets and priorities, better integrate the macroeconomic framework with the strategy, and cost all policy actions and additional public spending needs. The authorities were also encouraged to elaborate more on how the strategy will be discussed with the civil society during the second half of 2000.

Box 2. Summary of Planned Macroeconomic and Structural Reforms Under the PRGF, 2000–2002

Fiscal policy: Increase public savings while increasing the quality and efficiency of social expenditures.

- *Strengthen tax administration* by firm application of penalties, broadening of tax base (expand the register of large taxpayers, increase access to third-party sources of information (2000–02), and identify exemptions (December 2000).
- *Improve expenditure efficiency*—limit the increase in the public sector wage bill (to 9 percent of GDP in 2000, to 9.3 percent in 2001 and to 8.8 percent in 2002) and reforming the civil service law (including rationalization of employment policies and wage-setting criteria) in October 2000; improve targeting of electricity subsidies of the poor (June 2000) and review targeting of transport subsidies (December 2000); reform the social security system (2000–02); and establish a group to analyze options for pension reform (June 2000).
- Increase the transparency of fiscal policy—evaluate domestic practices with the IMF's Code of Good Practices on Fiscal Transparency (end 2000).

Monetary policy: Reduce inflation and improve the efficiency of monetary instruments.

- Gradually reduce the remunerated mandatory investment requirements (from 13 to 7 percent by end 2000), and increase the use of open market operations in monetary management (CAMs).
- Increase central bank independence by reviewing options to improve its balance sheet and income position (end-2000).
- Improve transparency of monetary policy by evaluating domestic practices against the IMF's Code of Good Practices on Transparency of Monetary Policy (end 2000).

Exchange Rate Policy and the Payments System: Maintain a competitive exchange rate and enhance the efficiency of foreign exchange operations.

- Improve the payments system by establishing an electronic check-clearing house (2000). This would facilitate the eventual creation of an interbank market for foreign exchange.
- Maintain the crawling band system of exchange rate determination (2000–02).

Trade Policy: Continue with trade liberalization, rationalize the tariff structure to avoid fiscal fraud, and restructure the coffee sector support structures.

- Abolish remaining export taxes on bananas and minerals (June 2000).
- Implement CACM tariff reductions—lower tariffs of certain consumer goods to 15 percent by January 2001, and to 2–15 percent for certain textiles and clothing in 2005. Prepare a report and submit it to the tariff commission to simplify customs administration by reducing the number of tariff rates on individual products (June 2000).

External debt management: Continue prudent management of external debt.

- Accumulate no new arrears and abstain from nonconcessional loans (2000–02).

Financial sector: Improve financial supervision and the regulatory framework.

- Approve legislation on limited deposit insurance, insurance and reinsurance companies, regulations on the stock exchange, submit a law on the supervision of private pension funds to congress (end 2000).
- Achieve a substantive application of the Basle Core Principles for the banking sector (2000–02).
- Increase capital adequacy ratio from 9 to 10 percent for commercial banks (end 2000).

Privatization: Increase the role of private sector in the economy.

- Privatize telecommunications (June 2000) and airport concessions (April 2000); initiate privatization of electricity distribution (September 2000) and water and sewer management (end 2000); and prepare a plan to privatize port management (October 2000).

Transparency and governance: Improve policy transparency and minimize potential for corruption.

- Establish and publish a comprehensive good governance strategy (June 2000).
- Improve transparency of procurement practices and continue with external audits of donor funds (2000–02).
- Improve the functioning of the judicial system (2000–02).
- Improve statistics and information to the public (2000–02). Approve a law to establish an independent Institute of Statistics and Census (June 2000).

Private sector incentives: Simplify regulations to combat corruption and improve investment environment.

- Simplify regulations on licensing of cargo transport (December 2000) and gradually liberalize the sector (2001–02).
- Submit a law to congress to simplify procedures for company establishment (June 2000).
- Reactivate one-stop window for investors, once regulations have been simplified (2001).

Box 3. Summary of IDA Operations in Honduras

The devastating effects of Hurricane Mitch in October 1998 required the World Bank to provide emergency support and refocus its assistance strategy to support the government's reconstruction and transformation program. While this necessarily demanded a reassessment of development priorities, it is also providing an opportunity to advance in many aspects of the reform agenda. The overall thrust of the strategy is to help Honduras rebuild, while laying the basis for a stronger economy and a more equitable distribution of the benefits from growth. The overriding priority is the development and implementation of a comprehensive and outcome-oriented poverty reduction strategy, with a strong emphasis on improving the quality of human capital, strengthening the social safety net, supporting indigenous and Afro-Honduran peoples development, mainstreaming gender, and stimulating sustainable rural development, and tourism. The strategy supports faster growth, as an essential complement to poverty reduction, through infrastructure rehabilitation, strengthening the financial system, and private sector development. It also seeks to ensure that progress can be sustained, through a stable macroeconomic framework and debt sustainability, institution building, governance, improved environmental management, and disaster preparedness.

About two thirds of IDA's base case lending over 2000–02 directly supports human capital, including health and education, social safety nets, development of indigenous and Afro-Honduran peoples, and the rural development/rural poverty agendas. This project portfolio composition is a conscious choice, resulting from intensive discussions with the government, a careful assessment of IDA's comparative advantage and value added, and the expected role of other donors.

IFC, like IDA, moved quickly to try to assist Honduras after Mitch, mainly trying to help existing clients deal with the need to restructure their operations. IFC is presently reassessing its approach in Honduras, which to date has involved a small number of interventions to support early private power generation and larger manufacturing and agribusiness firms. Priorities for IFC support include: (i) assisting Honduras to extend private participation in infrastructure; (ii) strengthening the financial sector and broadening access to capital; (iii) helping to improve the enabling environment for the private sector; and (iv) selectively providing direct financing, particularly in industry, services, and agribusiness.

The poverty agenda, public expenditure reform, a strategy for infrastructure rehabilitation, and private sector development will be the key analytical pieces to support CAS objectives. The major formal output will be a Poverty Update, but more important is and will be the process and technical support to prepare the Government's Poverty Reduction Strategy. Key aspects will include assistance to improve the data base on poverty and living conditions, monitor poverty, and support a consultative process with civil society to elaborate the poverty strategy and the outcome and progress indicators. Less formal policy advice and dialogue will assist the government in the design of a longer-term rural development agenda, which would be an essential component of the poverty reduction strategy. The second major formal piece will be a Public Expenditure Review, focusing on the social sectors and the link between the poverty agenda and improved public sector efficiency. A parallel Infrastructure Assessment will assist the government to adopt a comprehensive strategy for infrastructure development, rationalize the state's role in the sector, and provide an overall framework to coordinate donor efforts. The fourth major piece will be a Diagnosis of the Business Climate by FIAS, identifying major areas for reform and including consensus-building efforts to support the reforms.

**Box 4. Future Policy Reforms and Major Actions Supported
by Current and Planned IDB-Financed Loans**

Area	Policy Reforms and Actions
Health	<ul style="list-style-type: none"> • A rise of 10 percent in the real current expenditures on basic health services (ministry of health) by 2003. • Compliance with goals of productivity, efficiency, quality and user satisfaction in six regional hospitals and five area hospitals (established in performance contracts). • Expansion of basic health services to rural persons living in poverty with services to be contracted out to private providers and NGOs. • Strengthened policy-making and regulatory capacity of the ministry of health.
Education	<ul style="list-style-type: none"> • Decentralization of operational functions to the departmental level. • Strengthen the ministry of education (management information system, educational planning). • Carry out reform of the third cycle (grades 7–9) and middle education (grades 10–12) according to guidelines under discussion.
Local Development	<ul style="list-style-type: none"> • Strengthen the Social Cabinet. • Support for a plan for local development guidelines (ministry of government and justice). • Greater roles for communities in planning and carrying out municipal programs. • Decentralization of the FHIS project cycle to municipal governments.
Social Protection	<ul style="list-style-type: none"> • Resources targeted to the poorest beneficiaries through a transparent allocation process, supported by the PRAF operation. • Upgrade the quality of education, health, and nutrition services at the local level.
Development of Rural Economy	<ul style="list-style-type: none"> • Implementation of the Law for Sustainable Rural Development, as approved. • Strengthen capacity to monitor and implement policy reforms, as established in the Agricultural Modernization Law of 1992. • Improve the ability of UNAT to include a rural economy perspective in policy development.
Potable Water and Sanitation	<ul style="list-style-type: none"> • Legal framework for potable water and sanitation that ensures autonomy of regulatory agency.
Strengthening Market Economy Development (Pending Policy Issues)	<ul style="list-style-type: none"> • Reform the Judiciary and improve law enforcement to protect private rights and property of investors • Review regulations affecting investment, to eliminate or simplify excessive controls; set clear and objective standards for licensing, permits, and control of private sector activity; strengthen those rules protecting the environment, health, and competition. • Eliminate discriminatory restrictions to foreign direct investment, when possible. • Revise the banking law, to introduce Basle-type standards. Strengthen the Banking Superintendency’s ability to enforce banking regulations. • Complete privatizations as set forth in the State Modernization Program. • Establish a schedule for implementation of the Transparency Program, including an enhanced role of Contraloria in performing external review.

IV. THE COMPLETION POINT

A. Floating Completion Point Conditions

19. **The conditions for the floating completion point aim at addressing challenges to growth and poverty reduction in Honduras.** They reflect a small but crucial set of actions intended to promote higher, sustainable growth, and improve social indicators with an impact on poverty. These actions will complement or reinforce reforms and policies included in the PRGF-supported program, and in ongoing and future operations of the World Bank and the IDB. The completion point is achieved once the following measures have been implemented: (i) maintenance of macroeconomic stability as evidenced by performance under a program supported by a PRGF arrangement; (ii) successful implementation of the full PRSP for at least one year as evidenced in one comprehensive annual report endorsed by the Boards of IDA and the IMF; and (iii) implementation of the structural and social reforms listed below:

- **Preparation and implementation of a participatory, comprehensive anti-corruption strategy and its presentation to the national and international community.** Notwithstanding progress made with transparency in public procurement, further efforts are needed to reduce potential opportunities for corruption and improve the rule of law in all areas of economic activity. To achieve this, Honduras will elaborate and publish a participatory comprehensive anti-corruption strategy, in consultation with civil society and the international community. It will include measures to strengthen control mechanisms such as the Offices of the Comptroller General and of Administrative Probity, and to increase the automaticity and transparency of regulations that affect the private sector. The fulfillment of this condition will be assessed by the staffs together with the first PRSP annual progress report.
- **Reform of the social security system, which is crucial to increase both the coverage and the quality of health services and ensure a sound pension system.** The specific measure to reach the completion point is the implementation of the social security reform plan approved by the IHSS Board on May 24, 2000. This plan provides a good framework for action and will be refined as implementation proceeds. The plan includes, among other components, the separation of the health and pension plans of the IHSS, the strengthening of the regulatory capacity of the ministry of health, and the improvement of coverage, efficiency and quality of health service provision. In pensions, the IHSS system will be made actuarially sound, its coverage expanded, and pension benefits rationalized to improve the incomes of the neediest.
- **Strengthening of the basic health services for the poor.** Despite progress made in some health indicators, improving access to health services by the neediest remains a significant concern. The specific trigger in this area is the delivery of a package of basic health services to at least 100,000 beneficiaries in poor communities. The benefits package will emphasize primary and maternal/child health care. The services

could be provided under a contracting scheme between the Ministry of Health and community organizations to increase coverage.

- **Improvement in the quality of education by increasing the number of schools with community participation (PROHECO).** Increased community participation in the management of schools has been shown to improve the quality of education. The completion point trigger in the education sector would be the implementation of the program in at least 1,350 PROHECO schools. This will ensure better coverage, lower urban-rural discrepancies, and higher quality of education in the neediest areas.
- **Increase the efficiency and targeting of safety nets.** Institutional strengthening and increased local participation are key FHIS objectives. Efforts to increase community participation will also aim at ensuring that communities and beneficiaries have a greater say on the selection of FHIS projects, their sustainability and the quality of the construction. The completion point trigger will be the implementation of social investment projects based on participatory planning methodologies in all beneficiary municipalities.
- **Strengthening of the financial sector by application of the Basel Core Principles.** Despite considerable progress, Honduras' banking system requires additional strengthening. The completion point would require improving the efficiency and soundness of the financial system by substantive application of the Basel Core Principles to the banking sector, and by raising the capital adequacy ratio from 9 to 10 percent and enforcing it on all commercial banks. The staffs are aware that whereas the capital adequacy component of the condition can be transparently monitored, progress on the strengthening of the sector requires qualitative judgement. In this regard, World Bank, IDB, and Fund staff are ready to assist the government with strengthening financial sector regulation.

20. **In the absence of a full PRSP, the completion point conditions reflect existing policy priorities in Honduras.** As the I-PRSP does not yet contain the comprehensive strategy with detailed actions for poverty reduction envisaged for the full PRSP, appropriate measures could not be directly identified from it. However, in keeping with the spirit of the Enhanced HIPC Initiative, the agreed policy actions for the completion point are fully consistent with the government's policy priorities. In addition, most of the measures have been discussed within existing participatory processes (Box 5) to ensure ownership and success in their implementation.

Box 5. HIPC and Participatory Processes

Before Hurricane Mitch, the government had begun some modest consultations with civil society groups to mobilize support for the HIPC Initiative. The disaster provided even greater opportunities for the dialogue and involvement of civil society in the design and implementation of the reconstruction and transformation plan. As part of this new dynamic, a broad spectrum of civil society groups was invited to participate in the Consultative Group meetings that took place in Stockholm in mid-1999 and Tegucigalpa in early 2000. This process has continued in the preparation of the PRSP, and although it has not always been smooth, there is a concerted and constructive effort to open up spaces for dialogue and consensus building.

The government is well aware for the need of civil society involvement to ensure the sustainability of reforms that span beyond the life of a single administration. In this regard, ownership and participatory processes have been emphasized in developing the floating completion point conditions to ensure ownership and hence, their successful implementation. The conditions draw on dialogue between the government, stakeholders, and civil society on policy reform priorities that has taken place over the past year along the following lines:

- **Anti-Corruption Strategy.** Elements of a governance and transparency strategy have been discussed with civil society since 1999, mainly through the Commission for Civil Society Participation. The Commission which was established to monitor the National Reconstruction Plan, includes representatives of the Association of Mayors, the Honduran Private Sector Council, FONAC (a civil society group consisting of about 205 base organizations), the Citizen's Forum, and INTERFOROS (an NGO-umbrella organization).
- **Social Investment Plans.** As part of an innovative process of participation at the municipal level, since end-1998 about 6,500 meetings have been held throughout the country (with an estimated participation of 650,000 people) to identify needs and prioritize community projects that would form the basis of the municipal development plans implemented by FHIS. As a result, Honduras has pioneered micro planning efforts with civil society on a larger scale than most of the countries in the region. Although Hurricane Mitch interrupted this process, the FHIS is now focussing once again on micro planning as a tool to engage civil society and strengthen local governments.
- **Education.** Over the past 12 months, FONAC and the ministry of education had led a national and broad-based consultation process on a long-term strategy for the education sector. The PROHECO program, which aims to improve the quality and coverage of basic education in the poorest rural communities, through increased community participation, has been developed within this consultative and participatory process.
- **Social Security Reform.** Prior to the approval of the Social Security Reform Plan in May 2000, there was a long and detailed process of consultation with different stakeholders. The reform plan was approved by the Social Security Institute's Board of Directors, which includes representatives of the government (ministry of health and ministry of labor), the private sector, labor unions, and the medical community.
- **Health Sector.** In 1999, a consultative process, supported by the Bank and IDB, and led by the ministry of health, analyzed the demands of the population in the health area. Two key priorities emerged from this consultation process: preventive medicine and maternal health care. These priorities were incorporated in the design of a program that, starting in early 2001, aims at delivering basic health packages to the poor, especially the rural poor.

