This document is an operational instrument that allows CABEI to tie its strategic guidelines for 2015-2019 to Honduras’s development priorities and needs, in order to provide strategic vision to stimulate economic growth and social development. It will also guarantee the Institution’s relevance as a strategic ally to Honduras. In order to achieve this goal, this strategy has the flexibility and capacity to adapt with any fundamental changes in the environment; so it can be adjusted to meet the requirements, contingencies, and express requests from the authorities of the country. The data and projections included are available as of December 31, 2015. The preparation of this Country Strategy include the feedback from meetings with officials from public and private institutions in Honduras, whom the Bank appreciates their willingness and valuable collaboration.

The cover of this Strategy and the Section IV “2015-2019 CABEI Strategic Offer for Honduras” includes graphic elements and a color palette, with a specific meaning. The hexagons found throughout the document represents the six focus areas defining CABEI’s strategic offer for Honduras, in line with sustainable development, and its contribution towards the strategic axes social development, competitiveness and regional integration.

The color palette represents four traditional elements from Honduran culture: turquoise, from the waters of the Bay Islands, symbol of the first Honduran territory discovered by Christopher Columbus; green, from the deep color of national tree the Pine; red, from the national bird the Scarlet macaw and brown, from the coffee bean as historically important crop in the country.

The cover is a composition of six hexagons with graphic representations from the six focus areas, whose dynamism represents the operational flexibility and availability of CABEI to Honduras.
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Executive Summary

Honduras is a country that has shown a capacity for resistance and adaptation to the effects of a changing environment. After the impact of the 2008-2009 economic crisis, the economy has shown a resilience that has enabled it to gradually overcome the crisis by relying on public investment, exports and remittance inflows. Whereas the economic outlook is positive, and some progress has been made with regard to social development, public policy design should focus on the challenges stemming from poverty and economic inequality, which, together with the migration phenomenon and the increasing incidence of crime and violence, present a challenging situation for authorities. Currently, Honduras faces the challenge of laying the foundation for stronger economic growth boosted by improvements to the determining factors of competitiveness in order to enable more inclusive social development in a context of public safety and environmental sustainability.

During the 2010-2014 five year period, CABEI’s operations were aimed at strengthening social development, competitiveness and regional integration in Honduras. Through initiatives linked to the six focus areas, CABEI approved 34 interventions on the order of US$1.59 billion, representing 20.9% of total institutional approvals for the region (US$7.62 billion), of which 87.0% was focused on the areas of Energy, Productive Infrastructure and Human Development and Social Infrastructure. Meanwhile, disbursements totaled US$1.34 billion, which is equivalent to 19.2% of disbursements for the region during the five year period (US$6.97 billion), of which 69.0% was allocated to the areas of Productive Infrastructure, Human Development and Social Infrastructure, as well as Financial Intermediation and Development Finance.
In the framework of its 2015–2019 institutional proposal, CABEI offers Honduras a program structured by focus areas. This program clarifies the direction and facilitates the decision making process in order to approve strategic initiatives that deal with the country’s development priorities, which will arise from the combination of the Country Strategy’s conceptual framework and the objectives of the government’s 2014–2018 Strategic Plan. Taking into account the previous experience of working with the country and the nature of the government’s strategic commitments, CABEI expects to center its interventions mainly on the focus areas of Productive Infrastructure and Energy, as well as Human Development and Social Infrastructure. However, the Bank will also be mindful of supporting the country with interventions in the remaining focus areas based on the express requirements of the authorities.

In order to maximize the contribution to Honduran development, the implementation of the Strategy will be made based on the provisions defined in the Institutional Strategic Framework. In that sense, the Country Strategy must ensure flexibility and adaptability pursuant to fundamental changes in the country, taking into account the objectives and goals of the CABEI 2015–2019 Institutional Strategy. On the other hand, attention to initiatives should be executed according to the instruments and mechanisms defined in the sector intervention frameworks as appropriate for each focus area. In addition, the proposed five-year programming should serve as a reference for the formulation of the annual operative programming throughout the five year period.
Socioeconomic and Environmental Context

Fiscal management was aimed at the consolidation of public finances, making progress that poses a favorable outlook for the country.

Honduras is a country that has shown a capacity for resistance and adaptation to the effects of a changing environment. After the impact of the 2008-2009 economic crisis, the economy has shown a resilience that has enabled it to gradually overcome the crisis by relying on public investment, exports and remittance inflows. Whereas the economic outlook is positive and some progress has been made with regard to the social development, public policy design should focus on the challenges stemming from poverty and economic inequality; which, together with the migration phenomenon and the increasing incidence of crime and violence, impose a challenging situation for authorities.

The country also faces challenges arising from the environment, since like the rest of the region, it is highly vulnerable to natural phenomena and the effects of climate change.

Macroeconomic Context

The Honduran economy has shown resilience to the effects of the crisis and to the downward risks of an environment characterized by volatility. After having dealt with the most negative effects of the global crisis, economic activity showed a trend that was consistent with the regional average (3.5%), being mainly driven by the execution of public investment projects, increased exports and the rise in remittances flows, which strengthened domestic consumption. Meanwhile, inflationary pressures were contained at an average of 5.1% (4.4% average for Central America) with a clear downward trend as a result of the sharp fall in international oil prices, some food products and the residential electricity service.
The international context presents a favorable economic outlook for the country in the short term. Authorities forecast a GDP growth range of 3.3% - 3.7% for 2016, based mainly on the expected rebound in the US economy (its effect on the dynamics of commercial trade and remittances), as well as improved terms of trade. Most of the activities are expected to focus on Financial Intermediation, Communications, Transportation, Storage, Agriculture and Maquilas. Moreover, it is estimated that inflationary pressures will remain at approximately 4.5% ± 1 p.p. It is noteworthy that this forecast is consistent with estimates submitted by a number of international organizations.

Fiscal management was aimed at the consolidation of public finances, making progress that poses a favorable outlook for the country. In order to contribute to the sustainability of public finances and strengthen the external position against adverse shocks, measures were adopted to increase revenue, contain expenditures, reduce deficit and refinance public debt. Among other achievements, this reduced the net fiscal deficit of the Central Administration (AC) from 6.1% to 3.0% of GDP in 2015, which consequently caused Standard & Poor’s to grant a B+ rating with a stable outlook, and Moody’s to adjust the rating from B3 to B2 with a positive outlook. For the close of 2016, a 3.6% GDP deficit is expected as a result of higher public investment levels that are mainly financed with external resources, as well as higher revenues as a result of the fiscal consolidation process. For the short term, the rating agencies recognize as positive factors the implementation of fiscal reforms, the refinancing of debt in the local market, the debt payment profile due to the concessional component, the inflation levels and the commitment of authorities to honor the fiscal and structural reforms established in the 2014 agreement with the IMF.

Greater efforts are needed to promote competitiveness as a fundamental requirement for further economic growth. While the 2015-2016 Global Competitiveness Report places Honduras in the 88th position of 144 countries and acknowledges the progress in the development of the financial market and health services, it emphasizes that to promote more inclusive economic growth and social development, authorities must focus their efforts on strengthening the institutional framework, improving the productive infrastructure and labor market, expanding the coverage and quality of education and promoting technological preparation. These aspects will contribute to an increased productivity, and, together with the factors that stimulate the business climate, will facilitate the transition of Honduras to better developmental stages, which would in turn strengthen the country’s position with respect to other Central American countries.
Social Context

Despite major challenges in the social field, authorities have made gradual progress\(^1\). The incidence of poverty was reduced from 66.5% of the population in 2012 to 62.8% at the close of 2014. It is estimated that approximately 37.0% of the population lives in extreme poverty\(^2\). On the other hand, the country has seen a gradual reduction in the Gini index, which went from 57.4 in 2011 to 53.7 in 2013. Similarly, despite the pressures of crime and violence, authorities have achieved a gradual reduction in the homicide rate, which fell from 85.5 per 100,000 inhabitants in 2012 to 68 per 100,000 inhabitants in 2014. In this context, authorities continue to expand the coverage of social policies and programs aimed at reducing the incidence of poverty in rural areas, where approximately 6 of every 10 households live in extreme poverty or on less than US$2.50 per day, and to generate alternative sources of income in order to reduce dependence on subsistence agriculture. Measures aimed at reducing annual violence costs have also been implemented; violence is estimated to have accounted for around 10.0% of GDP (US$900.0 million approximately)\(^3\).