B. Monitoring of the Completion Point Conditions

21. **The monitoring of the conditions will be done jointly by staffs of the Fund, the World Bank, and the IDB with specific responsibilities assigned to each institution.** Fund staff will take the lead in monitoring macroeconomic stability, and assessing progress in the financial sector. World Bank staff will take the lead in assessing the fulfillment of the conditions in the areas of social security reform, education, and FHIS. IDB staff will monitor progress in the areas of governance and health. Finally, the three institutions will jointly monitor progress with the preparation of the PRSP, and its implementation.

V. DEBT SUSTAINABILITY ANALYSIS AND ASSISTANCE UNDER THE ENHANCED HIPC INITIATIVE

A. Debt Sustainability Analysis (DSA)

22. **Honduras' external debt burden is high (Figure 2 and Table 4) and unsustainable.** At end-1999, the total external public debt stock amounted to about US\$4.3 billion in nominal terms, of which US\$29 million was in arrears.⁴ In NPV terms total debt is estimated at about US\$3.3 billion, equivalent to 61 percent of 1999 GDP, 142 percent of exports of goods and nonfactor services and 322 percent of fiscal revenues.⁵ Honduras' main creditors are multilateral (the IDB, the World Bank, the Central American Bank for Economic Integration (CABEI), and the IMF in declining order of importance), while Japan is the largest bilateral creditor. Bilateral non-Paris Club creditors represent 8 percent of total debt, of which nearly two-thirds is owed to Central and Latin American countries. Commercial debt is less than 1 percent of total public and publicly guaranteed debt.

23. **Despite three Paris Club concessional reschedulings since 1992 and special assistance after Hurricane Mitch, Honduras' debt service continues to represent a substantial fiscal burden.** The first Paris Club agreement in 1992 was under enhanced Toronto terms (with 50 percent debt reduction in NPV terms), while the subsequent one in February 1996 included a one-year flow rescheduling on Naples terms (50 percent debt-reduction on eligible maturities). To strengthen the country's fiscal position after Hurricane

⁴ Of the US\$29 million, US\$26.4 million are arrears on commercial debt (40 percent of which is owed to the Commonwealth Development Corporation (CDC)) and the remainder is Venezuelan debt.

⁵ The NPV of the debt was calculated using end-1999 exchange and discount rates. The NPV of debt-to-exports ratio is measured using the backward-looking three-year average of exports of goods and nonfactor services. The debt-service-to-exports ratio is measured in relation to current-year exports. The NPV of debt-to-revenue ratio is based on a conversion of 1999 central government revenue at the end-1999 exchange rate.

Mitch, in December 1998 Paris Club creditors deferred all debt-service payments falling due between November 1998 and December 2001, and granted a concessional three-year rescheduling on Naples terms (67 percent debt reduction in NPV terms on eligible maturities) in April 1999. These operations lowered the originally scheduled debt service for 1999 from US\$396 million to US\$348 million. Honduras' debt service in 1999 was further reduced by special assistance from bilateral donors (mainly through the Central American Emergency Trust Fund—CAETF) to service its multilateral debt so that more resources could be released for the reconstruction effort. As a result, actual debt-service payments due for 1999 were only US\$277 million, or 12 percent of export earnings. Over time this would decline to 9 percent on average over the 2000–03 period.⁶ Even after these operations, external debt obligations at 27 percent of government revenues in 1999 and at an estimated 21 percent on average over 2000–03 continue to exert an important fiscal burden.

24. **Under the HIPC Initiative, the DSA is to be based on the country's stock of debt after the full application of traditional debt relief mechanisms at the decision point.** In the case of Honduras, this implies adjusting the 1999 NPV debt stock by: (i) a stock-of-debt operation under Naples terms (67 percent NPV reduction on eligible debt) on pre-cut-off⁷ nonpreviously rescheduled, and a topping up amount to all previously rescheduled loans; and (ii) comparable treatment from non-Paris Club creditors. Under these assumptions, the NPV of the external debt as of end 1999 would be reduced by about 6 percent to US\$3.1 billion (Table 5).

25. **Honduras' debt burden is unsustainable according to the HIPC fiscal criterion.** Although Honduras does not qualify for assistance under the general HIPC window (NPV of debt-to-export ratio above 150 percent), it qualifies under the fiscal window⁸ (NPV of debt-to-fiscal ratio above 250 percent). For Honduras, the first indicator was 134 percent at end-December 1999, and is projected to decline to 106 percent in 2002 and to 61 percent in 2007. As for the fiscal target, the NPV of debt-to-fiscal ratio is expected to fall from 304 percent at end-December 1999 to 212 percent by 2002 and to 125 percent by 2007. These ratios imply that, even after the full use of traditional debt relief mechanisms, Honduras' external debt would exceed the fiscal sustainability target in the near term.

⁶ Before the full use of traditional debt relief mechanisms.

⁷ The cut-off date is June 1990.

⁸ In order to qualify under the fiscal window, a country needs to satisfy two criteria: the exports-to-GDP ratio should be above 30 percent and the fiscal revenue-to-GDP ratio above 15 percent; these ratios should be computed at the decision point using averages of the most recent three years of actual data. For Honduras these ratios were 45 and 18 percent, respectively in 1999.

26. **The DSA is based on macroeconomic assumptions described in Tables 6–7 and Box 6.** The baseline scenario for the balance of payments and debt outlook assumes the continuation of sound economic and financial policies. A slowing in import growth and an acceleration in export growth, once the trade effects of Hurricane Mitch subside, are projected to bring the current account deficit down from its present high of nearly 9 percent to about 4 percent of GDP by the end of the projection period (2018) (Table 8). The capital account is expected to register surpluses over the medium term (averaging 5–6 percent of GDP) with continued disbursements from multilateral and bilateral aid donors—all at concessional terms—and with private capital inflows comprised mainly of foreign direct investment. The Honduran economy is vulnerable to a wide range of adverse shocks, including natural disasters, and terms of trade shifts. The sensitivity of the balance of payments projections to two possible adverse scenarios—a lower growth environment and lower terms of trade—was explored in some detail in the Preliminary Document. These scenarios when applied to the updated balance of payments projections produce basically the same conclusion, namely, that it will take longer for the debt to reach a sustainable level (Table 9).

Box 6. Main Macroeconomic Assumptions for the DSA

Growth

- Real GDP growth is projected to accelerate to 6 percent, initially boosted by reconstruction and recovery, later by improvements to the investment climate.

Fiscal and monetary policies

- A prudent fiscal policy supports growth by raising public savings to about 7 percent of GDP, while monetary policy would reduce CPI inflation to the lower single digits.

Balance of payments

- Exports of goods and services will have fully recovered by about 2005 and thereafter grow at an annual rate of 9 percent in U.S. dollar terms.
- Growth of imports of goods and services will level off at an annual rate in U.S. dollar terms of 8 percent.
- Official transfers remain constant in dollar terms reflecting a continued international commitment to Honduras' development efforts.
- Net disbursements to the public sector will remain around 2 percent of GDP throughout the projection period. All new borrowings are on concessional terms.
- Foreign direct investment contributes importantly to the capital account, to the tune of 2.5 percent of GDP.
- Gross reserves are maintained in the range of 3–4 months of imports.

B. Assistance Under the Enhanced HIPC Initiative

27. **In addition to relief through traditional mechanisms (about US\$182 million in NPV terms), the required HIPC assistance at the decision point to bring Honduras' external debt to a sustainable level is US\$556 million in NPV terms (Table 10).** This is the reduction in debt required to reach the NPV-debt-to-government revenues target of 250 percent. It implies an 18 percent reduction in the NPV of debt in 1999. The required multilateral and bilateral assistance in NPV terms would be US\$340 million and US\$215 million, respectively.

28. **The amount of required assistance from each creditor is based on the proportional burden sharing approach.**⁹ The expected contribution from each multilateral creditor is based on their individual share in end-1999 NPV multilateral debt. The assistance from Paris Club and non-Paris Club bilateral creditors is based on their respective shares in overall end-1999 debt in NPV terms after the full application of traditional debt relief mechanisms.

29. **The assumptions on the delivery of assistance are based on a decision point in July 2000 and for illustrative purposes on a floating completion point in July 2002.** The latter is the authorities' target date and is set at about one year after the envisaged completion of the PRSP. Interim assistance between the decision and completion points is assumed to be provided only by multilateral creditors. It is needed to help address the large reconstruction costs and social needs faced by the country. The various creditors are assumed to provide assistance as follows:

- The Working Group of the Committee of the Board of Governors of the **IDB** is currently reviewing a financial modality that could fully cover the debt relief for Honduras amounting to US\$133 million in NPV terms. A final report from the working group is expected to be issued soon. The debt relief would be provided on the Fund for Special Operations (FSO) which is the concessional window of the IDB. In the meantime, and for illustrative purposes only, the staffs of the Bank and the Fund have prepared projections that assume that 50 percent of the debt service would be canceled on FSO loans as of the decision point. On this basis, the total cash flow relief from IDB would be US\$190 million.
- **IDA's assistance amounts to US\$98 million in NPV terms.** The World Bank's share of debt relief is proposed to be provided on IBRD debt outstanding since 68 percent of total World Bank debt service is attributable to IBRD loans for the period 2001 to 2006. The HIPC Debt Relief Trust Fund can provide this relief, but it can use only donor resources for that purpose; IBRD net income transfers may not be

⁹ "HIPC Initiative—Estimated Costs and Burden Sharing Approaches" (EBS/97/127, 7/7/97, and IDA/SEC M97-306, 7/7/97).

used to provide debt relief on IBRD debt. Accordingly, during the interim period, it is proposed that IDA will provide annually supplemental HIPC debt relief grants equal to 50 percent of IBRD debt service falling due that fiscal year, subject to the one-third ceiling on total debt relief to be provided during the interim period. At the completion point subject to the confirmation of participation by other creditors, IDA will provide a supplemental HIPC debt relief credit to fund the prepayment of the necessary amount of IBRD debt to cover the remaining required NPV relief.¹⁰ The World Bank Board will need to decide whether to waive in this case the IBRD prepayment penalty that would normally apply. The total nominal savings are estimated at US\$180 million from 2000 to 2010. The details of IDA's assistance are further illustrated in Table 11.

- The **IMF** would provide interim assistance (US\$9.0 million or SDR 6.8 million in NPV terms) between 2000 and mid-2002,¹¹ and the remainder after the completion point (Table 12). Consistent with the current guidelines on the amount and phasing of IMF interim relief, the staff recommends providing 15 percent of the total amount in 2000 and 2001 of total assistance committed by the Fund at the decision point.¹² The remaining 70 percent would be provided over the period mid-2002-07. The IMF can provide the interim assistance as soon as it receives satisfactory assurances regarding the exceptional assistance to be provided under the Initiative by Honduras' other creditors.¹³
- **CABEI** has already concluded a debt relief agreement with the Honduran authorities on April 27, 2000. The current modalities of the agreement provide for a total reduction in NPV terms of US\$76 million and a relief of US\$62 million in nominal terms during the interim period. Box 7 presents the details of the agreement.

¹⁰ [This is in accordance with the approved modality as discussed in paragraph 14 of the paper "Heavily Indebted Poor Countries \(HIPC\) Initiative: Note on Modalities for Implementing HIPC Debt Relief Under the Enhanced Framework," IDA/R2000-4, January 10, 2000.](#)

¹¹ At the decision point a lump sum will be deposited in a separate account, which is drawn down according to a pre-determined schedule as payment to the Fund becomes due.

¹² For the modalities of providing Fund Interim Assistance, see *Modifications to the Heavily Indebted Poor Countries (HIPC) Initiative*, July 23, 1999; jointly by IMF and IDA; EBS/99/139.

¹³ At this stage, specific assurances have been obtained from creditors representing about 67 percent of the debt.

Box 7. CABELI Debt Relief Agreement

The agreement restructures 60 percent of CABELI's loans amounting to US\$251.9 million in nominal value at end-March 2000, which will be guaranteed by zero-coupon U.S. Treasury bonds (stripped principal) with a face value of US\$57.7 million to be held on a "security account" in an international financial institution. The calculation of the relief is based on the following assumptions: (i) an appreciation rate of the bond of 5.9 percent with 25 years maturity; (ii) the principal of the underlying loan will be paid through a balloon payment at the end of the maturity; and (iii) an interest is charged on the difference between the face value of the loans and the value of the zero-coupon bonds after their appreciation is taken into account. The agreement stipulates that the interest rate on the zero-coupon bond will be changed according to CABELI's actual share of HIPC relief.

The pre-restructuring NPV of these loans was US\$267.2 million and the after-restructuring NPV is US\$190.6 million, using the U.S. dollar discount rate of 7.04 percent at end-1999. As a result, the zero-coupon bond deal would reduce the NPV by US\$76.5 million, equivalent to a reduction of 29 percent compared to the original NPV.

- Of the **other multilaterals**, the OPEC Fund has agreed to provide interim relief in the framework of the latest Multilateral Development Bank meeting. Its contribution to Honduras amounts to US\$3.6 million in NPV terms. If it is assumed that 50 percent of the debt service is cancelled as of the decision point until the NPV relief required is achieved, the nominal relief would be close to US\$4.5 million. The International Fund for Agricultural Development (IFAD) is assumed to deliver its HIPC share of debt relief, totaling to US\$1.9 million in NPV terms and US\$2.6 million in nominal terms as of the completion point onward with a cancellation of 50 percent of debt service due until the required NPV reduction is achieved.
- For **Paris Club bilateral creditors**, a flow rescheduling on Cologne terms is assumed during the interim period. The NPV relief resulting from the difference between this flow rescheduling on Cologne terms and an otherwise identical flow rescheduling on Naples terms is accounted as interim relief (Table 13). Since the pre-cutoff date debt is subject to a flow rescheduling on Naples terms up to April 2002, there will be no nominal relief during the interim period. The remaining amount of required assistance is then delivered through a stock-of-debt operation at the completion point providing an NPV reduction of 73 percent. The Paris Club contribution would amount to US\$169 million in NPV terms. A comparable treatment is assumed for **non-Paris Club bilateral and commercial creditors**.

30. **The above HIPC assistance would enable Honduras to maintain a sustainable debt level and release resources to social programs.** The NPV of debt-to revenue ratio would decline from 322 percent in 1999 to 191 percent in 2002, falling further to 125 percent by 2007 (Figure 3 and see Table 5). The savings in debt service from HIPC relief (Table 14) would free up resources to support Honduras' efforts toward poverty reduction (Figure 4).

C. The Use of HIPC Debt Relief

31. **The interim relief¹⁴ will be used for priority social and poverty reduction programs.** The government's preliminary proposal¹⁵ for 2000–02 (Table 15 and Appendix III) allocates about 80 percent of the funds to various programs in education, health, and safety nets (FHIS and PRAF). The remainder would be used in low income housing, rural, and environmental programs, and toward improving social indicators for monitoring the impact of poverty programs. A large part of the expenditures will be used to cover fiscal costs related to the implementation of measures agreed in the context of the HIPC completion point. Most of the education expenditures help cover costs for the construction and operation of the additional PROHECO schools. In health, the funds will help cover costs of basic medicines and medical equipment for the IHSS. In safety nets, the additional funds will support capacity building of social investment projects in the FHIS. Improving existing poverty data and establishing poverty monitoring indicators (*Household Income and Expenditure Survey* and the *Population and Housing Census*) are government commitments in the context of the elaboration of the PRSP.

32. **The proposed use of HIPC interim relief is broadly consistent with the current macroeconomic framework supported by the PRGF arrangement and existing social policy priorities.** The fiscal stance would not change as the relief would either shift expenditures between categories (from interest payments to social programs) or increase revenues to match the additional expenditures (savings in amortization will be recorded as grants; Table 16). The small amounts involved are not expected to exert significant inflationary pressures during 2000–02. Apart from the spending on a hospital in Tela, the proposed projects aim at improving primary social services in health, education, and safety nets in line with the authorities' announced social policy goals.