The education sector presents opportunities for improvement in terms of coverage, quality and cost-effectiveness\(^4\). Coverage of the education system under the Ministry of Education is at the lowest levels in the third cycle of basic and high school education with rates below 40.0% and 30.0%, respectively. As for quality, which is measured by the average achievement in mathematics and Spanish, cycles I and II of the basic level present the following data: 48.0% in math and 43.0% in Spanish. Moreover, Honduras has a higher educational budget than the average of the Organization for Economic Cooperation and Development (OECD), which includes the world’s richest countries (7.0% of GDP).

The strategic planning instruments support the fulfillment of the Millennium Development Goals (MDGs)\(^5\). Through their management, the country achieved 86.7% compliance of the MDGs\(^6\), demonstrating the commitment of the authorities regarding the implementation of policies and programs aimed at inclusion and social and economic protection, which has helped to reduce the gaps in the country with respect to its Central American peers. According to the United Nations Development Program (UNDP), Honduras would have been able to comply ahead of time with MDG goals related to health, such as halting and beginning to reduce, by 2015, the spread of HIV/AIDS; malaria; and tuberculosis. In addition, in late 2012 the number of people with access to health services under the decentralized mode significantly increased; this included providing pentavalent 3 vaccinations to children under 1 and increasing the number of couples using family planning methods.

Most jobs created since 2009 have been in low-productivity sectors with high rates of self-employment. The agricultural sector employs about 42.4% of the EAP\(^7\), followed by trade, hotels and restaurants with 19.0%, and the manufacturing industry with 11.8%. New employment opportunities are created in activities that require less specific knowledge and skills (trade) and that use less sophisticated technology (hotels and restaurants). It is necessary to strengthen the generation of formal employment in such higher value-added sectors as manufacturing, telecommunications and finance. The authorities acknowledge that gaps in education
and that limited technical and vocational training options are problems that prevent the population from being inserted into higher value-added work activities.

Migration has become one of the main factors for social transformation. It is estimated that the population of Honduran immigrants in the United States amounts to 1.2 million, equivalent to 14.0% of the total population. Some of the contextual factors that determine migration in Honduras are related to demographic changes, poverty, limited employment opportunities, economic conditions, natural disasters and the proliferation of organized crime and violence. Given this reality, the country has launched several policies to promote dissuasive mechanisms and prevention campaigns to stop this phenomenon with the support of governmental and non-governmental organizations. Given this context, the Honduran government has requested the support of the US Government through the Plan of the Alliance for Prosperity in the Northern Triangle, which will guide the actions to create conditions for development.

ENVIRONMENTAL CONTEXT

Honduras is highly vulnerable to natural disasters and the effects of climate change. The country is listed as environmentally “Vulnerable” by the South Pacific Applied Geoscience Commission (SOPAC), an entity that is part of the United Nations Environment Program (UNEP). This classification implies that the country is highly exposed to recurring natural phenomena, especially hurricanes, tropical storms and cyclical droughts (El Niño), among others. As in the rest of Central America, these problems are created by the rapid urbanization that has occurred in recent years, in addition to deforestation, forest degradation and air pollution. On the other hand, Honduras is ranked No. 88/180 globally in the Yale University Environmental Performance Index with a score of 69.64 and an improvement of 19.78% over the past decade.

The authorities have developed a long-term strategy to address the effects of climate change. In order to help the country adapt to and mitigate the effects of climate change, in 2010 the National Climate Change Department was created under the Ministry of Natural Resources and Environment (SERNA). In the framework of the department, the country’s National Climate Change Strategy was prepared; the strategy addresses the causes, manifestations, impact and response measures to climate change, in addition to covering the country’s social, economic and environmental issues. The strategic objectives are in line with those set out in the National Plan (2010-2022) and in the Country Vision (2010-2038).

Given the current situation, the main challenge focuses on reducing vulnerability related to water resources. The most important threat facing Honduras in the short term is the reduction of the volume of rainfall over the next decades, which will have an impact on the availability and quality of water for all its uses, in addition to altering ecosystems and directly impacting on agricultural productivity; this will translate into risk for the general population’s food security.
During the 2010-2014 five-year period, CABEI’s operations were targeted at strengthening social development, competitiveness and regional integration in Honduras. CABEI approved 34 financial operations on the order of US$1.59 billion, which represents 20.9% of total institutional approvals for the region (US$7.62 billion for 176 approvals), of which 81.9% (US$1.30 billion for 19 approvals) went to the public sector and 18.1% (US$288.2 million for 15 approvals) to the private sector. Meanwhile, disbursements totaled US$1.34 billion, which is equivalent to 19.2% of disbursements to the region during the five year period (US$6.97 billion); 51.2% (US$684.4 million) went to the public sector and 48.8% (US$651.7 million) to the private sector.

Approvals and disbursements to Honduras maintained alignment with the Institutional Strategic Framework. The resources channeled through the adoption of new development interventions and the disbursements aimed at different sectors of the local economy were framed in the six focus areas established in the 2010-2014 Institutional Strategy.

CABEI interventions in the area of Energy will contribute to improving security, increasing energy potential, diversifying the matrix and developing long-term programs in the country. The Bank approved US$587.2 million to finance 9 renewable energy interventions. Approvals made for the development of viable and sustainable energy alternatives included the Cerro de Hula Wind Power Project and the Pacífico I, Choluteca I and Choluteca II Photovoltaic Solar Power Plants. The resources disbursed in the energy focus area amounted to US$207.4 million.
During the 2010-2014 five-year period, CABEI approved 34 financial operations on the order of US $1.59 billion and disbursed US $1.34 billion to Honduras.

Interventions in the Productive Infrastructure sector will allow greater local and regional physical integration, resulting in lower transportation costs and greater competitiveness of the productive sectors. CABEI approved seven interventions on the order of US$436.4 million to strengthen productive infrastructure that were mainly targeted at initiatives for the development of road infrastructure projects, including the Project, “Construction of Villa San Antonio-Goascorán Logistical Corridor,” and the Project, “Expansion and Improvement of Highway CA-5 Stretches I and II (Section 2A).” In addition, US$335.7 was disbursed for the continuation of programs and productive infrastructure projects.

Initiatives approved in Human Development and Social Infrastructure were aimed at promoting access to housing for lower income inhabitants, improving access to services, such as water and sanitation, and expanding coverage of education and healthcare infrastructure. The Bank allocated US$361.3 million to finance four interventions to support human development and social infrastructure. Framed under the same area, US$342.8 million was disbursed for project execution through the network of intermediary financial institutions in Honduras.

The initiatives carried out in the area of Financial Intermediation and Development Finance were aimed at strengthening the financial system, increasing access to credit for low-income communities, strengthening entrepreneurship and initiatives to insert MSMEs into markets and strengthening local financial markets. The Bank promoted the sector in Honduras through the approval of US$105.6 million and disbursements on the order of US$243.3 million.

<table>
<thead>
<tr>
<th>FOCUS AREA</th>
<th>APPROVALS</th>
<th>DISBURSEMENTS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Energy</td>
<td>587.2</td>
<td>207.4</td>
</tr>
<tr>
<td>Productive Infrastructure</td>
<td>436.4</td>
<td>335.7</td>
</tr>
<tr>
<td>Human Development and Social Infrastructure</td>
<td>361.3</td>
<td>342.8</td>
</tr>
<tr>
<td>Financial Intermediation and Development Finance</td>
<td>105.6</td>
<td>243.3</td>
</tr>
<tr>
<td>Agriculture and Social Development</td>
<td>91.4</td>
<td>39.0</td>
</tr>
<tr>
<td>Industry, Urban Development and Competitiveness Services</td>
<td>10.0</td>
<td>167.9</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1,591.9</strong></td>
<td><strong>1,336.0</strong></td>
</tr>
</tbody>
</table>

Source: CABEI-OPEP.
APPROVALS AND DISBURSEMENTS BY SECTOR

The Non-financial public sector and the business sector received 93.5% of total approvals (US$1.49 billion). Out of this amount, US$1.32 billion was aimed at projects for human capital development, improving the population’s quality and generating employment and strategic infrastructure (roads and energy), while US$165.7 million was allocated to fund payment of compliance guarantees, factoring for suppliers and equity investments. Finally, 6.5% (US$103.8 million) was targeted at the financial sector for financial intermediation.

Project execution in the public and private sectors received 62.0% of total disbursements (US$828.7 million). These financial resources were channeled to infrastructure projects for healthcare, rural water and sanitation, energy and road infrastructure. Meanwhile, 36.1% of resources disbursed (US$481.8 million) was targeted at the Honduran financial sector and 1.9% (US$5.5 million) went to factoring for suppliers programs.

CABEI APPROVALS AND MILLENNIUM DEVELOPMENT GOALS (MDGS) 2010-2014

As a regional entity responsible for the promotion and integration of economic and social development of its member countries, CABEI supported the country in fulfilling the Millennium Development Goals. Approvals for the 2010-2014 period were directly linked to the MDGs, which were categorized by level of expected impact on development measured through the I-BCIE development tool. Of the 34 interventions approved in Honduras during the 2010-2014 five year period, 33 operations were in line with at least one of the Millennium Development Goals. For the most part, approvals were aimed at complying with MDG 1: Eradicating Extreme Poverty and Hunger; MDG 2: Achieving Universal Primary Education; and MDG 7: Ensuring Environmental Sustainability.

LEARNED LESSONS

With regard to the assessment of institutional management in Honduras (2010-2014), the Bank was able to extract a series of recommendations aimed at strengthening its relevance and institutional positioning as a strategic ally for the promotion of economic and social development in order to improve the quality of life of Hondurans.

- Prepare an integral proposal based on institutional experience and proactivity. Although the Honduran 2010-2014 Country Strategy did an effective job identifying potential private financing derived from the needs of the development plan, such interventions were not necessarily part of a systematic, comprehensive and integrated development scheme that would maintain a link between the focus area structures and the original proposal when there are changes in the external and internal environments. Pursuant to the above and in order to attend other priority areas, it is recommended that the country strategy include the necessary flexibility so that the interventions that are closely linked with the development scheme can be defined by the country through an integral proposal based on institutional experience and proactivity.

TABLE II. Approvals by Institutional Sector and Market Sector (millions of dollars)

<table>
<thead>
<tr>
<th>INSTITUTIONAL SECTOR</th>
<th>MARKET SECTOR</th>
<th>AMOUNT</th>
<th>NUMBER</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>Non-Financial Public Sector</td>
<td>1,268.7</td>
<td>18.0</td>
</tr>
<tr>
<td></td>
<td>Financial Sector</td>
<td>55.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Total Public</td>
<td></td>
<td>1,303.7</td>
<td>19.0</td>
</tr>
<tr>
<td>Private</td>
<td>Business Sector</td>
<td>239.4</td>
<td>10.0</td>
</tr>
<tr>
<td></td>
<td>Financial Sector</td>
<td>48.8</td>
<td>5.0</td>
</tr>
<tr>
<td>Total Private</td>
<td></td>
<td>288.2</td>
<td>15.0</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,591.9</td>
<td>34.0</td>
</tr>
</tbody>
</table>

Source: CABEI-OPEP.

TABLE III. Disbursements by Institutional Sector and Market Sector (millions of dollars)

<table>
<thead>
<tr>
<th>INSTITUTIONAL SECTOR</th>
<th>MARKET SECTOR</th>
<th>AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public</td>
<td>Non-Financial Public Sector</td>
<td>684.4</td>
</tr>
<tr>
<td>Total Public</td>
<td></td>
<td>684.4</td>
</tr>
<tr>
<td>Private</td>
<td>Financial Sector</td>
<td>483.6</td>
</tr>
<tr>
<td></td>
<td>Business Sector</td>
<td>168.1</td>
</tr>
<tr>
<td>Total Private</td>
<td></td>
<td>651.7</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td>1,336.0</td>
</tr>
</tbody>
</table>

Source: CABEI-OPEP.
Provide prioritized financing to pertinent interventions. Although CABEI’s action framework is wide enough to support a variety of initiatives, institutional financing of country strategy involves prioritizing pertinent interventions. It is therefore appropriate that the Bank maintain a close relationship with the government of Honduras in order to identify and prioritize interventions that pose the greatest social and economic benefit to the country, such as those aimed at increasing competitiveness in the framework of public safety, social inclusion and productive infrastructure.

Define strategic objectives and goals to measure the interventions’ contribution to development. The inclusion of goals, targets and indicators in accordance with best international practices and standards contributes to the process of monitoring and evaluation, which provides valuable information about the impact of CABEI’s operations in the country and helps identify areas for improvement. There should also be clarity regarding how they contribute to the achievement of institutional goals and their interrelationship with the other instruments that make up the Institutional Strategic Framework (MEI).

Promote sector management in the creation and management of the pipeline and increase participation in pre-investments. Institutional experience has yielded evidence of good results when the sector specialist and business executive act as co-identifiers of initiatives; in many of these cases they have used pre-investment resources and technical cooperation to support initiatives that have contributed to the generation of new businesses. In that regard, it is important to strengthen the institutional processes (work together with sector specialists and project executives) and the scheme of financial contributions to FONTEC, in addition to establishing growth objectives that are consistent with such contributions.

Identifying alternative financing schemes. As identified in the 2005-2009 period, currently there is still a need to innovate and promote financing schemes that do not result in direct debts to the public sector; this would contribute to avoiding further pressures on the already reduced fiscal margin and the sustainability of medium term public finances.

Manage non-reimbursable cooperation resources under more favorable conditions for pre-investments. Pre-investment has been an effective tool for addressing the technical assistance needs of the executing units and for leveraging new interventions in favor of the country’s development. The Bank must strengthen its management processes aimed at promoting and placing pre-investment resources through the Country Office, while at the same time seeking to raise non-reimbursable resources on conditions that are more favorable than the current ones.

Implement initiatives to attract resources under concessional terms to promote FETS with additional contributions than those from CABEI, and streamline interventions that have been in the “fundraising” stage and have not yet started up. In the context of its characterization as a HIPC country, the public sector in Honduras requires concessional funds to which CABEI has limited access. Likewise, it is important to strengthen the institutional action framework by updating the Concessional Resource Fundraising Strategy, as well as through the definition of a new FETS scheme with a vision and governance based on the sources’ and governments’ priorities. It is also important to disclose the mechanism and the possibilities of raising concessional resources.

Strengthen institutional support to the process of formulation and implementation of public sector projects. Technical support from sector specialists and executives of the project executing units has paid off in Honduras; it has been able to transform general action lines into financed projects. In this regard, it is important to consider that while the public sector is leading the project proposals process with CABEI, the implementation of a more aggressive support strategy by the Bank would facilitate a proactive identification of sector initiatives that comply with the institutional interests, mainly those linked to the sought-after impact, the balance of resource allocation according to focus areas and compliance with goals.

Strengthen the interinstitutional cooperation scheme. In order to strengthen its relevance and institutional positioning in Honduras, CABEI needs to be more aggressive in seeking synergies and complementarities with other development organizations. This process will not only facilitate the joint financing of initiatives, where the concessionality plays a fundamental role, but will help position the bank as a benchmark for the channeling of other cooperation resources, especially in the context of the entry into operation of the New BRICS Development Bank.

Increase operational efficiency of development interventions. Honduras has presented formalization and implementation periods for its interventions in accordance with the terms established for such purposes. However, it is recommended to improve the response times at all stages of the Project Cycle in order to optimize the processes related to the timely attention of the country’s needs and to mitigate the risks associated with delays in business continuity.
2015-2019 CABEI STRATEGIC OFFER FOR HONDURAS

FRAMEWORK

The 2015-2019 Honduran Country Strategy has been designed by taking into account the country’s development priorities, institutional strategic approach and key elements of the global development agenda. In order to strengthen CABEI’s relevance and positioning in Honduras, the Strategy takes as a reference the 2014-2018 Government Strategic Plan, which includes the implementation of policies for building a society with improved levels of wellbeing and social inclusion that lives in peace and democracy by creating better opportunities through the strengthening of a participative democracy, modernization and the simplification of the State, in addition to promoting competitiveness and the sustainable development of human and material resources. Likewise, the Bank’s proposal is based on CABEI’s 2015-2019 Institutional Strategy, “Integrating Sustainable Development and Competitiveness,” which focuses the Bank’s strategic approach to long term management, especially through its strategic axes of Social Development, Competitiveness, Regional Integration and Environmental Sustainability. Similarly, the proposal is reinforced through the incorporation of key elements from the global development agenda, particularly with regard to the Sustainable Development Goals (SDGs).

STRATEGIC OBJECTIVE

CABEI’s strategic proposal for Honduras will provide support to authorities in order to improve the wellbeing of the population, contribute to raising the potential for economic growth, strengthen aspects of social inclusion and equity, contribute to environmental sustainability and promote conditions that increase competitiveness levels. The Bank will promote interventions that foster sustained and inclusive economic growth capable of generating jobs in sectors with high added value. To that end, it will contribute to the development of infrastructure to support productive activities, which will facilitate trade and improve conditions to incentivize investment and quality job creation, both in urban and rural areas. It will also facilitate energy efficiency and security through increased generation capacity and the use of renewable energy sources in the energy matrix. On the other hand, it will contribute to strengthening social wellbeing and human capital formation through interventions.
that expand access to education and healthcare. In addition, it will impact the wellbeing and quality of life of inhabitants through the development of affordable and quality housing solutions with adequate coverage of basic services, as well as promote initiatives that strengthen sustainable competitiveness, pursuant to the interests of authorities.