33. **The debt relief will be managed within a special poverty fund.** Following the example of other HIPC countries, Honduras is planning to create a Poverty Reduction Support Fund (PRSF) to channel funds from HIPC debt relief and privatization receipts¹⁶ to

¹⁴ On the basis of current estimates, this would represent 0.6, 1.2, and 1.3 percent of GDP in 2000, 2001, and 2002, respectively.

¹⁵ Changes in budgetary expenditures in 2000 are subject to congressional approval. Expenditures in subsequent years can change according to priorities to be identified in the PRSP process.

¹⁶ HONDUTEL is expected to be sold over the coming months. The privatization law stipulates that net proceeds will be invested and the interest commission and dividend from government shares in the new company be used for social expenditures allocated in strict proportions to specified social spending categories (roughly estimated to be around 0.5 percent of GDP a year).

34. social programs. The PRSF will be included in the annual central government budget and administered by a unit at the ministry of finance. It will be supervised by a national council, chaired by the minister of finance and composed of members of the government, civil society and bilateral donors. The council would ensure the efficient and transparent use of the PRSF's resources according to agreed rules and the mandate implicit in the PRSP. The duration of the PRSF will be the same as the time necessary to implement the poverty reduction strategy (although no less than 15 years). To ensure the transparent use of funds, fixed percentages of the HIPC relief are planned to be allocated to administration, monitoring, and auditing of the expenditures.¹⁷ The current proposal would devote 2.5 percent of the PRSF resources to administration and 6 percent to monitoring and auditing.¹⁸ The exact modalities of the Fund are still being defined in close collaboration with the Fund and the World Bank staffs.

35. **The overall allocation of social expenditures will also be improved by the gradual establishment of a medium-term expenditure framework (MTEF).** Work is underway to establish a three-year MTEF in the context of the World Bank's PER. This would enable more detailed functional classification of social programs according to priorities to be defined in the PRSP process. The PRSF would be incorporated into this framework.

VI. ISSUES FOR DISCUSSION

35. Executive Directors may wish to focus on the following issues and questions:

- **Eligibility and the decision point.** The preliminary document on the HIPC Initiative established the conditions that Honduras had to fulfill before reaching the decision point. The staff and management consider that these conditions have been fulfilled and hence, recommend approval of the decision point. Do Executive Directors agree that Honduras has met the conditions for reaching the decision point under the Enhanced HIPC Initiative?
- **Amount and delivery of assistance.** Consistent with the reduction in Honduras' NPV of debt-to-revenue ratio to 250 percent, total assistance under the enhanced HIPC Initiative is estimated to amount to US\$556 million in NPV terms. Of this amount US\$98 million is to be provided by the World Bank and US\$30 million

¹⁷ Outside monitoring and auditing by three international accounting firms was established for external funds that arrived in the aftermath of Hurricane Mitch. The PRSF would establish rules at least as strict as those.

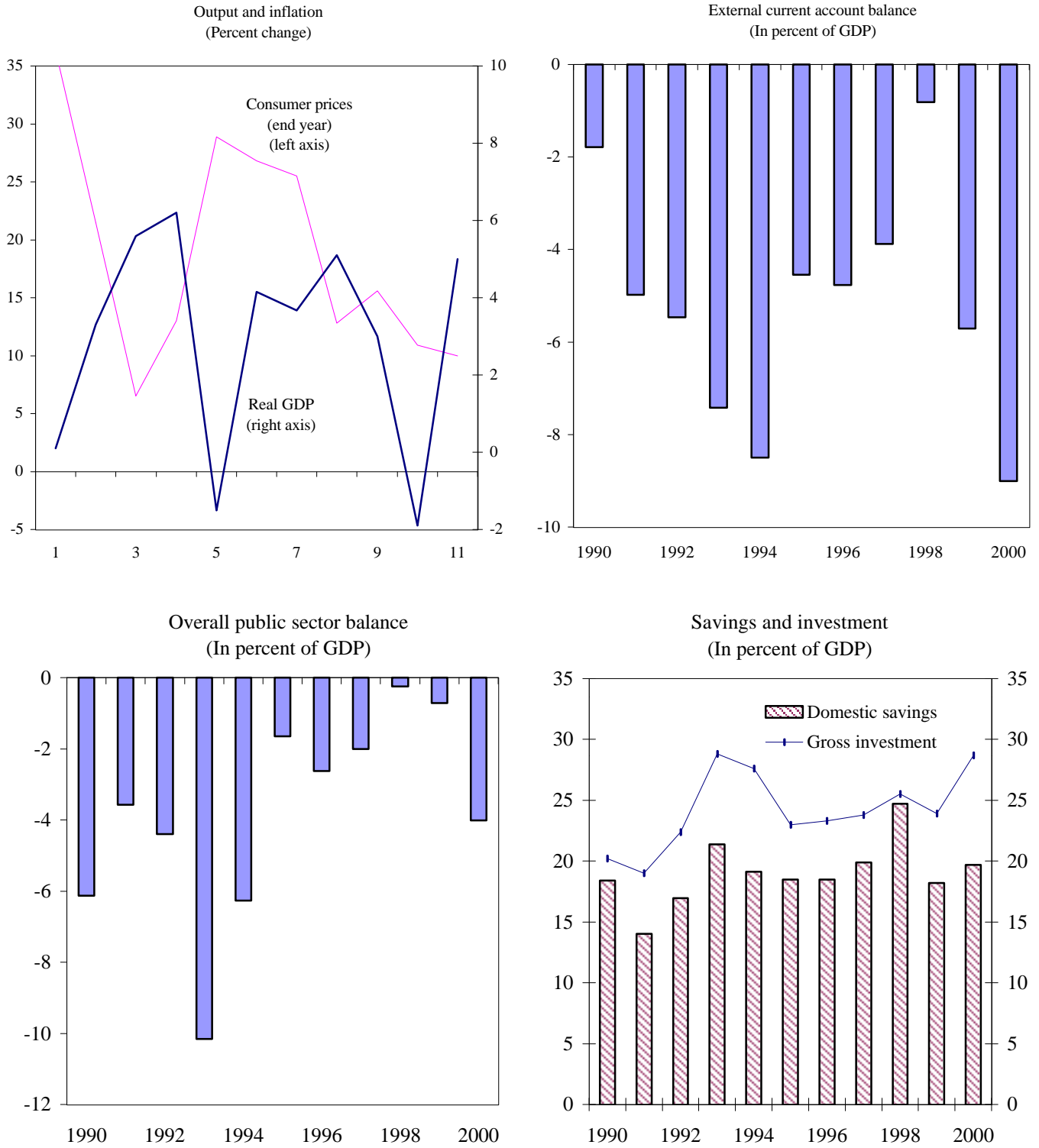
¹⁸ This is in line with other HIPC countries and includes outlays for income and expenditure surveys, population and housing census and consulting services.

(SDR 23 million) by the IMF. In order to accelerate the provision of debt relief, the staff and management recommend that the World Bank and the IMF provide interim assistance in line with existing guidelines.¹⁹ Do Directors agree with the staffs' recommendation of providing interim assistance between the decision and the floating completion point?

- **Completion point.** In line with the objectives of the Enhanced HIPC Initiative, the staff and management recommend that Honduras reach the completion point under the HIPC Initiative on the condition that a set of reform measures, as described in paragraph 19, be successfully implemented, and the first annual report on implementation of the PRSP be endorsed by the Boards of the Fund and IDA, provided a stable macroeconomic environment is maintained, as evidenced by performance under a program supported by an arrangement under the PRGF. Do Directors agree that the conditions described in Section IV are appropriate triggers for Honduras' completion point and that assistance be provided under the HIPC Initiative as long as satisfactory assurances can be secured by Honduras' external creditors by that time?

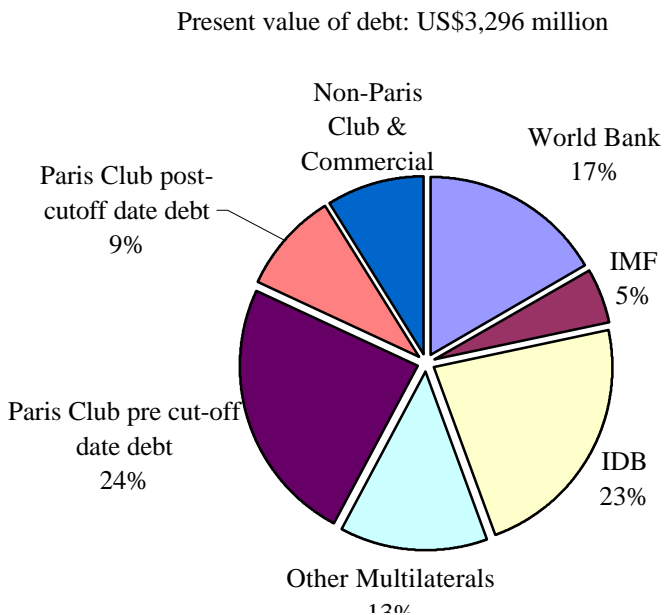
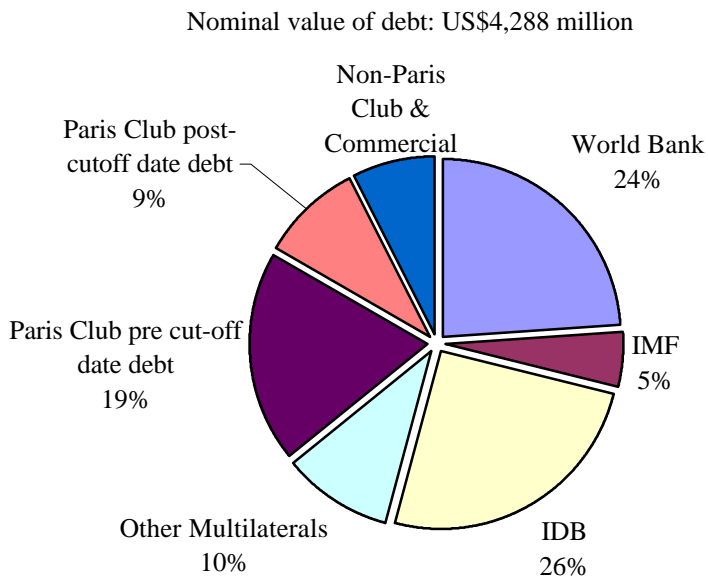
¹⁹ IDA/R200-4 (1/10/2000) entitled *Heavily Indebted Poor Countries (HIPC) Initiative: Note on Modalities for Implementing HIPC Debt Relief Under the Enhanced Framework*; and for the modalities of Fund interim assistance, *Modifications to the Heavily Indebted Poor Countries (HIPC) Initiative*, IMF; July 23, 1999; EBS/99/139.

Figure 1. Honduras: Selected Economic Indicators, 1990-2000 1/



Sources: Central Bank of Honduras; and staff estimates
 1/ Projected data for fiscal year 2000.

Figure 2. Honduras: Composition of Stock of External Debt, End-December 1999 1/

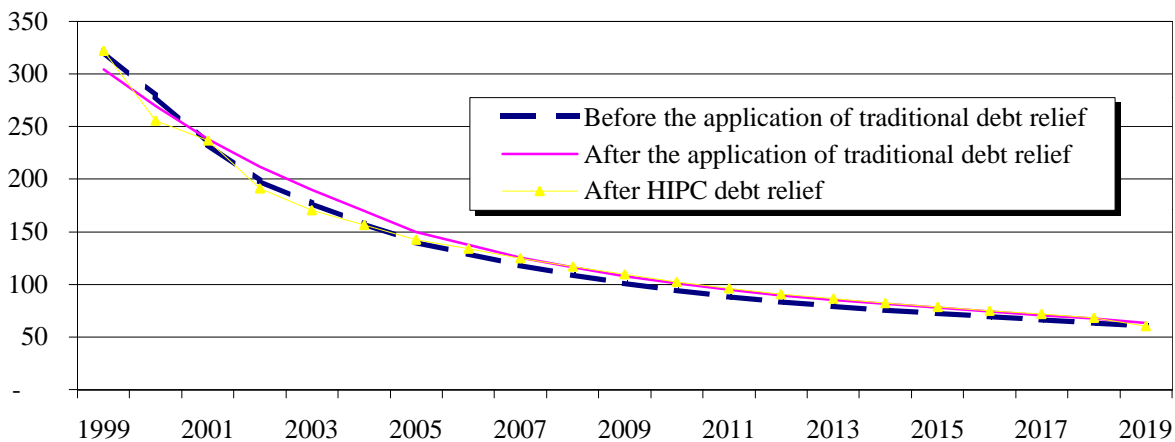


Sources: Honduras authorities; and Bank/Fund staff estimates.

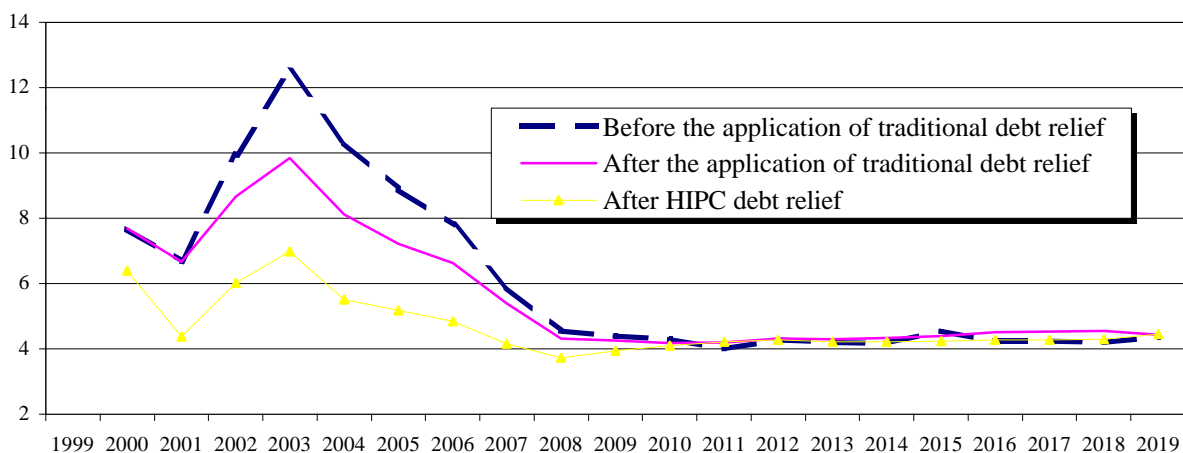
1/ Before full use of traditional debt relief mechanisms.

Figure 3. Honduras: External Debt Profile

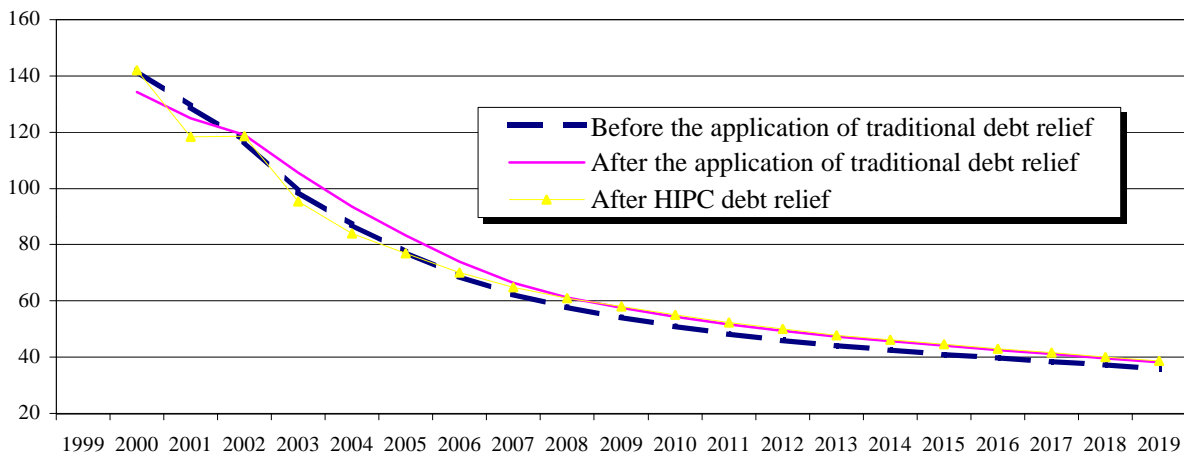
Net Present Value of Debt to Fiscal Revenues Ratio 1/



Debt Service to Exports Ratio 2/



Net Present Value of Debt to Exports Ratio 3/



Sources: Honduras authorities; and Bank/Fund staff estimates.