The Country Strategy aims to consolidate the Bank’s relevance as a strategic ally for Honduran development. In view of the challenges posed by the needs and development priorities expressed by the authorities and faced with the challenges presented by the agendas of other multilateral organizations, CABEI’s value proposition will aim to strengthen and expand the contribution to the wellbeing and quality of Honduran lives, increase approvals and portfolio balances, provide a positive net flow to the public sector and position the Bank as the leading provider of multilateral development resources.

Operations arising from the Strategy will be in line with sustainable competitiveness and will contribute to social development, competitiveness and integration. In compliance with its institutional mission and vision, the Bank’s interventions must prioritize initiatives in the six focus areas aimed at promoting the relevance and medium-term institutional strategic positioning. The defined areas will be attended according to the level of the country’s expressed priority and CABEI’s ability to complete the interventions, which enables the possibility of concentrating resources in some areas. The initiatives that the Bank could fund will be linked to the areas of Productive Infrastructure; Human Development and Social Infrastructure; Energy; Competitiveness Services; Rural Development and the Environment; and Financial Intermediation and Development Finance.
The Country Strategy is an operational instrument with flexibility to make adjustments to a changing environment. In the framework of the definition of these areas, the Bank recognizes the challenge of maintaining a continuous operational flexibility, mainly due to the complex local context. In this regard, it is important to note that while this Strategy is a roadmap, its approaches are to some extent indicative with regard to actions that the Bank wishes to take in the country. However, in a constantly changing and volatile context, planning of specific interventions should be adjusted to meet the requirements, unexpected demands and express requests from the country’s authorities.

FOCUS AREAS AND THEIR RELATION TO THE 2014-2018 GOVERNMENT STRATEGIC PLAN

CABEI’s strategic offer contains tools to support Honduras in four of the seven overall strategic objectives of its Strategic Government Plan (See Annex II). El Plan de Todos para una Vida Mejor focuses on promoting economic growth capable of generating employment, increasing the country’s productivity, eradicating violence and reducing poverty and inequality. It also recognizes the need to strengthen government capacities for addressing these challenges; to that end, CABEI will seek to position itself as the main source of multilateral development resources through the different initiatives in its six focus areas.

Taking into account the previous experience of working with the country and the nature of the strategic commitments of the government, CABEI expects to focus its interventions mainly on the areas of productive infrastructure, energy and human development and social infrastructure. However, the Bank will also be mindful of supporting the country in interventions in the remaining focus areas based on the express requirements of the authorities.

FOCUS AREAS - STRATEGIC ORIENTATION, SECTOR GAPS AND IMPACT ROUTES

During the 2015-2019 five year period, Honduras is faced with the challenge of boosting economic growth that will allow an inclusive social development in a competitive context. Given this reality, the 2014–2018 Government Strategic Plan, among other issues, has committed itself to resolving those aspects that limit the development of competitiveness, which in turn affects the growth and development of the country from an integral perspective. Consequently, these issues have been prioritized in the definition of objectives and expected results for the current government period, which will receive CABEI’s support when they are located within an area of its institutional expertise. According to the 2015–2016 Global Competitiveness Report, some of the country’s challenges are related to inadequate supply of productive infrastructure, gaps in quality and coverage of basic services (including healthcare and education), deficiencies in the labor market and sluggish technological advancement.

In the framework of its 2015-2019 institutional proposal, CABEI has prepared a program structured by focus areas for Honduras. This program clarifies the roadmap and facilitates decision making for approving strategic initiatives aimed at attending the country’s development priorities. In that sense, this program is the product of the combination of the conceptual framework described above and the objectives housed in the 2014-2018 Government Strategic Plan. Some of the global results expected by the authorities, contained in the Plan, in which CABEI management could contribute directly or indirectly, include:

- Achieving a GDP growth and per capita GDP greater than the average rate of the last five year period.
- Generating decent employment at a rate of 200,000 jobs per year.
- Reducing poverty by 10.0% at the close of the government.
- Decreasing the GINI coefficient to a level equal to or less than the average for Latin America.
- Achieving a rating of 4.5 for Honduras in the Global Competitiveness Index.
- Converting Honduras into the country with the best logistical and transportation infrastructure in Central America.
- Expanding the coverage and improving the quality of education.
- Achieving universal coverage and free healthcare services.

IN THE FRAMEWORK OF ITS 2015-2019 INSTITUTIONAL PROPOSAL, CABEI HAS PREPARED A PROGRAM STRUCTURED BY FOCUS AREAS FOR HONDURAS
PRODUCTIVE INFRASTRUCTURE

One of the great challenges that Honduras faces in its 2014-2018 Government Strategic Plan is achieving increased levels of economic growth that will enable it to generate more employment and development opportunities for its population. In this regard, the government considers that the provision and improvement of productive infrastructure plays a key role in facilitating a more agile and less costly regional and international connection to Central America, as well as in reducing production costs and improving the country's competitiveness.

In 2014, the country’s road infrastructure included approximately 25,000 kilometers of primary, secondary and tertiary road networks. Despite the difficulties caused by the topographical conditions of the country, the road network covers virtually the entire national territory, except for the Miskito jungle, connecting the major cities and departmental capitals. World Bank studies estimate that more than 50.0% of primary roads are in poor condition and close to 25.0% are in fair condition. This reality affects the average speed of freight transportation, and the situation is compounded when considering that security costs involved in transporting goods have increased by 20.0% over the last three years. Public investment in the Highway Fund was close to Lps.2.40 billion in 2010 and 2011 for the maintenance of the paved and unpaved road network. In 2013 and 2014 nearly Lps.700 million was spent, of which at least 50.0% was used to cover operational expenses and debt payments. In addition, the lack of public investment in the country’s productive areas discourages private investment, especially in highway and road infrastructure projects.

Regarding port infrastructure, Honduras has seven ports, five of them on the Atlantic coast and two in the Pacific coast. It was ranked 46/144 with respect to Port Infrastructure in the 2015-2016 Global Competitiveness Index. Puerto Cortes, which is the country’s main port, is located on the Caribbean coast (deep-water port) and has advantageous access to the port infrastructure located on the Caribbean Gulf and on the East coast of the United States. After the port’s modernization process, through the public-private investment model, it is expected to become the main port in Central America. It has received a US safe port certification, which should help to increase the passage of goods to the world’s largest economy. Regarding airport infrastructure, the country has four international airports, managed under private concession, and airfields are being constructed at tourist and archaeological sites.

In particular, the authorities plan to execute a number of highway projects, such as the interoceanic logistical corridor (dry canal), which will unite Puerto Cortés with the south, and the tourism corridor that will link Puerto Cortes and Puerto Castilla. Furthermore, plans have been made in the Western Corridor to construct the Chamelecón-La Entrada (Copán) highway stretch, among other highway stretches that Honduras plans to implement through construction programs and periodic maintenance; it is noteworthy that these projects will be resilient to climate change. Authorities also plan to achieve the expansion and modernization of port and airport infrastructure; this includes completing the expansion and modernization of Puerto Cortes, expanding the port of Puerto Castilla, building and equipping a port in Amapala and starting up the Palmerola International Airport.

CABEI will support Honduras in the efforts being made to increase its potential and productive capacity through infrastructure construction that will enable sustainable and inclusive economic development. In this respect, the Bank’s interventions in the transportation, logistical and mobility sectors will contribute to strengthening competitiveness. Honduras may also receive support from CABEI through direct financing, pre-investment or through mechanisms such as public-private partnerships and syndicated loans, among others. Depending on the requirements of the authorities, CABEI could support the development of road, port, airport and logistical infrastructure, as well as raise resources for projects that contribute to achieving the overall expected objectives and results described in the preceding paragraph.
The 2014–2018 Government Strategic Plan defines the Energy sector as a national priority that will guide public investment in order to ensure an environmentally sustainable quality electrical energy supply in support of the productive sectors and the general population. In that sense, the country has a special interest in developing renewable energy sources and prioritizing their use within the energy matrix to reduce the country’s vulnerability to volatile international oil prices. Given this scenario, the country recognizes the need to make investments to diversify and increase its generation through renewable sources. Moreover, the Plan addresses the challenge facing the country in terms of increasing efficiency in the sector through new investments that will help halve energy losses of the National Electrical Energy Company (ENEE).

The country has huge energy potential and an almost completely liberalized system, which is open for mixed and direct investment. The total current capacity of the electrical system is greater than the annual demand and exceeds 1,600 megawatts/hour. Currently, the system has five transmission lines, more than any other country in the region (two lines connect with El Salvador, two with Nicaragua and one with Guatemala, which is direct). The composition of the total installed capacity (2,320.3 MW) of the energy matrix is divided into thermal (39.3%), hydro (29.3%), photovoltaic (17.2%), wind (7.5%) and biomass (7.1%). There is still a high generation component dependent on oil (bunker and diesel)\(^3\). The country currently generates approximately 57.0% of its energy from petroleum products\(^4\), making the country’s economy more vulnerable to fluctuations in the international oil price.

Faced with these challenges, CABEI will seek funding for initiatives that are designed to contribute to the objectives of diversifying and promoting renewable energy sources, in addition to fostering energy efficiency and savings and strengthening interconnections with SIEPAC and transmission nodes. The Bank also seeks to improve the efficiency of the regional energy market and to expand energy coverage and security. Furthermore, the Bank will contribute to promoting the efficient use of energy sources through clean production systems that will reduce costs to the business sector. Similarly, small scale support for energy projects will be provided to the business sector and logistical installations, such as port facilities. In addition, the Bank may support initiatives of rural electrification and urban settlements of social interest in order to close gaps in household coverage. Through its efforts, the Bank could contribute to the achievement of expected impacts, such as the restructuring of the energy mix towards renewable sources and the reduction of energy losses; this in turn would improve the operational balance of ENEE, improve the balance between costs for energy purchases and sales rates and streamline subsidy management in the electricity billing system.
One of the main objectives of the 2014–2018 Government Strategic Plan is to protect the inhabitants living in extreme poverty by meeting their immediate needs and ensuring conditions to enable them to gradually and progressively generate their own livelihoods in order to begin their active and productive insertion into society. In this regard, the authorities recognize the importance of expanding coverage and improving the quality of education and healthcare services. They also note the importance of facilitating access to decent housing and integral access to water and sanitation for low income population through the ordering and strengthening of the institutional framework.

The education sector receives public investment close to 7.0% of GDP, but has a low cost-results ratio regarding improvement opportunities. The sector also shows lags in terms of quality and coverage, mainly in rural areas. It is estimated that more than two thirds of the education budget is allocated to personnel costs and more than 1,000 high schools would be needed to guarantee universal secondary education.

The national illiteracy rate is 12.8%, with a significant difference between urban (6.6%) and rural (20.5%) areas with a slight bias to the detriment of women. Similarly, the limited options of technical training and vocational human capital formation restrict employment opportunities and the population’s insertion into more productive activities. Honduras has one of the lowest labor market participation rates in Latin America and the Caribbean (56.0%), with considerable inequality regarding female participation because 73.6% of jobs are held by men. In addition, the country has one of the lowest formal employment rates on the continent (20.0%) and the highest self-employment rate in Central America. The unemployment rate rose 5.3% in 2014, including visible and invisible underemployment rates, which rose by 12.5% and 27.7%, respectively.

With regard to the healthcare sector, even with the progress made fulfilling the MDGs, it is characterized by a high incidence of infant and maternal mortality and morbidity from preventable infectious causes. Between 2006 and 2010, per capita expenditure was the lowest in the Central American region, averaging US$75.13 per person; while in the 2005 to 2010 period, Honduras presented an average healthcare expenditure of 7.35% with respect to the GDP. At present, the system is experiencing significant challenges as a result of the failure of the current healthcare model and limited capacity to attend all of the inhabitants’ healthcare needs. The system's approach is eminently remedial with attention focused on the damage to health and not on addressing its determinants and conditions.

Regarding the housing sector, the housing shortage in Honduras increased from 28.0% to 30.0% in 2010 and to 45.0% in 2014, equivalent to about 500,000 new homes. According to the 2014 Permanent Household Survey, the number of households at a national level is 1,898,591; the survey recognized the need for expansion and improvement of approximately 600,000 homes. Out of a total of 1,940,233 households, 8.5% (close to 164,053 households) on a national level have overcrowded conditions, with a total of 52.3% concentrated in urban areas and 47.7% in rural areas. In addition, the percentage of households in such conditions is 13.8% for the first quintile of household income and decreases significantly until reaching 1.2% in the fourth quintile.
In 2014 out of the total households in the country, 86.6% received public lighting services, 0.3% received collective private services and the remaining obtained electricity from alternative sources (own plant, solar energy, candle, gaslamp, firewood, etc.). In the same year, of the total households with access to water sources, 36.3% received it from public sources and 49.3% from private sources. Furthermore, of the total households, 39.1% had access to basic sanitation with toilets connected to a sewage system and 18.6% had septic tanks. It is noteworthy that 9.2% of all the households lacked access to any basic sanitation system and that close to 1.0% releases waste into natural water sources, such as rivers, lakes or seas, thus contributing to environmental pollution. It is estimated that approximately half a million Honduran children lack access to potable water, and that 1.1 million children lack access to basic sanitation. With regard to household access to information and communication technologies, 77.4% have access to a television, 20.6% to computers, 89.3% to cellphones and 16.2% to fixed phones; the latter mostly in urban areas.

**CABEI will support the country through interventions aimed at improving human potential and the quality of life of inhabitants.** The Bank will place particular emphasis on projects aimed at the construction and equipment of sector infrastructure with the aim of reducing the intensity and incidence of deprivations in Honduran households in terms of coverage and quality of basic needs. Thus, the Bank will attend initiatives that promote efficiency in the integral management of the components of education, health, social housing, urban development, potable water and sanitation. In this regard, CABEI has created the Central American Housing and Sustainable Habitat Development Program (VIDHAS) and the Regional Water and Sanitation Program (PRAS). The Bank could contribute to the achievement of expected impacts, including improving social housing sub-sector development with more and better options for the low-income population; increasing access to improved potable water sources and basic sanitation; expanding leisure and recreational urban development works; increasing the coverage, efficiency and effectiveness of healthcare services; and improving the coverage and quality of education and technical and vocational training.
Financial Intermediation and Development Finance

The 2014–2018 Government Strategic Plan seeks to achieve accelerated inclusive and sustainable economic growth, increase employment and reduce poverty by promoting investment, improving competitiveness, boosting foreign trade and supporting the development of small businesses at the urban and rural level. To this end, among other actions, financial mechanisms should be established that create more competitive market linkages, promote entrepreneurship and business development and provide training and technology, as well as improvements in other aspects that are crucial to productivity, such as competitiveness.

MSMEs have grown significantly in Honduras. According to the Inter-American Development Bank (IDB), Honduras accounts for approximately 127,330 businesses in the sector, of which 76.0% are micro, 17.0% small and 8.0% medium. In addition, it is estimated that the country has approximately 463,107 self-employed inhabitants with similar characteristics to MSMEs, making the national total 590,437 MSMEs. The MSME sector employs approximately 72.0% of the EAP, which represents close to 47.0% of GDP. In addition, it is estimated that 52.0% of jobs in the sector are carried out by women.

The main limitation facing businesses in the sector is the lack of access to financing on favorable terms. According to the Institute of Economic and Social Research (IEES) of the National Autonomous University of Honduras (UNAH) in 2014, 49.0% of micro, 65.0% of small and 71.0% of medium enterprises have opted to seek credit with a financial institution. These figures indicate that only 53.0% of the sector has access to financing sources. According to the Honduran Ministry of Economic Development, the business sector’s competitiveness is affected not only by the lack of access to financing, but also by the conditions of the financial products (existence of interest rates, terms and bank evaluations that limit access to resources).

With respect to the Global Entrepreneurship Index (2016), Honduras is ranked 105 of 132, showing a relatively acceptable performance in the individual variables of the Entrepreneurial Attitudes sub-index. The country was highly rated in the following factors: risk acceptance, perception of skills, competitors, recognizing opportunities and new products. In contrast, the country had a relatively low position in relation to such aspects as government investment in research and development, innovative processes, informal investment, venture capital and high venture growth.
The authorities have acknowledged the need to focus efforts on the creation of formal jobs through the promotion of productivity and competitiveness. Because of this, they emphasize the need to introduce innovations in local production systems for all types of enterprises in order to improve competitiveness; design human resource formation programs that facilitate access to sources of knowledge; and develop institutional mechanisms to increase local urban and rural cooperation to guarantee environmental preservation and sustainability.