1/ Fiscal revenues refer to Central Government revenues, excluding grants.

2/ Ratio of debt service to the current year of exports of goods and nonfactor services.

3/ Data refer to three-year backward-looking average of exports of goods and nonfactor services.

Figure 4. Honduras: Projected Multilateral Debt Service Due and Social Expenditures, Before and After HIPC Relief
(In percent of GDP)

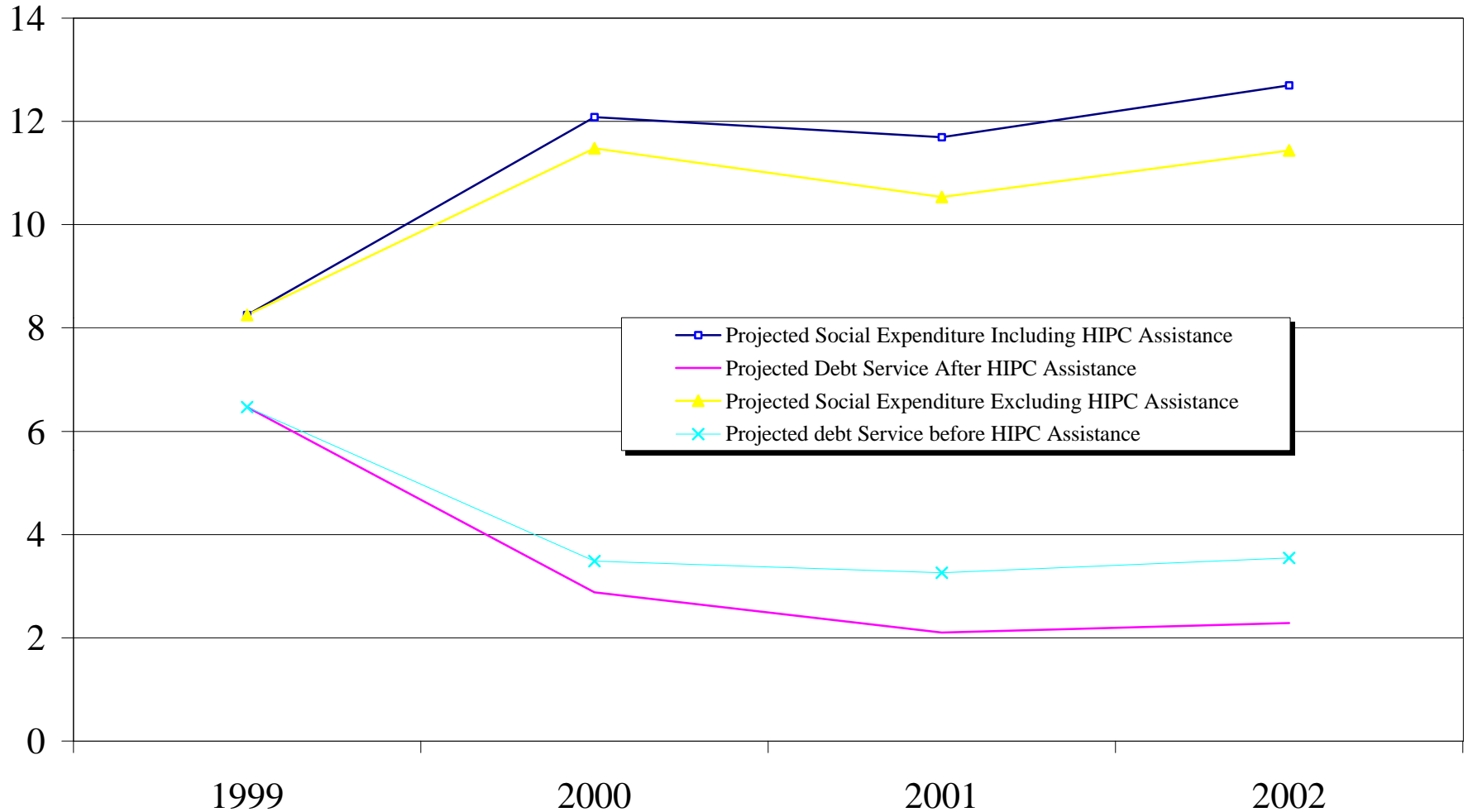


Table 1. Honduras: Selected Economic Indicators, 1990-2002

	1996	1997	1998	Prel. 1999	Annual Average 1990-99	Baseline Projections		
						2000	2001	2002
(Annual percentage changes, unless otherwise indicated)								
National income and prices								
GDP at constant prices	3.7	5.1	2.9	-1.9	2.8	5.0	5.5	5.5
GDP deflator	22.4	22.5	11.0	11.1	19.1	9.3	9.2	8.6
Consumer prices (end of period) 1/ (period average) 1/	25.3 23.8	12.8 20.2	15.6 13.7	10.9 11.6	19.8 19.7	10.0 10.5	9.0 9.4	7.0 7.9
Real GDP per capita (in lempiras)	0.7	2.1	0.1	-4.5	-0.1	2.2	3.0	3.0
Poverty rate (level) 2/	69	66	63	66	69	65	64	63
Exchange rates (depreciation -) 3/								
Nominal rate	-19.1	-2.5	-6.5	-5.1	-15.6	...	...	...
Real effective rate	0.6	15.4	5.4	7.5	-1.5	...	...	...
Money and credit								
Net domestic assets	12.2	11.5	17.3	-5.2	6.9	21.5	19.0	14.6
Public sector credit (net)	501.7	276.9	132.3	90.0	90.2	14.5	1.1	11.7
Private sector credit	33.3	47.1	36.7	19.2	22.2	21.7	17.8	15.6
Broad money	32.2	43.3	23.4	20.6	24.8	15.3	14.9	14.3
Average lending rate, (end of period, in percent)	29.5	32.1	30.6	29.5	26.8	...	...	...
Average deposit rate (end of period, in percent)	11.7	15.5	16.0	15.0	12.5	...	...	...
(In percent of GDP)								
Consolidated nonfinancial public sector								
Revenue and grants	31.3	30.3	30.2	32.0	29.1	32.3	31.4	29.0
Noninterest expenditure	29.3	28.1	26.9	30.9	29.4	35.2	32.9	31.4
Primary balance	2.0	2.2	3.3	-2.3	0.7	-2.9	-1.5	-2.4
Interest payments	4.7	4.2	3.5	1.8	4.6	1.2	1.2	1.4
Overall balance	-2.6	-2.0	-0.2	-0.7	-4.0	-4.1	-2.6	-3.8
External financing	3.8	2.9	1.3	10.9	5.2	5.3	3.4	4.1
Domestic financing	-0.4	-0.9	-1.1	-10.2	-1.0	-1.3	-0.7	-0.3
Combined public sector balance (after grants) 4/	-4.2	-3.6	-0.3	-0.7	-4.9	-4.1	-3.2	-2.7
Combined public sector balance (before grants) 4/)	-4.2	-3.6	-0.6	-2.3	-5.1	-6.4	-3.7	-4.0
Public sector savings 5/	5.8	5.5	6.6	5.5	4.7	5.6	5.8	6.1
Central government domestic debt	8.1	7.2	5.7	4.4	12.5	3.2	2.5	2.0
Savings and investment								
Fixed capital formation	23.3	23.8	25.5	23.9	23.7	28.7	27.3	27.5
Gross national savings	18.5	19.9	24.7	18.2	18.9	19.7	20.6	21.7
(In millions of U.S. dollars, unless otherwise indicated)								
Balance of payments								
Gross international reserves	283	548	770	1,209	388	1,248	1,383	1,489
(in months of imports) 6/	1.6	1.4	3.0	4.2	2.0	4.0	4.0	3.8
Change in net international reserves (increase -)	-98	-280	-168	-342	-104	0	-100	-125
External current account balance (percent of GDP)	-4.8	-3.9	-0.8	-5.7	-4.8	-9.0	-6.7	-5.8
(excluding official transfers)	-8.2	-6.8	-5.8	-11.0	-8.8	-11.7	-9.9	-8.5
Exports, f.o.b. (annual percent change)	9.6	8.2	8.0	-22.2	4.7	17.2	19.4	14.9
Imports, c.i.b. (annual percent change)	12.0	15.9	14.7	11.2	10.8	10.3	8.9	12.6
External debt (percent of GDP)	94.9	77.5	73.8	80.5	93.2	79.9	75.7	72.0
Debt-service ratio (in percent of exports of goods and services before debt relief)	32.6	26.7	20.6	22.9	32.3	17.2	14.6	10.9

Sources: Central Bank of Honduras; Ministry of Finance; and staff estimates.

1/ Using 1978 expenditure weights. The new CPI index was effective May 2000

2/ Taken from I-PRSP (EBS/00/32 and IDA/SecM200-177), based on the multipurpose household survey.

3/ Change in the annual average rate.

4/ Includes operational losses of the central bank.

5/ From 1998 excludes HONDUTEL savings, estimated at 1.5 percent of GDP a year.

6/ Refers to the following year's imports of goods and services.

Table 2. Honduras: Selected Social Sector Indicators

(In units indicated)

Indicator	Honduras		Latin America and Caribbean			
			HIPC Cases 1/		All	
	1980-89	1990-97	1980-89	1990-97	1980-89	1990-97
GNP per capita in 1998 (US\$) 2/	697	730	534	643	2,453	3,048
Infant mortality (per 1,000 live births)	63	44	91	65	54	37
Life expectancy (years)	62	68	57	61	66	69
Population with access to safe water (percent)	61	70	55	60	76	78
Population with access to sanitation (percent)	47	69	44	42	56	68
Overall illiteracy rate	38	31	35	29	19	14
Female illiteracy rate	39	32	39	32	21	15

Source: World Development Indicators. Not all years are available for all variables.

1/ Unweighted average, includes Nicaragua, Guyana, Bolivia and high-HIPC case Haiti. Excludes Honduras.

2/ The columns 1980-89 and 1990-97 report GNP in 1989 and 1998.

Table 3. Honduras: Comparative Performance of Honduras
for Selected Social Indicators (Latest Available) 1/

Indicators	In Percent
Infant mortality	32
Child mortality	37
Life expectancy	6
Access to safe water	0
Adult literacy	4
Gross primary enrollment	11
Gross secondary enrollment	13

Source: World Bank staff using worldwide panel.

1/ Entries indicate how much better than expected Honduras scores in the particular social indicator, when the level of economic development is taken into account.

Table 4. Honduras: Nominal and Net Present Value of External Debt Outstanding as of End-December 1999 1/

	Nominal Debt			NPV of Debt			NPV of Debt after Rescheduling 2/		
	US\$ Million	Percent of Total	Percent of Group	US\$ Million	Percent of Total	Percent of Group 3	US\$ Million	Percent of Total	Percent of Group
Total	4,288	100.0		3,296	100.0		3,115	100.0	
Multilateral institutions	2,757	64.3	100.0	1,908	57.9	100.0	1,908	61.3	100.0
IDB	1,086	25.3	39.4	750	22.8	39.3	750	24.1	39.3
CABEI	391	9.1	14.2	409	12.4	21.5	409	13.1	21.5
IDA/IBRD	1,026	23.9	37.2	548	16.6	28.7	548	17.6	28.7
IBRD	185	4.3	6.7	192	5.8	10.1	192	6.2	10.1
IDA	841	19.6	30.5	356	10.8	18.6	356	11.4	18.6
IFAD	19	0.4	0.7	10	0.3	0.5	10	0.3	0.5
IMF	210	4.9	7.6	170	5.2	8.9	170	5.5	8.9
OPEC	24	0.6	0.9	20	0.6	1.1	20	0.7	1.1
Paris Club	1,213	28.3	100.0	1,095	33.2	100.0	945	30.4	100.0
Post-cut-off date	391	9.1	32.3	305	9.3	27.9	304	9.8	32.1
Pre-cut-off date	822	19.2	67.7	789	24.0	72.1	642	20.6	67.9
<i>Of which:</i>									
Official development assistance (ODA)	395	9.2	32.6	379	11.5	34.6	401	12.9	42.4
Non-ODA	427	10.0	35.2	411	12.5	37.5	240	7.7	25.4
Canada	18	0.4	1.5	18	0.5	1.6	8	0.3	0.9
Denmark	11	0.3	0.9	9	0.3	0.8	6	0.2	0.7
France	48	1.1	3.9	48	1.5	4.4	29	0.9	3.0
Germany	104	2.4	8.6	58	1.8	5.3	41	1.3	4.3
Italy	151	3.5	12.5	109	3.3	9.9	83	2.7	8.8
Japan	471	11.0	38.8	503	15.3	46.0	525	16.8	55.5
Netherlands	20	0.5	1.7	21	0.6	1.9	13	0.4	1.4
Norway	2	0.1	0.2	1	0.0	0.1	1	0.0	0.2
Spain	236	5.5	19.5	179	5.4	16.3	167	5.4	17.7
Switzerland	5	0.1	0.4	3	0.1	0.3	3	0.1	0.3
United States	146	3.4	12.0	147	4.5	13.4	68	2.2	7.2
Non-Paris Club official bilateral	273	6.4	100.0	247	7.5	100.0	246	7.9	100.0
Post-cut-off date	271	6.3	99.4	246	7.5	99.3	246	7.9	99.8
Pre-cut-off date	2	0.0	0.6	2	0.0	0.7	1	0.0	0.2
<i>Of which:</i>									
Official development assistance (ODA)	0	0.0	0.0	0	0.0	0.0	0	0.0	0.0
Non-ODA	2	0.0	0.6	2	0.0	0.7	1	0.0	0.2
Taiwan, Province of China	72	1.7	26.2	60	1.8	24.3	60	1.9	24.4
Colombia	23	0.5	8.3	20	0.6	8.2	20	0.7	8.3
Costa Rica	27	0.6	9.9	26	0.8	10.5	26	0.8	10.6
Guatemala	30	0.7	11.1	28	0.8	11.1	28	0.9	11.2
Kuwait Fund	39	0.9	14.2	36	1.1	14.4	36	1.1	14.5
Mexico	57	1.3	20.8	53	1.6	21.2	53	1.7	21.3
Venezuela	26	0.6	9.4	25	0.8	10.1	24	0.8	9.7
Commercial Institutions	45	1.1	100.0	46	1.4	100.0	15	0.5	100.0
Argentina	3	0.1	7.1	3	0.1	7.0	1	0.0	
Germany	0	0.0	0.2	0	0.0	0.2	0	0.0	
Spain	2	0.0	4.1	2	0.1	4.0	1	0.0	
Switzerland	0	0.0	0.8	0	0.0	0.8	0	0.0	
United Kingdom	33	0.8	71.9	33	1.0	72.1	11	0.3	
United States	7	0.2	15.9	7	0.2	15.9	2	0.1	
Memorandum items:									
Exports of goods and nonfactor service ^{3/}				2,321			2,321		
Government revenues ^{3/}				1,024			1,024		
NPV of debt-to-exports (in percent)				142			134		
NPV of debt to government revenues (in percent)				322			304		

Sources: Honduran authorities; and staff estimates.

1/ Applies to public and publicly guaranteed debt only.

2/ After hypothetical full use of traditional debt-relief mechanisms.

3/ For multilateral institutions, these shares in the NPV of total multilateral debt are applied to the total multilateral NPV reduction required at the decision point to determine each institution's amount of assistance under the Initiative.

4/ Backward-looking average (e.g., average over 1997-99 for exports in 1999).