Faced with these challenges, the Bank will continue to expand the attention capacities of the financial system by promoting greater financial inclusion through its different programs. It will also support the channeling of resources and promote intermediated initiatives in order to develop a MSME financing services system that is consistent with cross-cutting issues, such as environmental sustainability and gender equality. CABEI will continue to provide support through intermediary channeling resources aimed at streamlining the national economy’s productive sectors, foreign trade, access to middle-class housing and educational credit. With regard to this area, the Bank has accumulated experience in recent years through its strategic axis of Competitiveness, through which it expects to continue to develop new intermediary programs that fit the needs of population groups that have productive vocations and are located at the base of the income pyramid or whose particular characteristics require special attention. CABEI could support Honduras in achieving the expected impacts, such as increased contributions from the MSME sub-sector to the national GDP.
RURAL DEVELOPMENT AND THE ENVIRONMENT

The 2014–2018 Government Strategic Plan has placed emphasis on implementing policies that foster a greater contribution from agricultural food production through increased diversification and competitiveness of the sector, enabling access to national and international markets in a context of environmental sustainability and resilience to the effects of climate change.

Risk is an ever-present factor in Honduran agriculture because it is exposed to the effects of hurricanes and tropical storms, mainly on the Atlantic coast, and to the generally adverse effects of climatic cycles. Between 1970 and 2010, tropical storms and associated floods caused 24,000 deaths and more than US$6.70 billion (2010 prices) in damages. The catastrophic effects of Hurricane Mitch also resulted in extensive damage to the agricultural sector. Once every four years, Honduran agriculture experiences some sort of generalized precipitation deficiency. Between 1990 and 2008, Honduras suffered widespread rainfall deficits in 1991, 1994, 2002 and 2004. The most concentrated regional deficits occurred in 1990, 1996 and 2007. In territorial terms, there are areas in the country that have annual droughts, such as the southern region, where it is estimated that out of every ten productive years, seven of them present losses in basic grain production. An estimated 250,000 farmers grow basic grains on hillsides with limited technology and multiple environmental impact problems; this vulnerability places them at permanent food security risk and consequently represents an important fiscal risk, particularly in the face of natural disasters.

The country’s global supply of water is 87,000 cubic hectometers per year. However, the lack of infrastructure only allows the use of less than 9% of the existing supply. Consequently, despite the strong potential, the current demand for potable water is not satisfied, and there is a nationwide gap of 15%. Only a 123,000 ha has irrigation systems; that number could double in just a few years, according to data provided by the Ministry of Agriculture and Livestock (SAG).

The deterioration of forest conditions has been a problem that has worsened in the last decade. In Honduras, during the 1990–2005 period, data from FAO shows a marked reduction in forest cover from 72.32% to 51.48%. Some sources estimate that 100,000 hectares of forest are lost annually, while others estimate that the real figure is between 34,000 and 58,000 hectares per year. The factors that have influenced the high levels of forest cover loss are fires and pests, while the main cause of deforestation is the conversion of forests for agriculture.

CABEI has the experience, programs and resources to support the country in initiatives to promote sustainable rural productive activity, food security, environmental sustainability and mechanisms for climate change mitigation and adaptation. Faced with an environment characterized by the occurrence of droughts, pests, strategic crops and deteriorating climatic and environmental conditions, the Bank will provide resources to Honduras obtained from its accreditation as an implementing entity of the Adaptation Fund. In addition, the Bank is currently formalizing its accreditation process with the Green Climate Fund. CABEI could provide the country with an Emergency Credit Line to attend reconstruction projects of infrastructure that has been affected by natural disasters. In this framework, CABEI will continue supporting the country in the formulation and implementation of national and regional initiatives that contribute to issues, such as combating drought, managing water resources and funding of climate change initiatives. Through its efforts, CABEI will contribute to the achievement of expected impacts, such as increased production and productivity of the food agroindustry sector with better access to technology and affordable financing, increased food security due to the expansion of the cultivated area and better technical assistance. Furthermore, the Bank could contribute to greater resilience and exploitation of the forestry sector under sustainable conditions and to the protection of water, forestry and biodiversity resources, with special emphasis on climate change mitigation and adaptation.
The 2014–2018 Government Strategic Plan emphasizes that the generation of massive and quality employment requires actions to eliminate or minimize aspects that limit economic growth and, in general, are related to the factors that determine competitiveness, including from a perspective of public safety. In this respect, economic growth requires converting Honduras into the country with the best productive logistical infrastructure in Central America; this can be done through the development of projects that facilitate commercial activities, industrial development, territorial development and reduce the technological gap (cellphones and broadband internet), as well as other interventions that promote business development. All this would contribute to improving productivity and competitiveness.

In Honduras, according to the Violence Observatory sponsored by the Institute for Democracy, Peace and Security (IUDPAS) of the National Autonomous University of Honduras (UNAH), during the last nine years homicides have increased by 231.8%, representing a total of 41,105 homicides; in 2004 there were a total of 2,155 homicide deaths in the country, and by 2012, that number had increased to 7,172 cases. However, when comparing 2011 and 2012, the increase was 68 cases, the slowest growth recorded in recent years. The vulnerability to violence can be synthesized in the homicide rate per hundred thousand inhabitants, which shifted from 30.7% in 2004 to 86.5% in 2011. This is equivalent to an annual average increase of 7 points with the exception of 2012, when there was a slight decrease, which was then consolidated as a trend in 2013. In 2012, the homicide rate was 85.5%, and in 2013 homicides fell by just over 5 percentage points.

CABEI will support initiatives with a high potential to affect the country’s competitiveness, both in the private and public sectors. In this regard, the Bank could support the authorities with land development efforts in areas that have been identified as priority (Corredor Seco, Valle de Agalta, La Mosquitia, Gulf of Fonseca, Bajo Agüan and Comayagua) and that, because of their strategic importance, the authorities intend to turn into areas of national development. In particular, the initiatives would have an integral perspective prioritizing the component of income generation through the promotion and development of capacities in agricultural activities, fishing, tourism, trade in goods and services and MSMEs. The Bank will also support the development of strategic infrastructure and initiatives that contribute to citizen security, as well as the strengthening of the service coverage, such as water, sanitation and waste treatment.

In addition, the Bank’s interventions could also focus on seeking support for strengthening institutional capacities, mainly governmental infrastructure related to the management of public safety, which in turn would support the achievement of goals related to the objectives of the Central American Security Strategy (ESCA). CABEI interventions could also improve public safety conditions by fostering a better business climate and reducing the costs related to crime and violence, which affect the normal development of trade, industry, tourism and other sectors that are of vital importance for the growth of the economy.
In order to maximize the contribution to Honduran development, the Strategy’s implementation will be made on the basis of the provisions established in the Institutional Strategic Framework. In that sense, the Country Strategy must guarantee flexibility and adaptability according to fundamental changes in the country taking into account the objectives and goals of the CABEI 2015-2019 Institutional Strategy. On the other hand, the attention of initiatives should be implemented according to the instruments and mechanisms defined by the sector intervention frameworks as appropriate for each focus area. In addition, the proposed five-year programming should serve as a benchmark for the preparation of annual operational programming throughout the five year period.

In order to strengthen CABEI’s relevance with regard to international cooperation, it is important to note that the approaches of the Country Strategy should keep harmony and consistency with the assistance objectives provided by the leading development organizations present in Honduras. In this regard, CABEI’s proposal will complement the actions of other donors that are developing initiatives in the country, particularly involving social development, competitiveness, economic growth and regional integration.
CABEI will continue to support Honduras by means of technical assistance resources for pre-investment that will strengthen the formulation of projects and management of resources for new operations. In this regard, the Bank will promote mechanisms that facilitate access to resources on favorable terms for the country.

The Bank will manage its human talent to increase efficiency in the process of identification and generation of development initiatives. The availability of the supply of knowledge, experience and specialized capabilities will enable greater involvement in the design and structuring of initiatives starting from their earliest stages in order to consolidate the institutional relevance and strengthen the development impact of such interventions.

## FINANCIAL PROGRAMING

CABEI’s value proposition for Honduras during the strategic five year 2015-2019 period will be supported by financial programming that will make approvals for operations amounting to US$1.30 billion, which represents an annual average of US$261 million. It will also make disbursements totaling US$1.42 billion, which is equivalent to an annual average of US$284.1 million. With this offer, the Bank reaffirms its commitment to the country and to the 2014-2018 Government Strategic Plan.

The amounts presented are justified by the national needs and presented projects, which are subject to the country’s financial restrictions. One of the main institutional goals necessary to guarantee these projections involves maintaining a positive net flow to the public sector. It is also important to note that the annual execution of this program will be streamlined through annual operational plans, which will be adjusted pursuant to the country’s express requirements, needs and development priorities in order to prepare different intervention profiles that may be of interest to the authorities.

It is noteworthy that these projections are indicative of the magnitude of the operations that the Bank expects to carry out in Honduras and depend on the country’s capacity for resource absorption and operational execution, in addition to the Bank’s estimated growth and funding capacity. In that sense, the actual figures may vary depending on the possible occurrence of one or more of the risks identified in Chapter VI of this Strategy.

As mentioned above, CABEI will primarily promote operations in the framework of its current regulations and in line with the strategic axes of Competitiveness, Integration and Social Development. The operations must also be framed under the focus areas defined in the CABEI 2015-2019 Institutional Strategy.

### TABLE IV.
CABEI 2015–2019 Projection of Approvals and Disbursements in Honduras (millions of dollars)

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<tbody>
<tr>
<td><strong>Approvals</strong></td>
<td>258.6</td>
<td>215.0</td>
<td>254.0</td>
<td>256.0</td>
<td>320.0</td>
<td>1,303.6</td>
</tr>
<tr>
<td><strong>Disbursements</strong></td>
<td>252.7</td>
<td>209.9</td>
<td>312.0</td>
<td>322.0</td>
<td>324.0</td>
<td>1,420.6</td>
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*Observed data 2015.
Source: CABEI-Finance Division and Sectors and Countries Division.
EXECUTION

CABEI will execute this strategy through the joint work of the Honduran Country Office and guidance from other technical areas involved in the different stages of the Project Cycle, in accordance with current norms, carrying out the following activities, among others:

- Favor successive annual operational plans and strategic business plans in accordance with the strategic principles set out in this strategy.
- Prioritize operations and projects that best deepen the strategic principles and development priorities identified in this Strategy, which is the tool used by the Country Office to program its operations for the 2015-2019 period.
- Stimulate the design and approval of financial instruments that facilitate progress in attention to the defined focus areas.
- Propose alliances and cooperation agreements, technical cooperation and business with other institutions with the aim of strengthening the implementation of the Strategy.
- Create synergies, additionality and complementarity with other cooperation organizations present in the country with the objective of promoting interventions in sectors where the Bank has less presence.
- Given the possible changes that might arise in the country, maintain links with information sources in the government, private, financial and academic sectors in order to update the Bank’s strategic guidelines.

MONITORING & EVALUATION

CABEI will carry out an Evaluation of the Honduran Country Strategy in accordance with its current norms. This evaluation will analyze the achievement of the objectives and goals of the strategy in order to draw conclusions about institutional performance in the country and generate learned lessons that support the Bank’s effectiveness in contributing to Honduran development.
The implementation of this Strategy will be subject to changing internal and external factors. Its execution may be exposed to different risks that can lead to deviations in the implementation of the strategic approach, affecting the normal development of approvals, disbursements, project implementation and the expected impact of the development interventions, among other effects. In this regard, it is important to carry out proper risk identification and management. Listed below are some of the principal risks, which may be internal to the country, external to the country or inherent to CABEI.

**EXTERNAL RISKS**

**Deterioration of conditions in the international economic context.** The country would be affected by a scenario in which its trading partners, mainly the United States, will experience drops in their economic growth rates. In addition, a deterioration of terms of trade, principally due to an eventual recovery of oil prices, could reduce the growth outlook.

**Increasing cost of external financing conditions.** Successive increases in interest rates in international markets could affect financing costs in the coming years.

**Adverse natural events.** Due to its geographical situation, Honduras is exposed to hazards from the occurrence of natural events; the effects of these natural events could be amplified to the extent that they are interrelated with social behaviors that make certain population groups more vulnerable. The country’s reaction to these events can directly or indirectly affect the Bank’s operations due to changes in the priorities of the public and private sectors, which could postpone or cancel their project investment.

**INTERNAL RISKS**

**Deterioration of the business environment.** Events that damage the underlying conditions of the business climate, such as security conditions, implementation capacity of public investment, legal stability, red tape, transparency in public management, access to financing, provision of productive infrastructure and labor market productivity.

**Effects of delinquency and crimes in the economy.** Losses and costs associated with this issue are one of the factors that can significantly affect current economic growth, as it directly affects investment opportunities and employment generation, causes displacement of the population and promotes the escape of talent and other adverse situations for the country.

**Deterioration of the Honduran financial system’s stability.** Despite progress in strengthening the framework for financial regulation and supervision, the growing sophistication of organized crime in the banking industry can affect its systemic stability by contaminating the operational management with crimes, such as money laundering and terrorism financing.
Fiscal deterioration. Scenarios of lower tax revenues and/or greater spending pressures could increase the country’s borrowing needs, affects the deficit level, and/or promote a reorientation of its priorities.

Less capacity to generate political agreements. Difficulties in achieving consensus and political agreements could delay legislative approval of new operations requiring public indebtedness with a sovereign guarantee.

Social, environmental and/or ethnic conflicts. This refers to the risk of delays, changes or cancellations in project execution caused by the emergence of disagreements and opposition from social groups that feel that the project has negative impacts on natural resources and/or communities that inhabit the project target area.

Mitigants: To mitigate the potential impact of external and internal risks, the Bank will conduct constant monitoring of the most important variables in the national economy, assessing the impact that its evolution may have on operations with the country in order to take appropriate preventative actions. The Bank will maintain continuous communication mechanisms with the country’s authorities and will provide technical support to foster improvement in the management capacity of the executing counterparts.

CABEI Risks

Delays in capitalization programming. Lower capitalization levels would result in less available loanable resources. Mitigants: Generation of utilities and the creation of strategic alliances with other organizations.

Flaws in integrated risk management. This refers to events that could cause equity losses to the Bank in the case that failures or gaps in integrated risk management and controls against money laundering and terrorism financing occur. Mitigants: Strengthening and implementation of integral risk management policies. In addition, strengthening of procedures and risk management controls based on the adoption of best international practices and standards.

Deterioration of credit risk ratings. This could limit access and increase costs of financial conditions obtained by the CABEI in the capital markets. Mitigants: Strengthening of equity capital, geographical diversification of sovereign exposure and revenue generation.

Interruptions in the Project Cycle. Delays in formulation, approval and/or project management processes, which could affect business continuity. Mitigants: Strengthening of operational efficiency throughout the Project Cycle stages and of mechanisms related to the business continuity plan.
Reference Notes

Section II

1 According to figures from SECMA, the average growth in Central America during 2010-2015 was 3.6%.
2 The authorities have deepened their trade relations by signing new agreements with countries such as Mexico, Canada and the European Union. The effect of these treaties has contributed to improving the business climate, promoting national and foreign productive investment and improving access to Honduran products in international markets.
4 For 2016, the IMF projects a rate of 3.5%, while ECLAC projects 3.3%.
5 According to the Planning, Assessment and Management Units (UPEGs) of the Ministry of Finance (SEFIN), in the 2010-2015 period five laws were passed, which included a series of reforms to combat tax evasion and various modifications to tax regulations. The adoption and entry into force of the Law to Strengthen Income, Social Equity and Rationalization of Public Spending (Decree 17-2010), and the Law on Public Finance Planning, Tax Exemption Control and Anti-evasion Measures (Decree 278-2013) was crucial for the gradual improvement of tax figures.
6 In addition, fiscal pressure increased from 14.4% to 16.0%; mainly because of the sales tax, income tax, contribution to road assets and income derived from the Population Security Law.
9 Some of the main challenges focus on human capital development, increasing the stock of productive infrastructure and generating more formal employment through investment, among others.
10 According to the Executive Opinion Survey of the 2015-2016 World Economic Forum, the main factors are related to public insecurity, taxation, access to financing, government bureaucracy, corruption, inadequate productive infrastructure, labor market restrictions and unskilled labor force.
11 World Bank 2016. World Development Indicators Honduras.
12 CEPAL. November 2015. Inclusive social development: A new generation of policies to overcome poverty and reduce inequality in Latin America and the Caribbean. Honduras is ranked number one among countries with the highest percentage of population living in poverty, with 60%, followed by Guatemala (54%), Mexico (52.3%) and Bolivia (65%).
13 Violence Observatory sponsored by the University Institute for Democracy, Peace and Security (IUDPAS) of the National Autonomous University of Honduras (UNAH). According to
14 to the World Bank the average cost in Central America is 8.0% of annual GDP.
16 A link was made between the strategic guidelines, objectives and goals established in the 2010-2014 Strategic Government Plan and the lines of action for achieving the MDGs.
17 ECLAC statistics, presented in the platform “Millennium Development Goals: Country Profiles.” Honduras was ranked fourth in meeting MDGs when compared with other Central American countries.
18 The total economically active population (EAP) is 3,655,099 people; 62.0% are men.
20 According to INE, the Honduran migratory flow toward the US draws between 80,000 to 100,000 people per year. The vast majority are men under 30 years of age, which increases household feminization. In general they have no more than primary education and are professionally unqualified.
21 The Northern Triangle countries, Guatemala, El Salvador and Honduras have signed the alliance to address the main obstacles to economic growth and social development, while at the same time promoting migration. The strategic lines of action of this plan will aim to: i) stimulate the productive sector in order to create economic opportunities; ii) develop opportunities for our human capital; iii) improve public safety and access to justice; and iv) strengthen institutions to increase public confidence in the state.