5/ Revenues are defined as central government revenues, excluding grants.

Table 5. Honduras: Net Present Value of External Debt Before and After Reschedulings, 1999-2019 1/

(In millions of U.S. dollars, unless otherwise indicated)

	1999	Projected							Average		
		2000	2001	2002	2003	2004	2005	2006	2007	2000-09	2010-2019
Before debt relief											
1. NPV of total debt (2+5)	3,296.5	3,188.1	3,116.5	3,024.0	3,053.0	3,075.9	3,079.0	3,103.7	3,151.5	3,132.6	4,272.2
2. NPV of existing debt (3+4)	3,296.5	3,109.7	2,938.6	2,724.0	2,504.0	2,308.3	2,123.9	1,956.2	1,808.2	2,273.4	1,167.9
3. Official bilateral and commercial	1,388.5	1,285.7	1,205.8	1,123.2	1,038.2	953.4	878.0	818.0	768.0	946.2	462.8
Paris Club	1,094.0	1,015.7	952.8	888.0	818.4	746.3	682.9	633.8	594.1	740.8	338.2
Other official bilateral and commercial	294.4	269.9	253.0	235.2	219.9	207.1	195.1	184.2	173.9	205.4	124.6
4. Multilateral	1,908.0	1,824.1	1,732.8	1,600.8	1,465.7	1,354.9	1,246.0	1,138.1	1,040.2	1,327.2	705.1
5. NPV of new debt	0.0	78.4	177.9	300.0	549.0	767.6	955.1	1,147.6	1,343.3	859.1	3,104.3
Memorandum items:											
Exports of goods and nonfactor services 2/	2,312.1	2,609.7	3,066.3	3,483.7	3,954.6	4,479.0	4,995.9	5,445.8	5,936.2	4,749.5	11,684.0
Three-year export average 3/	2,320.8	2,465.7	2,662.7	3,053.2	3,501.5	3,972.4	4,476.5	4,973.6	5,459.3	4,300.3	10,745.3
Government revenues (excl. grants) 4/	1,023.6	1,141.6	1,333.4	1,521.6	1,723.7	1,949.6	2,204.0	2,401.8	2,665.6	2,117.1	5,895.4
NPV of total debt-to-exports ratio (in percent) 5/	142.0	129.3	117.0	99.0	87.2	77.4	68.8	62.4	57.7	80.4	40.8
NPV of existing debt-to-exports ratio (in percent)	142.0	126.1	110.4	89.2	71.5	58.1	47.4	39.3	33.1	62.8	12.0
NPV of Pre-cut-off data ODA	378.6	360.1	380.6	397.2	372.1	338.5	305.0	258.0	240.7	308.7	161.7
NPV of total debt-to-revenues ratio (in percent)	322.0	279.3	233.7	198.7	177.1	157.8	139.7	129.2	118.2	164.4	75.3
After traditional debt relief mechanisms 6/											
1. NPV of total debt (2+5) 7/	3,114.7	3,078.1	3,170.1	3,220.6	3,278.0	3,306.9	3,306.6	3,305.6	3,337.0	3,296.8	4,561.7
2. NPV of old debt (3+4)	3,114.7	2,999.7	2,992.3	2,920.7	2,729.1	2,539.3	2,351.5	2,158.0	1,993.7	2,437.7	1,457.4
3. Official bilateral and commercial	1,206.6	1,175.6	1,259.5	1,319.8	1,263.3	1,184.4	1,105.6	1,019.9	953.5	1,110.5	752.3
Paris Club	945.3	921.6	990.5	1,033.5	999.1	947.2	894.9	835.2	793.3	895.0	647.3
Other official bilateral and commercial	261.3	254.1	269.0	286.3	264.2	237.2	210.7	184.7	160.3	215.4	105.0
4. Multilateral	1,908.0	1,824.1	1,732.8	1,600.8	1,465.7	1,354.9	1,246.0	1,138.1	1,040.2	1,327.2	705.1
5. NPV of new debt	0.0	78.4	177.9	300.0	549.0	767.6	955.1	1,147.6	1,343.3	859.1	3,104.3
Memorandum items:											
NPV of total debt-to-exports ratio (in percent) 5/	134.2	124.8	119.1	105.5	93.6	83.2	73.9	66.5	61.1	84.0	43.6
NPV of existing debt-to-exports ratio (in percent)	134.2	121.7	112.4	95.7	77.9	63.9	52.0	43.4	36.5	66.4	14.8
NPV of total debt-to-revenues ratio (in percent)	304.3	269.6	237.7	211.7	190.2	169.6	150.0	137.6	125.2	171.6	80.5
NPV of existing debt-to-revenues ratio (in percent)	304.3	262.8	224.4	191.9	158.3	130.2	106.7	89.8	74.8	135.8	27.6
After enhanced HIPC Initiative assistance 8/											
1. NPV of total debt (2+5)	3,295.5	2,915.2	3,156.9	2,912.1	2,936.9	3,055.0	3,136.2	3,222.1	3,323.6	3,169.0	4,582.1
2. NPV of existing debt (3+4)	3,295.5	2,836.9	2,979.1	2,612.1	2,387.9	2,287.4	2,181.1	2,074.5	1,980.3	2,309.9	1,477.9
3. Official bilateral and commercial	1,387.3	1,303.3	1,427.6	1,211.8	1,126.1	1,061.6	997.0	930.4	877.1	1,060.3	689.0
Paris Club	1,094.3	1,019.0	1,119.5	943.9	880.1	841.9	803.2	761.8	732.1	851.2	595.3
Other official bilateral and commercial	293.0	284.3	308.1	267.9	246.0	219.6	193.8	168.6	145.0	209.1	93.7
4. Multilateral	1,908.2	1,533.5	1,551.5	1,400.4	1,261.8	1,225.9	1,184.1	1,144.2	1,103.3	1,249.5	788.9
5. NPV of new debt	0.0	78.4	177.9	300.0	549.0	767.6	955.1	1,147.6	1,343.3	859.1	3,104.3
Memorandum items:											
NPV of total debt-to-exports ratio 5/ 9/	142.0	118.2	118.6	95.4	83.9	76.9	70.1	64.8	60.9	80.2	43.9
NPV of existing debt-to-exports ratio (in percent)	142.0	115.1	111.9	85.6	68.2	57.6	48.7	41.7	36.3	62.6	15.1
NPV of total debt-to-revenues ratio (in percent)	321.9	255.4	236.8	191.4	170.4	156.7	142.3	134.2	124.7	163.8	81.1
NPV of existing debt-to-revenues ratio (in percent)	321.9	248.5	223.4	171.7	138.5	117.3	99.0	86.4	74.3	128.0	28.2
After enhanced HIPC Initiative assistance (assumed committed unconditionally) 9/											
1. NPV of total debt (2+5)	2,559.0	2,643.1	2,833.4	2,912.1	2,936.9	3,055.0	3,136.2	3,222.1	3,323.6	3,109.4	4,582.1
2. NPV of existing debt (3+4)	2,559.0	2,564.8	2,655.5	2,612.1	2,387.9	2,287.4	2,181.1	2,074.5	1,980.3	2,250.3	1,477.9
3. Official bilateral and commercial	990.2	1,064.1	1,137.9	1,211.8	1,126.1	1,061.6	997.0	930.4	877.1	1,007.4	689.0
Paris Club	776.7	832.4	888.2	943.9	880.1	841.9	803.2	761.8	732.1	809.4	595.3
Other official bilateral and commercial	213.6	231.7	249.8	267.9	246.0	219.6	193.8	168.6	145.0	198.0	93.7
4. Multilateral	1,568.8	1,500.7	1,517.6	1,400.4	1,261.8	1,225.9	1,184.1	1,144.2	1,103.3	1,242.9	788.9
5. NPV of new debt	0.0	78.4	177.9	300.0	549.0	767.6	955.1	1,147.6	1,343.3	859.1	3,104.3
Memorandum items:											
NPV of total debt-to-exports ratio 5/ 9/	110.3	107.2	106.4	95.4	83.9	76.9	70.1	64.8	60.9	77.9	43.9
NPV of existing debt-to-exports ratio (in percent)	110.3	104.0	99.7	85.6	68.2	57.6	48.7	41.7	36.3	60.2	15.1
NPV of total debt-to-revenues ratio (in percent)	250.0	231.5	212.5	191.4	170.4	156.7	142.3	134.2	124.7	159.0	81.1
NPV of existing debt-to-revenues ratio (in percent)	250.0	224.7	199.1	171.7	138.5	117.3	99.0	86.4	74.3	123.2	28.2

Sources: Honduran authorities; and staff estimates and projections.

1/ Refers to public and publicly guaranteed external debt only. Existing debt is as of December 31, 1999.

2/ As defined in IMF, *Balance of Payments Manual* (5th ed.), 1993.

3/ Backward-looking average (e.g., average over 1997-99 for exports in 1999).

4/ Revenues are defined as central government revenues, excluding grants.

5/ NPV of debt in percent of three-year average of exports of goods and services.

6/ Assumes full use of traditional debt-relief mechanisms, i.e., a Paris Club stock-of-debt operation on Naples terms (67 percent NPV reduction) at end-December 1999, and at least comparable action by other official bilateral and commercial creditors.

7/ Discounted on the basis of the average commercial interest reference rate for the respective currency, derived over the six-month period prior to end-December 1999. The conversion of currency-specific NPVs into U.S. dollars occurs for all years at the December 1999 exchange rate.

8/ The completion point is assumed to be reached in July 2002; HIPC Initiative assistance is assumed to be committed and delivered unconditionally thereafter. The NPV of debt for 2000 and 2001 shows only the effect of interim assistance.

9/ The NPV of debt for 2000 and 2001 shows not only the impact of all interim relief, but also the impact of relief assumed to be delivered after the completion point (assumed to be in July 2002).

Table 6. Honduras: Discount and Exchange Rate Assumptions, End-December 1999

Currency	Discount Rates 1/ (In percent)	Exchange Rates 2/ (Currency per U.S. dollar)
Belgian franc	5.47	40.2
Bolivianos	5.59	6.0
Canadian dollar	6.67	1.4
Chinese yuan	5.59	8.3
Danish kroner	5.32	7.4
Deutsche mark	5.47	1.9
European Currency Unit	5.47	1.0
French franc	5.47	6.5
Great British sterling	6.70	0.6
Italian lira	5.47	1,927.4
Japanese yen	1.98	102.2
Kuwaiti dinar	5.59	0.3
Lempira	5.59	14.5
Netherland guilders	5.47	2.2
Portugese escudo	5.47	199.6
Spanish peseta	5.47	165.6
Special drawing rights	5.59	0.7
Swedish kroner	5.80	8.5
Swiss franc	4.27	1.6
Unit of account	5.59	0.6
United States dollar	7.04	1.0

Sources: OECD; and IMF, *International Financial Statistics* .

1/ The discount rates used are the average commercial interest reference rates for the respective currencies over the six-month period ended December 1999.

2/ The exchange rates are those at the base date (end-December 1999).

Table 7. Honduras: Main Macroeconomic Indicators

(Average annual percentage changes, unless otherwise indicated)

	1996-1999	Projections			
		2000-2002	2003-2005	2006-2009	2010-2119
Per capita GDP (in 1998 US\$) 1/	838	898	999	1,163	1,768
GDP (in millions of US\$) 1/	5,387	6,649	8,479	11,723	26,355
GDP (in millions of lempira)	76,563	115,946	165,048	249,913	672,100
GDP deflator	16.9	9.0	6.1	5.0	4.2
Real GDP	2.4	5.3	6.0	6.0	6.0
Population	2.8	2.6	2.3	2.0	1.6
Real per capita GDP	-0.4	2.7	3.6	3.9	4.4
Real exports of goods (in dollar terms)	3.5	15.6	10.5	7.5	7.5
Real imports of goods (in dollar terms)	15.1	9.1	9.0	7.0	7.0
Current account deficit 2/	3.5	7.1	5.7	5.1	4.8
Capital account surplus 2/	4.1	6.6	7.0	6.6	5.9
Gross reserves in months of imports 1/	4.2	3.8	3.4	3.1	2.5
<u>Investments 2/</u>	<u>23.7</u>	<u>27.8</u>	<u>28.1</u>	<u>28.1</u>	<u>28.1</u>
Public sector	6.7	8.8	7.5	7.5	7.5
Private sector	17.0	19.1	20.6	20.6	20.6
<u>Savings 2/</u>	<u>20.3</u>	<u>20.7</u>	<u>24.9</u>	<u>25.1</u>	<u>24.9</u>
Public sector	5.9	5.8	6.8	6.8	6.8
Private sector	14.5	14.8	18.1	18.3	18.1
<u>Central government balance 2/</u>	<u>-3.1</u>	<u>-7.0</u>	<u>-5.1</u>	<u>-2.3</u>	<u>-1.0</u>
Revenue (excl. grants)	18.0	19.0	19.0	19.0	19.0
Expenditure	21.1	26.0	24.1	21.3	20.0
Terms of trade	-1.5	1.1	0.2	0.0	0.0

Sources: Data provided by the Honduran authorities; and staff estimates.

1/ End of period.

2/ Period average; in percent of GDP.

Table 8. Honduras: Balance of Payments Projections, 1999-2019

	Prel.	Projections										Averages	
	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2000-2009	2010-2019
(In millions of U.S. dollars)													
Current account	-249	-504	-427	-375	-470	-437	-414	-453	-493	-537	-587	-470	-903
Balance of goods and services	-745	-882	-766	-719	-758	-722	-696	-730	-764	-799	-833	-767	-1,006
Exports 1/	2,312	2,610	3,066	3,484	3,955	4,479	4,996	5,446	5,936	6,471	7,053	4,750	11,684
Imports	-3,057	-3,492	-3,832	-4,203	-4,712	-5,201	-5,692	-6,176	-6,700	-7,269	-7,887	-5,516	-12,690
Public sector interest debits	-161	-136	-129	-94	-129	-127	-126	-128	-128	-131	-139	-127	-201
Other income (net)	3	2	-9	-14	-46	-61	-76	-91	-108	-125	-145	-67	-298
Transfers (net)	654	511	477	452	463	473	484	495	507	519	530	491	602
Capital account	321	355	424	444	559	526	552	591	656	700	775	558	1,088
Public sector (net)	192	72	141	160	343	291	298	315	357	376	423	278	524
Disbursements	399	285	317	350	556	507	501	517	517	492	559	460	823
Amortizations 2/	-207	-213	-177	-191	-213	-216	-203	-202	-160	-116	-136	-183	-299
Private sector (net) 3/	129	283	283	284	216	235	254	276	299	324	352	281	564
Overall balance	123	-149	-3	69	89	89	139	138	163	163	187	89	185
Net international reserves (- increase)	-342	0	-100	-125	-89	-89	-139	-138	-163	-163	-187	-119	-185
Exceptional financing	218	149	103	0	0	0	0	0	0	0	0	25	0
(In percent of GDP)													
Current account	-4.6	-8.8	-6.9	-5.6	-6.5	-5.6	-4.9	-4.9	-4.9	-5.0	-5.0	-5.8	-4.8
Balance of goods and services	-13.8	-15.5	-12.4	-10.8	-10.5	-9.2	-8.2	-7.9	-7.7	-7.4	-7.1	-9.7	-5.5
Exports 1/	42.9	45.7	49.8	52.4	54.8	57.3	58.9	59.2	59.5	59.9	60.2	55.8	61.9
Imports	-56.8	-61.2	-62.2	-63.2	-65.4	-66.5	-67.1	-67.2	-67.2	-67.2	-67.3	-65.5	-67.5
Public sector interest debits	-3.0	-2.4	-2.1	-1.4	-1.8	-1.6	-1.5	-1.4	-1.3	-1.2	-1.2	-1.6	-1.1
Other income (net)	0.1	0.0	-0.1	-0.2	-0.6	-0.8	-0.9	-1.0	-1.1	-1.2	-1.2	-0.7	-1.5
Transfers (net)	12.1	9.0	7.8	6.8	6.4	6.1	5.7	5.4	5.1	4.8	4.5	6.1	3.3
Capital account	6.0	6.2	6.9	6.7	7.8	6.7	6.5	6.4	6.6	6.5	6.6	6.7	5.9
Public sector (net) 3/	3.6	1.3	2.3	2.4	4.8	3.7	3.5	3.4	3.6	3.5	3.6	3.2	2.9
Disbursements	7.4	5.0	5.2	5.3	7.7	6.5	5.9	5.6	5.2	4.6	4.8	5.6	4.4
Amortizations	-3.8	-3.7	-2.9	-2.9	-3.0	-2.8	-2.4	-2.2	-1.6	-1.1	-1.2	-2.4	-1.5
Private sector (net) 4/	2.4	5.0	4.6	4.3	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.5	3.0
Overall balance	2.3	-2.6	0.0	1.0	1.2	1.1	1.6	1.5	1.6	1.5	1.6	0.9	1.0
Memorandum items:													
Gross reserves end of period in months of next year's imports of goods and services	4.2	3.9	3.9	3.8	3.5	3.4	3.4	3.3	3.2	3.2	3.1	3.5	2.9
Amortizations falling due 5/	31.8	32.4	33.8	32.7	31.4	31.3	31.2	32.7	34.4	32.7	31.5	32.4	33.1

Sources: Central Bank of Honduras; and staff estimates and projections.

1/ Exports from the *maquila* industry are included on a net basis.

2/ Includes new borrowing from multilaterals and official bilateral all on concessional terms.

3/ Balance of payments presentation.

4/ Including FDI and banking system.

5/ Excluding deposits held by non-residents, but including stock of debt acquired domestically by nonresidents.

Table 9. Honduras: External Debt Indicators - Baseline Scenario and Sensitivity Analysis, 1999-2019 1/

	1999	Projected								Average	
		2000	2001	2002	2003	2004	2005	2006	2007	2000-09	2010-2019
Base line BOP											
Net present value (NPV) of debt before rescheduling	3,296.5	3,188.1	3,116.5	3,024.0	3,053.0	3,075.9	3,079.0	3,103.7	3,151.5	3,132.6	4,272.2
NPV of debt-to-government revenues 2/	322.0	279.3	233.7	198.7	177.1	157.8	139.7	129.2	118.2	164.4	75.3
NPV of debt-to-exports ratio 3/	142.0	129.3	117.0	99.0	87.2	77.4	68.8	62.4	57.7	80.4	40.8
NPV of debt after traditional debt relief mechanisms 4/	3,114.7	3,078.1	3,170.1	3,220.6	3,278.0	3,306.9	3,306.6	3,305.6	3,337.0	3,296.8	4,561.7
NPV of debt-to-government revenues	304.3	269.6	237.7	211.7	190.2	169.6	150.0	137.6	125.2	171.6	80.5
NPV of debt-to-exports ratio	134.2	124.8	119.1	105.5	93.6	83.2	73.9	66.5	61.1	84.0	43.6
NPV of debt after enhanced HIPC Initiative 5/	3,295.5	2,915.2	3,156.9	2,912.1	2,936.9	3,055.0	3,136.2	3,222.1	3,323.6	3,169.0	4,582.1
NPV of debt-to-government revenues	321.9	248.5	223.4	171.7	138.5	117.3	99.0	86.4	74.3	128.0	28.2
NPV of debt-to-exports ratio	142.0	118.2	118.6	95.4	83.9	76.9	70.1	64.8	60.9	80.2	43.9
Sensitivity analysis											
NPV of debt before rescheduling relative to exports in case of:											
-lower growth 6/	142.0	129.3	117.4	98.8	87.1	77.7	70.1	64.5	60.5	75.2	46.7
-adverse terms of trade 7/	142.0	129.3	118.9	102.2	92.9	85.4	78.2	72.0	66.6	76.9	45.8

Sources: Honduran authorities; and staff estimates.

1/ All debt indicators refer to public and publicly guaranteed debt.

2/ Revenues are defined as central government revenues, excluding grants.

3/ Three-year backward-looking average of exports of goods and nonfactor services.

4/ After the application of a stock-of-debt under Naples terms achieving a reduction in NPV terms of 67 percent.

5/ The completion point is assumed to be reached in July 2002; HIPC Initiative assistance is assumed to be committed and delivered unconditionally from then. The NVP of debt for 2000 and 2001 shows only the effect of interim assistance.

6/ Assumes 1.5 percentage points lower export growth compared to base line scenario starting in 2001.

7/ Assumes a 6 percent deterioration in terms of trade between 2001 and 2004.

Table 10. Honduras: Projected Assistance Under the HIPC Initiative 1/

NPV of Debt-to-Revenue-Target (In Percent)	Assuming a Decision Point in July 2000 2/			Common Reduction Factor at the Decision Point 4/ (In Percent)	Required NPV Debt Reduction on Comparable Treatment on Bilateral Debt Based on Overall Exposure (In Percent)
	Total Assistance (In millions of U.S. dollars)	Bilateral 3/	Multilateral		
250	<u>556</u>	215	340	17.8	74
Memorandum items:					
NPV of debt 5/	3,115	1,207	1,908		
Paris Club	945				73
<i>Of which</i> : pre-cutoff non-official development assistance (ODA)	240				90
Non-Paris Club bilaterals	246				73
<i>Of which</i> : pre-cutoff non-official development assistance (ODA)	1				117
Commercial creditors (all reschedulable)	15				
Central government revenue 5/	1,024				
Exports-to-GDP ratio 6/	45				
NPV of debt-to-revenue ratio	304				
Revenues-to-GDP ratio 6/	18				

Sources: Honduran authorities and staff estimates and projections.

1/ The proportional burden sharing approach is described in "HIPC Initiative--Estimated Costs and Burden Sharing Approaches" (EBS/97/127, 7/7/97) and IDA/SEC M 97-306, 7/7/97).

2/ Applies a hypothetical stock-of-debt operation on Naples terms and appropriate comparable treatment by other official bilateral creditors at end-December 1999.

3/ Includes official bilateral creditors and commercial debt.

4/ Each multilateral's NPV reduction at the completion point in percent of its exposure at the decision point.

5/ Based on the 1999 government revenue excluding grants converted at end-1999 exchange rate.

6/ Uses the latest annual data at the decision point on the 1997-1999 average values of exports of goods and nonfactor services, GDP and central government revenues.

Table 11. Honduras: Possible Delivery of IDA Assistance Under the HIPC Initiative 1/

(In millions of U.S. Dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Debt service to IBRD before HIPC	49	36	33	29	22	21	20	17	16	7	6
Debt service to IBRD after HIPC	39	18	9	3	1	1	1	1	1	1	1
Relief	10	18	24	26	21	20	19	16	15	6	5
Percentage reduction	21%	50%	73%	88%	96%	96%	96%	95%	95%	87%	86%

1/ The assistance would be first delivered through a IDA grant covering 50 percent of IBRD debt service during the interim period and second through a IDA credit used to prepay IBRD debt outstanding to cover the remaining NPV relief at the completion point.

Table 12. Honduras: Possible Delivery of IMF Assistance under the HIPC Initiative 1/

(In millions of US dollars, unless otherwise indicated)

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Delivery schedule of IMF assistance (in percent of total assistance)	15	15	20	15	10	10	10	5	0	0
Debt Service due on current IMF obligations 2/ <i>Of which:</i> Principal	5.7	14.1	45.2	41.8	15.1	25.9	21.7	21.6	21.5	13.4
Interest	3.2	9.0	40.7	38.9	13.4	24.3	20.3	20.3	20.3	12.3
	2.5	5.0	4.5	2.9	1.7	1.5	1.4	1.3	1.2	1.1
IMF assistance--deposits into Honduras' account										
Interim assistance	4.5	4.5								
Completion point assistance			21.2 /3							
IMF assistance under the HIPC Initiative--drawdown schedule 4/ <i>Of which:</i> IMF assistance without interest	2.3	4.6	6.9	6.8	5.4	4.2	4.0	1.4	0.0	0.0
Estimated interest earnings	2.3	4.5	5.9	5.5	3.6	3.6	3.6	1.2	0.0	0.0
	0.0	0.1	1.0	1.4	1.7	0.5	0.4	0.2	0.0	0.0
Debt service due on current IMF obligations after IMF assistance 5/	3.4	9.5	38.4	34.9	9.7	21.7	17.7	20.2	21.5	13.4
Share of debt service due on current IMF obligations covered by IMF assistance (in percent) 4/	39.8	32.8	15.2	16.4	35.5	16.2	18.4	6.4	0.0	0.0
Memorandum items:										
Proportion of each repayment falling due during the period to be paid by HIPC Initiative assistance from the principal deposited in Honduras' account	71.8	50.3	14.5	14.0	27.1	14.9	17.9	6.0	0.0	
Total debt service due 6/	307.4	298.6	330.2	327.5	288.0	276.7	267.2	244.3	210.9	181.9
Share of total debt service covered by IMF assistance (in percent) 4/	0.7	1.5	2.1	2.1	1.9	1.5	1.5	0.6	0.0	0.0
Debt service due on current IMF obligations after IMF assistance 4/ (in percent of exports)	0.1	0.3	1.1	0.9	0.2	0.4	0.3	0.3	0.3	0.2

1/ Total IMF assistance under the HIPC Initiative is US\$ 30.30 million calculated on the basis of data available at the decision point, excluding interest earned on the Honduras' account and on committed but undisbursed amounts as described in footnotes 3 and 4.

2/ As of June 30, 2000, using the latest US\$/SDR exchange rate available.

3/ Remaining amount of assistance assumed to be disbursed into Honduras' account at the assumed completion point in July 2002, which is reflected in the calculation of interest.

4/ Assistance shown for CY2000 is for 6 months only. Includes estimated interest earnings on: (1) amounts held in Honduras' account; and (2), up to the completion point, amounts committed but not yet disbursed. It is assumed that these amounts earn a rate of return of 5.25 percent in U.S. dollar terms; actual interest earnings may be higher or lower. Interest accrued on (1) during a calendar year will be used toward the first repayment obligation(s) falling due in the following calendar year except in the final year, when it will be used toward payment of the final obligation(s) falling due in that year. Interest accrued on (2) during the interim period will be used toward the repayment of obligations falling due during the three years after the completion point. The completion point is assumed to be in July 2002.

5/ Total obligations less HIPC Initiative assistance.

6/ After traditional debt relief mechanisms.

Table 13. Honduras: External Debt Service Before and After Traditional Debt Relief, 2000-2019

(In millions of U.S. dollars, unless otherwise indicated)

	Est.	Projections						Average		
	2000	2001	2002	2003	2004	2005	2006	2007	2000-09	2010-2019
Total debt service before 1/	200.7	205.3	346.2	494.4	462.5	445.1	424.8	349.9	353.3	497.7
Principal	115.6	124.2	227.2	352.0	328.2	317.9	300.4	228.2	234.3	305.7
Multilateral	115.0	123.6	166.2	170.7	147.2	146.0	143.2	133.1	135.0	89.2
<i>Of which</i>										
New debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	25.1
Official bilateral	0.6	0.6	61.0	181.3	180.9	171.8	157.2	95.1	99.3	216.5
Paris Club	0.0	0.0	45.5	142.7	145.7	137.4	123.0	70.9	75.1	34.0
<i>Of which</i>										
Official development assistance (ODA)	0.0	0.0	19.1	52.8	56.1	55.8	56.0	36.2	34.3	21.5
Non-Paris Club	0.6	0.6	14.7	32.9	29.6	28.7	27.9	19.8	17.8	6.9
Commercial	0.0	0.0	0.8	5.7	5.7	5.7	5.2	2.2	2.5	0.0
New debt	0.0	0.0	0.0	0.0	0.0	0.0	1.1	2.2	3.8	175.6
Interest	85.0	81.0	118.9	142.4	134.4	127.3	124.4	121.6	119.0	192.0
Multilateral	83.9	78.2	71.5	64.6	58.0	52.2	49.2	45.1	58.4	41.5
<i>Of which</i>										
New debt	0.0	0.5	1.2	3.3	5.5	7.7	9.8	12.0	7.1	27.2
Official bilateral	1.2	2.8	47.4	77.8	76.4	75.1	75.2	76.6	60.5	150.5
Paris Club	0.5	1.5	32.6	49.0	41.1	33.3	26.4	20.7	24.2	12.4
<i>Of which</i>										
Official development assistance (ODA)	0.1	0.3	14.6	21.4	19.7	17.8	16.0	14.4	13.0	7.6
Non-Paris Club	0.1	0.3	12.1	15.5	13.9	12.3	10.9	9.4	9.1	6.4
Commercial	0.1	0.2	1.4	2.0	1.5	1.0	0.5	0.1	0.7	0.2
New debt	0.4	0.8	1.3	11.3	20.0	28.5	37.5	46.4	26.5	131.6
Total debt service after 2/	200.4	204.3	302.3	389.3	363.6	360.5	360.5	320.4	308.1	513.8
Memorandum items:										
Exports of goods and nonfactor services	2,610	3,066	3,484	3,955	4,479	4,996	5,446	5,936	4,750	11,684
Debt-service ratio before rescheduling (in percent)	7.7	6.7	9.9	12.5	10.3	8.9	7.8	5.9	7.9	4.3
Debt-service ratio after rescheduling (in percent)	7.7	6.7	8.7	9.8	8.1	7.2	6.6	5.4	6.9	4.4

Sources: Honduran authorities; and staff estimates and projections.

1/ On a scheduled basis; as of end-1999. Debt service is shown before debt relief, but exclusive of debt service on rescheduled debt.

2/ Assumes a stock-of-debt operation on Naples terms at end-December 1999 and at least comparable treatment from other official bilateral creditors.

Table 14. Honduras: External Debt Service After Enhanced HIPC Initiative, 2000-2019 1/

(In millions of U.S. dollars, unless otherwise specified)

	Projections								Averages	
	2000	2001	2002	2003	2004	2005	2006	2007	2000-09	2010-2019
Total debt service after 1/	166.6	134.1	209.5	276.1	246.5	258.3	263.5	246.5	232.0	499.3
Principal	89.2	70.9	125.6	169.3	137.4	144.4	143.4	120.6	124.6	292.0
Multilateral	88.6	70.3	99.1	95.4	63.7	71.2	69.8	72.1	77.2	89.6
<i>Of which:</i>										
IMF	1.9	6.1	34.5	32.5	8.6	20.4	16.5	19.0	17.2	0.0
World Bank	29.3	15.6	12.0	10.2	10.5	11.0	13.3	13.4	14.8	26.3
New debt	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.3	0.3	25.1
Official bilateral	0.6	0.6	26.5	73.9	73.7	73.2	73.6	48.5	47.3	202.3
Paris Club	0.0	0.0	12.5	41.4	44.4	44.7	44.8	26.6	25.9	19.9
<i>Of which</i>										
Official development assistance (ODA)	0.0	0.0	7.7	25.4	28.6	28.3	28.4	19.5	17.5	13.6
Non-Paris Club	0.6	0.6	14.0	32.5	29.3	28.5	27.6	19.7	17.6	6.9
Commercial	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
New debt	0.0	0.0	0.0	0.0	0.0	0.0	1.1	2.2	3.8	175.6
Interest	77.4	63.2	83.8	106.9	109.0	113.9	120.1	125.9	107.4	207.4
Multilateral	75.7	59.5	54.0	50.5	47.2	46.8	47.2	47.0	52.1	50.9
<i>Of which:</i>										
IMF	1.5	3.4	3.8	2.4	1.1	1.3	1.2	1.2	1.8	0.0
World Bank	17.8	12.6	9.0	7.8	7.0	6.9	6.8	6.7	8.8	5.5
New debt	0.0	0.5	1.2	3.3	5.5	7.7	9.8	12.0	7.1	27.2
Official bilateral	1.7	3.7	29.8	56.4	61.8	67.1	72.9	78.9	55.3	156.5
Paris Club	0.9	1.9	16.5	29.7	28.0	26.3	24.6	23.1	19.5	18.6
<i>Of which</i>										
Official development assistance (ODA)	0.1	0.2	8.5	17.1	16.6	16.1	15.6	15.1	11.9	13.0
Non-Paris Club	0.1	0.3	12.0	15.5	13.8	12.3	10.8	9.4	9.1	6.3
Commercial	0.3	0.7	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.0
New debt	0.4	0.8	1.3	11.3	20.0	28.5	37.5	46.4	26.5	131.6
Total debt service before 2/	200.7	205.3	346.2	494.4	462.5	445.1	424.8	349.9	353.3	497.7
Memorandum items:										
Exports of goods and nonfactor services	2,610	3,066	3,484	3,955	4,479	4,996	5,446	5,936	4,750	11,684
Debt-service ratio before rescheduling (in percent)	7.7	6.7	9.9	12.5	10.3	8.9	7.8	5.9	7.4	4.3
Debt-service ratio after rescheduling (in percent)	6.4	4.4	6.0	7.0	5.5	5.2	4.8	4.2	4.9	4.3

Sources: Honduran authorities; and staff estimates and projections.

1/ Debt service is shown after enhanced HIPC Initiative debt relief inclusive of interim assistance assumed to be delivered by IDA, IMF, IDB, CABEL and Opec Fund. The completion point is assumed in July 2002.

2/ On a scheduled basis; as of end-1999. Debt service is shown before debt relief, but exclusive of debt service on rescheduled debt.

Table 15. Honduras: Additional HIPC Funds for Use in the Central Government's Poverty Reduction Support Fund

	Proposed Additional Funds			Total Central Government Spending (including HIPC Funds)			
	2000 proposed	2001	2002	1999 prel.	2000 projected	2001 projected	2002
	(In percent of total HIPC debt service relief)			(In percent of GDP)			
SOURCES							
Multilateral interim debt service relief	100	100	100				
Central government multilateral debt service after HIPC relief				3.6	2.9	2.1	2.3
World Bank (IBRD and IDA)	29	25	29				
IMF (transferred by BCH)	16	5	8				
CABEI	39	44	40				
IDB	15	23	21				
Other	2	2	2				
USES							
Preliminary allocation of HIPC interim debt relief funds 1/	100	100	100				
Total central government expenditures on specific poverty reduction programs 2/				5.7	8.6	7.5	7.7
Basic Education	47	28	24	2.8	3.8	4.1	4.1
Hiring of 1,000 teachers for unimodal schools	9	5	4	2.7	3.3	3.8	3.8
PROHECO schools project	23	15	12	0.0	0.3	0.2	0.2
Primary schools breakfast	4	2	2	0.0	0.0	0.0	0.0
'Amplinado Horizontes': Computers for schools	3	1	1	0.0	0.0	0.0	0.0
Basic Education centers and vocational training	9	5	4	0.1	0.2	0.1	0.1
Health	22	22	6	1.0	1.2	0.6	0.4
Medicines and surgical medical equipment	12	5	4	0.4	0.6	0.1	0.0
SANAA: for municipal water projects administered by IDB	3	1	1	0.6	0.5	0.4	0.3
Hospital in Tela	1	14	0	0.0	0.0	0.2	0.0
IHSS	7	2	1	0.0	0.1	0.0	0.0
Programs for Handicapped	1	0	0	0.0	0.0	0.0	0.0
Social Safety Net	19	27	43	1.6	3.3	2.1	2.4
PRAF	10	8	7	0.2	0.4	0.3	0.3
FHIS	0	12	14	1.3	2.6	1.5	1.7
Low income housing	6	4	20	0.0	0.2	0.1	0.3
Scholarship and employment programs	3	3	3	0.1	0.1	0.1	0.1
Rural Development Programs	0	3	2	0.02	0.09	0.18	0.18
Municipal development	1	0	0	0.00	0.01	0.05	0.06
Human development	3	1	1	0.00	0.03	0.02	0.02
Environment	1	1	1	0.10	0.03	0.03	0.03
Rural electrification in marginal areas	1	9	13	0.07	0.05	0.27	0.40
Management of funds	5	9	9	0.07	0.11	0.10	0.11
Auditing (2.5 percent of poverty fund)	1	3	3	0.07	0.09	0.03	0.03
Poverty consulting and Monitoring (2 percent of poverty fund)	1	2	2	0.00	0.01	0.02	0.03
Income and Expenditure Survey (2 percent of poverty fund)	1	2	2	0.00	0.01	0.02	0.03
Population and Housing Census (2 percent of poverty fund)	1	2	2	0.00	0.01	0.02	0.03
PRSP elaboration (0.5 percent of poverty fund in 2000)	1	...	...	...	...	...	...
Other (including funds not yet allocated)	1	0	1	...	...	...	...
Contingency for delays	0	0	0	...	...	...	...
Memorandum items:							
Total HIPC debt service relief							
in millions of current lempira	533	1,178	1,462				
in percent of GDP	0.6	1.2	1.3				
as a percent of total central government expenditures	2.2	4.4	4.9				
as a percent of central government social expenditures	5.0	10.0	9.9				
Percent of debt relief allocated and classified as central government current expenditures	65.0	30.5	26.4				
Share of HIPC interest payments relief in total NFPS interest payments	13.6	34.9	23.5				

Source: Ministry of Finance of Honduras; and staff estimates

1/ See appendix III for a more detailed explanation of the poverty programs proposed below.

2/ Last four columns (1999-2002) refer to projected expenditure on each specified poverty program after HIPC debt relief (equivalent to projected expenditure before debt relief plus additional expenditure on each program using HIPC interim relief). All as a percent of GDP.

Table 16. Honduras: Central Government Operations Before and After HIPC Interim Debt Relief, 1999-2002

(In percent of GDP)

	Prel. 1999	Projections					
		Before HIPC Debt Relief 1/			After HIPC Debt Relief 2/		
		2000	2001	2002	2000	2001	2002
Total revenue	19.7	20.1	19.3	19.1	20.6	20.1	20.1
Current revenue	19.4	18.8	19.1	19.0	18.9	19.1	19.1
Tax revenue	17.8	17.6	17.9	17.8	17.6	17.9	17.8
Direct taxes	4.0	4.1	4.3	4.3	4.1	4.3	4.3
Property and income	3.9	4.0	4.3	4.3	4.0	4.3	4.3
Net assets	0.1	0.1	0.0	0.0	0.1	0.0	0.0
Indirect taxes	13.7	13.5	13.6	13.5	13.5	13.6	13.5
Goods and services	11.2	11.1	11.2	11.2	11.1	11.2	11.2
Sales	6.1	6.2	6.2	6.2	6.2	6.2	6.2
Other	5.0	4.9	5.0	5.0	4.9	5.0	5.0
International trade	2.6	2.4	2.3	2.3	2.4	2.3	2.3
Import	2.5	2.4	2.3	2.3	2.4	2.3	2.3
Export	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Nontax revenue	1.1	0.7	1.0	1.0	0.7	1.0	1.0
Transfers 3/	0.5	0.6	0.2	0.2	0.7	0.3	0.3
Grants	0.3	1.3	0.1	0.1	1.7	1.0	1.0
<i>Of which</i>							
HIPC interim relief on non-IMF debt principal payments					0.4	0.8	0.9
Current primary expenditure	14.5	14.9	14.7	14.2	15.3	15.3	14.7
Wages and salaries 4/	8.0	9.0	9.3	8.8	9.2	9.5	9.0
Goods and services	2.2	2.4	2.4	2.4	2.5	2.6	2.6
Current transfers 5/	4.2	3.4	3.0	3.0	3.6	3.2	3.2
Current primary balance	4.9	4.0	4.4	4.8	3.6	3.9	4.4
Capital expenditure	6.0	8.8	8.1	8.1	8.9	8.7	8.8
Fixed investment	2.8	4.1	4.3	4.4	4.2	4.5	4.5
Capital transfers 6/	3.2	4.6	3.8	3.7	4.7	4.2	4.3
Net lending	1.2	1.1	0.6	0.6	1.1	0.6	0.6
ENEE and municipalities	0.2	0.3	0.2	0.2	0.3	0.2	0.2
Other (including FONAPROVI)	1.0	0.7	0.4	0.4	0.7	0.4	0.4
Total primary expenditure	21.7	24.7	23.4	22.9	25.3	24.6	24.1
Primary balance	-2.0	-4.6	-4.1	-3.8	-4.7	-4.4	-4.0
Interest obligations	2.1	2.2	2.1	2.1	2.1	1.8	1.9
External 7/	1.4	1.7	1.7	1.7	1.6	1.4	1.5
Internal	0.6	0.5	0.4	0.4	0.5	0.4	0.4
Current account balance	2.8	1.8	2.3	2.7	1.6	2.1	2.5
Overall balance before grants	-4.4	-8.0	-6.4	-6.0	-8.4	-7.2	-6.9
Overall balance after grants	-4.0	-6.8	-6.2	-5.9	-6.8	-6.2	-5.9
		(As a percent of GDP)					
Memorandum items:							
Poverty Fund: additional spending (see table 15)		0.0	0.0	0.0	0.6	1.2	1.3
Central government health expenditures	2.1	2.5	2.7	3.0	2.6	3.0	3.0
Central government education expenditures 8/	4.1	5.1	5.3	5.5	5.4	5.6	5.8
Central government social expenditures 9/	8.2	11.5	10.5	11.4	12.1	11.7	12.7

Sources: Ministry of Finance; and staff estimates.

1/ Equivalent to PRGF program projections (EBS/00/77) except for lower social investment of 0.2 percent of GDP in 2001 and 2002 (which had already been accounted for as HIPC relief in the aforementioned program).

2/ Includes debt relief from multilateral creditors and additional poverty reduction expenditures sorted by economic classification.

3/ Includes transfers from BCH on IMF debt relief, to be used for central government-administered poverty reduction support fund.

4/ Includes projected retrenchment costs of 0.1, 0.2, and 0.04 percent of GDP in 2000, 2001, and 2002, respectively.

5/ Includes L 500 million (0.7 percent of GDP) used to compensate depositors of BANCORP in 1999.

6/ The bulk of capital transfers go to municipalities, general government agencies, and public enterprises.

7/ Includes Paris Club interest payments postponed in the aftermath of Mitch (equivalent to roughly 0.6 percent of GDP annually between 1999-2002)

8/ Includes transfers to the universities.

9/ Includes social safety net and rural development programs, health, and education expenditures.

Progress with Structural and Social Reforms in the 1990s¹ and *Challenges Ahead*

Privatization. The role of the private sector has been substantially increased with only a few utilities remaining in the public sector.

- In the early 1990s over 50 public enterprises were privatized.
- In utilities, private sector participation has been increased in electricity generation, road maintenance, airport management, and is expected soon in telecommunications.
- *Main challenges are the privatization of electricity distribution, management of water distribution and sea ports, and the development of competent regulatory bodies.*

Public sector management. The government has taken steps to ensure better fiscal management and to reform the civil service with a view to improve the efficiency of public administration, including procurement and personnel management.

- Public Sector Modernization Law approved in the early 1990s, improving the organization of the public sector, developing a consistent legal framework, and rationalizing public employment.
- Comprehensive reclassification of positions and decompression of salary scales in about half of civil service, improved procurement procedures, and external auditing of use of aid funds.
- In fiscal management, there have been improvements in budgetary planning and execution, and an integrated system of financial information has been established. All public external borrowing has been subjected to prior authorization from the ministry of finance since 1996.
- *Main challenges are the design of a comprehensive civil service reform including wage setting criteria, the incorporation of the remainder of central government employees into the civil service reform process, and the expansion of the financial management system, already implemented in six line ministries, to the rest of the public sector.*

Governance. Initial steps have been taken to improve governance.

- Contracting of the services of external auditors to ensure full accountability and transparency in the use of external resources for the relief and reconstruction efforts.

¹ More details on the various programs can be found in the Preliminary HIPC document.

- Strengthening of control mechanisms such as the Offices of the Comptroller General and of Administrative Probity.
- Improved public procurement procedures.
- Commitment to gradually apply IMF's Fiscal and Monetary Codes of Transparency.
- Deregulation of the business environment to lower incentives for corruption.
- *Main challenges are the development of a comprehensive anticorruption strategy and the development and implementation of a strategy for judicial reform.*

Financial and monetary sector. Steps have been taken to liberalize financial markets and improve their supervision and the regulatory framework.

- Elimination of direct controls on interest rates, service fees charged by banks, and credit in the early 1990s.
- Gradual introduction of market-based monetary policy instruments, increased independence of the central bank, gradual removal of mandatory (remunerated) investment requirements as of 2000.
- Improved regulatory framework (financial intermediation law, deposit insurance law, regulations governing the operations of insurance companies).
- Improved supervision (regulations issued on banks' connected lending, risk-weighted capital, external indebtedness, and open foreign exchange positions, initiation of onsite inspections of banks and improved procedures).
- *Pending reforms include approval of laws governing the operations of the stock exchange, private pension funds, and permanent deposit insurance scheme.*

Fiscal sector

- Tax structure rationalized in the early 1990s.
- Income tax exemptions for new industries eliminated. Subsidies for coffee, cement, and flour producers eliminated, and subsidies for oil products and public transportation substantially reduced in the mid-1990s.
- A fiscal package bringing Honduras' tax system in line with the rest of Central America introduced in 1998.

- *There is the need for a firmer application of penalties available under the 1997 tax code, and for a broadening of the tax base extending the register of large taxpayers.*

Trade and foreign exchange liberalization

- Gradual liberalization of the trade regime (average simple tariff stands at about 7 percent within a range of 1–55 percent with 13 bands), but dispersion of the tariff remains high resulting in high effective protection rates; remaining nontariff measures affect imports of some agricultural products.
- Liberalization of export restrictions (elimination of export permits, removal of most export taxes).
- Gradual liberalization of foreign exchange transactions over the decade (elimination of foreign exchange certificates, and liberalization of transaction fees).
- *There is a need for further trade liberalization (reduce dispersion of rates and rationalize protection in the agricultural sector) and improvement of exchange rate management (remove surrender requirements, ensure full flexibility of exchange rate within the band, and introduce interbank market in foreign exchange).*

Business environment

- Differential treatment of foreign investors eliminated; approval of the National Mining Law providing for greater private sector participation in 1998.
- Company establishment, and cargo transport regulations to be simplified starting in 2000.
- *Future challenges are judicial reform, revision of the National Mining Law, creation of the Mining Development Agency, production of the new mining and geological map, and elaboration of a mining development plan.*

Health. Primary and preventive health care has improved in the 1990s. Institutional weaknesses need to be addressed.

- Existing nutritional programs were evaluated and an integrated and consolidated long-term strategy established.
- Procurement was consolidated in a special unit in the ministry of health and procurement practices for basic drugs were streamlined.
- A study on the health sector was completed, including epidemiological profiles, as well as an assessment of the primary care system and financing of the sector.

- Maternal/child care, reproductive health, and programs for the prevention of maternal mortality were strengthened.
- AIN (a successful child nutrition pilot program) was launched.
- *Reform the IHSS including separation of the financial accounts of the pension and health funds and revamp the health care and health insurance systems, improve human resource management and strengthen key policy-making purchasing and financing functions of the ministry of health.*
- *Extend coverage and redirect health expenditures in basic health services to the two lowest income quintiles and to rural areas, promote risk-sharing and community cofinancing of benefits complementary to basic services.*

Education. Primary education enrollment has increased in the 1990s. Policies should be geared towards improving the quality of education.

- The share of expenditures devoted to primary education and teaching materials was increased.
- Gender differences eliminated in overall literacy in pre-, primary, and secondary school enrollment.
- Criteria for teacher performance assessment was developed and approved.
- Standardized academic achievement tests on a sample of primary students on an annual basis have been introduced.
- PROHECO program to pilot decentralized management of schools in rural areas by parents, based on successful experiences elsewhere in the region was launched.
- *Implement a broad reform of the system aimed at improving the quality of education.*
- *Raise education enrollment by increasing net primary and secondary enrollment, and rationalize and improve the efficiency of public expenditures on higher education.*
- *Continue promoting community participation in pre- and primary education by giving parents increased responsibility over education of their children (PROHECO).*

Environmental protection and rural development. Barriers to marketing and exporting of agricultural products have been reduced, and a regulatory framework for environmental protection established. Future policies will continue these reforms and will focus on improving the land tenure system.

- Administrative controls and trade permits for agricultural commodities were eliminated.
- A new Agricultural Modernization Law was enacted, covering in particular guarantees to land and forestry property rights, and accelerated titling procedures for smallholders.
- A regulatory framework for the management of timber resources and protected areas was enacted.
- A general environmental law was enacted, and the National Environmental Action Plan was updated.
- Registry of 45,000 parcels created.
- A comprehensive Land Administration System was piloted.
- *Prepare a long-term development strategy that includes land titling, market-assisted land reform, rural credits, restructure forestry agency, and incentives for the maintenance of tertiary roads. Enact new forestry law to reduce red-tape.*
- *Approve new Registry Law (under review by congress).*
- *Improve the management and demarcation of protected areas and support efforts to enhance incomes of communities living in buffer zones.*

Other. PRAF and FHIS established, and the rebuilding of infrastructure and housing construction in the aftermath of Hurricane Mitch and expansion of social programs initiated.

- PRAF, a transfer program, has supported pregnant mothers, poor primary school-aged children, and women with small businesses. Since its creation, PRAF has provided services to 300,000 people per year on average.
- FHIS, the first social investment fund in the region, has demonstrated its ability to operate efficiently, target the poor, and promote participation of local communities throughout the project cycle.
- *Finalize building of 60,000 homes under the PNMRT initiative.*
- *Finalize the rehabilitation and reconstruction of the road network damaged by Hurricane Mitch.*
- *Implement social investment projects on the basis of participatory planning methodologies in all beneficiary municipalities.*
- Improve targeting of PRAF.

Timetable for Preparation and Implementation of the PRSP (Tentative as of July 1, 2000)

December 8, 1999: eligibility for the Enhanced HIPC Initiative is confirmed and work on the PRSP is initiated. A joint Bank-Fund mission presented the guidelines for the PRSP and its relation to the country's request for HIPC eligibility the previous week. Formal guidelines were sent shortly thereafter.

January 13 and January 18, 2000: meetings of the Social Cabinet to explain discussions with the Bank and the Fund and to discuss methodologies and points of view on the PRSP in Honduras.

January 26, 2000: a meeting coordinated by the Ministry of the Presidency with 250 representatives of civil society and other members of the government took place. An outline of the PRSP and its relationship to external debt relief was presented. Five working groups were formed and their input was incorporated into the draft PRSP.

February 16, 2000: second meeting with representatives of civil society was held to discuss the process of preparing the PRSP, including the findings in some of the existing background studies on social expenditure of basic services and the social diagnostic study.

February 25, 2000: preliminary draft of PRSP presented to the Bank and Fund missions and IDB representatives for comments due on February 28.

February 28, 2000: meeting with the Cooperating Group of 8 to report on progress of the PRSP was held.

March 8, 2000: presentation of preliminary document to congress.

March 20–April 12, 2000: dissemination of new draft of PRSP and presentations of the diagnostic assessment in the seven main cities.

April 3–May 15: organization of the consultation process with civil society, and incorporation of its comments, where available, into existing draft document.

May 8-26, 2000: World Bank's PER mission to discuss, among other things, public expenditure management, the medium-term expenditure framework, and use of HIPC funds.

May 22-26, 2000: delegation from Honduras, headed by the minister of finance, met with staffs in Washington to discuss the DSA and the use of HIPC funds for poverty programs.

June 7, 2000: presentation and endorsement of I-PRSP and Joint Staff Assessment (JSA) to the IMF Executive Board.

June 30, 2000: dates for presentation of HIPC decision point document to Executive Boards of Bank and Fund, respectively, including I-PRSP and JSA to World Bank Board.

June 30, 2000: presentation to the Honduran Social Cabinet of the fourth version of the draft PRSP.

July 3–August 4, 2000: second round of consultations to be held at the national level with civil society on the components of the PRSP. This would include technical meetings and general meetings in Tegucigalpa and in the six major cities.

September 4, 2000: presentation to the Social Cabinet of a preliminary draft of the full PRSP, including observations from civil society.

October 10, 2000: presentation of first draft of the full PRSP to the staffs of the IMF, the World Bank, and the IDB for comments, which will be incorporated over the next month together with new findings from ongoing papers and social expenditure studies.

November 15, 2000: presentation of final document to the President of the Republic.

December 2000 and January 2001: submission of document to international financial institutions, and to the G-8.

First quarter of 2001: completion of full PRSP process.

Preliminary Allocation of Additional Social Expenditure for HIPC Relief¹

(Prepared by the Ministry of Finance of Honduras)

June 2, 2000

Basic education expenditure

- Hiring 1,000 additional teachers for unimodal schools to improve teaching quality and raise the learning level of primary school students in rural areas and marginal urban areas.
- Expanding the School Breakfast Program in rural and marginal urban public schools to improve student performance and attention span.
- Additional outlays to Basic Education Centers where compulsory primary education is being extended from 6 to 9 years to support students able to pursue a midlevel education. Under consideration is alternative vocational education to provide educational opportunities for productive work for school-age youth. The above projects aim to expand opportunities rapidly, thereby reducing the high level of school delinquency rates, and to enable students to escape poverty using their own skills.
- Additional financing for the PROHECO project to meet the national counterparts requirements of the IDA credit loan and to provide support for hiring teachers and building schools under the project. The objective of the program is to bring education to the country's more remote communities through community participation.
- Implementation of the project Broadening Horizons (*Ampliando Horizontes*), which involves the purchase, installation, and reallocation of computer hardware and software for educational purposes so that the school-age population can access new technology and young people are trained for future productive work, will be expanded.

Health expenditure

- In the health sector, the focus will be on purchasing medicines and surgical equipment, since all the country's national hospitals, including the Honduran Social Security Institute (IHSS) are experiencing severe shortages of both. Consequently, the

¹ Details are in Table 15.

poor are prevented from requesting medical services and purchasing the medicines prescribed for restoring health.

- Support to various rehabilitation and rebuilding projects under way in the water and sewage sectors, via the SANAA, and to projects to decentralize this service at the municipal level.
- Assistance to the disabled by means of transfers to nonprofit institutions specialized in rehabilitation so that these individuals can perform socially useful work.
- Support for the construction of the Tela area hospital in the Atlántida department, which covers five municipalities with a total population of 147,151 inhabitants, with an epidemiological profile characteristic of the society's poorest.

Safety nets

- Assistance will be focused on the poorest segments of society by strengthening programs for transferring revenue (PRAF) and community infrastructure (FHIS). The additional funds will be allocated based on current poverty maps and by identifying those areas with the highest poverty indices, and to deal with specific groups that include school-age children and mothers who are heads of households. In this case, attempts would be made to improve the targeting methodology and establish objective selection criteria with broad community participation.
- In low-income housing, a sustainable model has to be developed urgently for assigning priority to the formal provision of affordable basic housing for families with limited resources.

Rural development

- Poverty and extreme poverty are largely concentrated in rural areas and affect small farmers, farm workers, and laborers who do not own land, principally in mountainous and valley areas with limited access to the productive resources required to generate sufficient agricultural revenues. Therefore, the government considers it of prime importance to strengthen such programs as the National Fund for Sustainable Rural Development (FONADERS), the Support Program for the Small Peasants of Olancho (PROLANCHO), and the Rural Development Program for the South (PROSOC), and the National Program for Sustainable Rural Development (PRONADERS).

Municipal development

- Increase in support for the decentralization of public services at the municipal level. This will help improve the effectiveness and quality of programs by allowing them greater flexibility and adapting them to actual local conditions. As there are many differences between the municipalities, particularly in regard to technical and

management capabilities, it is expected that the decentralization will take place gradually according to each municipality's absorptive capacity, by means of intermediate actions aimed at strengthening their technical and management capabilities.

Human development

- The gender focus includes, inter alia, measures for improving access to the labor market, farmland purchases by mothers who are heads of households, and education services. In addition, consideration is being given to programs for reducing the high maternal mortality rate and expanding microcredit programs that benefit women, since it is they who have a greater propensity to invest their income in human capital.
- It is also recognized that the ethnic populations must participate effectively in the design and execution of programs connected with rural development, forestry, tourism, and the environment, so as to enable them to benefit from the results of expanding these activities and to guarantee sustainable economic and ecological growth in these sectors, for the benefit of all Hondurans.
- Furthermore, and to cope with the problem of poverty among senior citizens, revenue transfers to institutions and other care centers for seniors are being considered.

Environment

Support to improving and sustaining environmental conditions will be important. This will take place through actions carried out by local governments and civil society with central government cooperation in a participatory and equitable framework. The support would aim at restoring and maintaining ecological, hydrological, and geomorphological processes as quickly as possible, reducing risks and vulnerability to future disasters, and encouraging the sustainable use of natural resources in line with optimal land improvement.

Social infrastructure

The Social Electrification Program will continue throughout the country to provide the rural population access to electricity and improve its quality of life.

Other expenditure

Social reform programs will be supported, especially in the social security system and in expenditure on preventive medicine (large-scale vaccination programs).

External Debt Policy and Debt Management Issues

The government's external debt management strategy is to (i) limit external borrowing to concessional credits; (ii) contract domestic credits on market terms; (iii) seek further debt relief from Paris Club and other bilateral creditors; (iv) strengthen, with IDA support through a second Implementation Development Facility (IDF), the debt management capabilities in the ministry of finance and the central bank; and (v) seek IDA assistance to buy back commercial debts that are currently in arrears.

The legal basis for the contracting of new credits (domestic or external) is governed by the 1991 Law of Public Credit. The law vests the implementation of public debt policies with the ministry of finance and the central bank, but since 1993 this has been delegated to a National Commission of Public Credit (in which the ministry and central bank are represented). In 1996 a presidential decree (PCM-018-96) established legally binding constraints on the contracting of new external public sector debt. According to the decree, new borrowing can be contracted only if the grant element of the loan is at least 35 percent (using OECD's commercial interest reference rates as discount rates) and the maturity and grace period are at least 14 and 6 years, respectively. In exceptional circumstances the minister of finance may, upon the recommendation of the National Commission of Public Credit, accept loans which are less concessional. However, no nonconcessional borrowing is contemplated under the current PRGF arrangement. Since 1991, the government has borrowed from the World Bank Group only on IDA terms, and since 1995 borrowing from the IDB has been exclusively from the Fund for Special Operations, IDB's concessional window. Borrowing from CABEI is also on concessional terms.

Since 1996, the government has implemented programs to strengthen external debt management. Between 1996–1998 two IDF grants financed the introduction and improvements in the SYGADE debt management system (from single- to multi-user systems). Subsequently, Hurricane Mitch seriously damaged the ministry of finance's computer facilities, and also destroyed almost all documents. Since then, with additional support from UNCTAD, U.S. AID, UNDP, and Switzerland, the computer equipment was replaced and the new SYGADE software installed. Despite the severe disruption, debt management in 1999 was sound and good relations were maintained with all creditors. A project for linking the computer systems of the ministry of finance and the central bank in order to facilitate the exchange of information is near completion.

Honduras: HIPC Initiative-- Status of Country Cases Considered Under the Initiative, May 2000

Country	Decision Point	Completion Point	NPV of Debt-to-Export Target (in percent)	Assistance Levels 1/ (In millions of U.S. dollars, Present Value)					Percentage Reduction in NPV of Debt 2/	Estimated Total Nominal Debt Service Relief (In millions of U.S. dollars)	Satisfactory Assurances from Other Creditors
				Total	Bilateral	Multi-lateral	IMF	World Bank			
Completion point reached under enhanced framework											
Uganda				1,003	183	820	160	517		1,950	
<i>original framework</i>	<i>Apr. 97</i>	<i>Apr. 98</i>	202	347	73	274	69	160	20		<i>Received</i>
<i>enhanced framework</i>	<i>Feb.00</i>	<i>May 00</i>	150	656	110	546	91	357	37		<i>Being sought</i>
Decision point reached under enhanced framework											
Bolivia				1302	425	876	84	194		2,060	
<i>original framework</i>	<i>Sep. 97</i>	<i>Sep. 98</i>	225	448	157	291	29	53	14		<i>Received</i>
<i>enhanced framework</i>	<i>Feb.00</i>	<i>Floating</i>	150	854	268	585	55	141	30		<i>Being sought</i>
Mauritania	Feb.00	Floating	137 3/	622	261	361	47	100	50	1,200	Being sought
Mozambique				1,970	1,235	736	141	434		4,300	
<i>original framework</i>	<i>Apr. 98</i>	<i>Jun. 99</i>	200	1716	1076	641	125	381	63		<i>Received</i>
<i>enhanced framework</i>	<i>Apr. 00</i>	<i>Floating</i>	150	254	159	95	16	53	9		<i>Being sought</i>
Tanzania	Apr. 00	Floating	150	2,026	1,006	1,020	120	695	54	3,000	Being sought
Completion point reached under original framework											
Guyana	Dec. 97	May 99	107 3/	256	91	165	35	27	24	410	Received
Decision point reached under original framework											
Burkina Faso	Sep. 97	Apr. 00	205	115	21	94	10	44	14	200	Being sought
Côte d'Ivoire	Mar. 98	Mar. 01	141 3/	345	163	182	23	91	6 4/	800	Being sought
Mali	Sep. 98	Spring 00	200	128	37	90	14	44	10	250	Being sought
Total assistance provided/committed				7,767	3,422	4,344	634 5/	2,146		14,310	
Preliminary HIPC document issued 6/											
Cameroon	...	...	150	1,466	1,047	358	41	197	30	2,700	...
Ethiopia	...	...	200	636	225	411	22	214	23	1,300	...
Guinea	...	...	150	638	256	383	37	173	34	1,150	...
Guinea-Bissau	...	...	200	300	148	153	8	73	73	600	...
Honduras	...	...	150]	...	...	...	...	...	...	...	...
Honduras	...	...	137 3/	569	208	361	18	85	18	1,050	...
Nicaragua	...	...	150	2,507	1,416	1,091	32	188	66	5,000	...
No assistance required under original framework--to be reassessed under enhanced framework											
Benin	Jul. 97	...	...	...	...	...	...	...	...	...	...
Senegal	Apr. 98	...	...	...	...	...	...	...	...	...	...

Sources: IMF and World Bank Board decisions, completion point documents, decision point documents, preliminary HIPC documents, and staff calculations.

1/ Assistance levels are at countries' respective decision or completion points, as applicable.

2/ In percent of the net present value of debt at the decision or completion point (as applicable), after the full use of traditional debt-relief mechanisms.

3/ Eligible under fiscal criteria; figures provided show the ratios of debt-to-exports that correspond to the targeted debt-to-revenue ratio. For Guyana and Cote d'Ivoire, a 280 percent NPV of debt-to-revenue ratio was targeted at the completion point; for Honduras and Mauritania a 250 percent ratio was targeted at the decision point.

4/ Nonreschedulable debt to non-Paris Club official bilateral creditors and the London Club, which was already subject to a highly concessional restructuring, is excluded from the NPV of debt at the completion point in the calculation of this ratio.

5/ Equivalent to SDR 472 million at an SDR/USD exchange rate of 0.744.

6/ Figures are based on preliminary assessments at the time of the issuance of the preliminary HIPC document; and are subject to change. Assistance levels for Ethiopia and Guinea-Bissau were based on the original framework and applied at the completion point; for Nicaragua, Guinea, Honduras, and Cameroon targets are based on the enhanced framework and assistance levels are at the decision point.