Section III

24 Project, “Construction of Villa San Antonio-Goascorán Logistical Corridor, Sections II and III, Honduras.”
26 Denomination for the country group composed of Brazil, Russia, India, China and South Africa.

Section IV

27 For further reference, see the document: Central American Bank for Economic Integration, “Sustainable Development Goals: Institutional Strategic Alignment.”

This reality places the Honduran economy in a stage of developmental transition into an economy based on efficiency factors.

To do this, it has established an aggressive investment promotion process in eight priority productive sectors: energy, infrastructure, construction, tourism, agribusiness, forestry businesses, manufacturing, construction and mining.

Currently, insufficient supply and the condition of the Honduran productive infrastructure limits the capabilities of the economy, causing it to qualify in the 88/144 position in the 2015-2016 Global Competitiveness ranking; only outperforming Nicaragua and El Salvador, among the Central American countries.


Puerto Cortes was part of the first group of ports included in the Secure Freight Initiative (SFI), which allows US officials to inspect the shipment prior to its departure to the US.
34 The rest comes from renewable sources such as hydropower, biomass and wind.
35 Education Sector management revolves around the provisions of the Fundamental Law of Education, which aims to guarantee equitable and inclusive access for all persons, without discrimination, to an integral quality education.
36 The 2014–2018 National Health Plan is aimed at reducing the gaps and improving the health profile of the entire population, focusing on a risk management approach.
38 The Central American Housing and Sustainable Habitat development Program (VIDHAS) was designed with the aim of improving the quality of life of Central Americans through access to housing in an expanded urban environment through the financing of interventions that promote social inclusion and poverty reduction and satisfy the demand for social housing and city services.
39 Regional Water and Sanitation Program (PRAS) aims to improve the quality of life of Central Americans through access to basic services, such as potable water and sanitation and wastewater treatment.
40 Based on a publication in the SUMMA Magazine: Diagnosis of MSMEs in Central America.
41 Index prepared by the Global Entrepreneurship and Development Institute (GEDI).
42 Honduran Ministry of Economic Development. Public MSME Policy.
43 At the regional portfolio level, 13 specialized financial intermediation programs are managed by strategic area: i) MSME Support Program; ii) Agribusiness MSME Program; iii) Energy Efficiency MSME Program; iv) Renewable Energy MSME Program; v) Biodiversity-friendly MSME Program; vi) Program for MSMEs affected by natural disasters; vii) CABI Educational Credit Program; viii) Social Housing Program; ix) Middle Class Housing Program; x) Municipal Infrastructure Financing Program (PROMUNI); xi) Productive Sector Promotion Program (PROSEP); xii) Liquidity and Financial System Expansion Program (PROSIFI); and xiii) Foreign Trade (IFACL).
45 CABI is supporting the preparation of a proposal with the approval of the Environment Ministers of the region focused on Strengthening Family Agriculture, Adaptation and Mitigation and Risk Management in the Central American Dry Corridor; the proposal will be presented to the Green Climate Fund. Similarly ICF and CABI resources have been approved to support governments in the region to address the issue of coffee rust in plantations.
46 Such as the joint initiative denominated: Building Resilience in the Central Corredor Seco: Agenda to Strengthen Food Security and Nutrition-SAN, Adaptation to Climate Change-ACC and Risk Reduction. This is headed by CCAD, CAIC, CABI and CEPRÉDENA with support from WFP and FAO.
47 Resolution No. DI-146/2013. The Program to Support the Central American Security Strategy has been proposed for the 2015–2019 five year period in the Framework of CABI’s Intervention for the public safety sector.
ABBREVIATIONS, SYMBOLS, AND ACRONYMS

AC: Honduran Central Administration
BRICS: Group of countries composed of Brazil, Russia, India, China and South Africa
CABEI: Central American Bank for Economic Integration
CAC: Central American Agricultural Council
CCA: Climate Change Adaptation
CCAD: Central American Environment and Development Commission
CEHVAL: Honduran Securities and Exchange Commission
CEPREDENAC: Central American Disaster Risk Prevention Center
CHICO: Honduran Chamber of Construction Industry
COALIANZA: Commission for the Promotion of Public Private Alliances
EAP: Economically Active Population
ECLAC: United Nations Economic Commission for Latin America and the Caribbean
ENEE: National Electrical Energy Company
ESCA: Central American Security Strategy
FAO: Food and Agriculture Organization
FETS: Special Fund for the Social Transformation of Central America
FONTEC: Technical Cooperation Fund
GDP: Gross Domestic Product
GEDI: Global Entrepreneurship and Development Institute
HIPC: Heavily Indebted Poor Countries
HIV / AIDS: Human Immunodeficiency Virus/Acquired Immunodeficiency Syndrome
I-BCIE: CABEI Impact on Development
ICDF: International Cooperation and Development Fund of the Republic of China-Taiwan
IDB: Inter-American Development Bank
IEES: Institute of Economic and Social Research
I-FACIL: Facilitation of International Trade Initiative
IMF: International Monetary Fund
INE: National Statistics Institute of Honduras
INSEP: Ministry of Infrastructure and Public Services
IUDPAS: University Institute for Democracy, Peace and Security
MDGs: Millennium Development Goals
MEI: CABEI Institutional Strategic Framework
MSME: Micro, Small and Medium Enterprises
MW: Megawatt
ODS: Sustainable Development Goals
OECD: Organization for Economic Cooperation and Development
OPEP: CABEI Strategic Planning and Programming Office
PEG: Honduran Government Strategic Plan
PRAS: Regional Water and Sanitation Program
PROMUNI: Municipal Infrastructure Financing Program
PROSEPI: Productive Sectors Promotion Program
PROSIFI: Liquidity and Financial System Expansion Program
SAG: Ministry of Agriculture
SAN: Food Security and Nutrition
SECMCA: Executive Secretariat of the Central American Monetary Council
SEFIN: Ministry of Finance
SERNA: Ministry of Natural Resources and Environment
SFI: Secure Freight Initiative
SIEPAC: Central American Electrical Interconnection System
SNPD: National Development Planning System
SOPAC: South Pacific Applied Geoscience Commission
UNAH: National Autonomous University of Honduras
UNDP: United Nations Development Programme
UNEP: United Nations Environment Program
UPEG: Planning, Assessment and Management Unit
US$: U.S. Dollar
VIDHAS: Central American Program for Housing and Sustainable Habitat Development
WEF: World Economic Forum
WFP: World Food Programme
BIBLIOGRAPHY


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ANNEX I:

STRATEGIC ORIENTATION – 2014-2018 GOVERNMENT STRATEGIC PLAN “PLAN DE TODOS PARA UNA VIDA MEJOR.”

RELEVANT BACKGROUND - 2010-2038 COUNTRY VISION AND 2010-2022 NATIONAL PLAN.

The current strategic planning framework has been institutionalized through legislation. The law for the establishment of a national vision and the adoption of a national plan for Honduras defines a planning process composed of three hierarchical and complementary elements: i) a national vision towards 2038; ii) national plans that will be effective for 12 years (2022 to present); and iii) successive government plans valid for four years that will correspond to each of the presidential terms, being the current from 2014 to 2018. Said law also defines a National Development Planning System (SNPD) that articulates the central planning, sector and institutional processes with national, regional, municipal, departmental and land use planning.

The 2010-2038 Country Vision document defines four broad objectives that will promote the country profile predicted for such year:

- Honduras without extreme poverty and with improved education and healthcare, as well as with consolidated social protection systems.
- Honduran development in a safe democracy.
- Honduras with production that generates opportunities and decent jobs and promotes natural resources sustainably, minimizing environmental vulnerability.
- Honduras with a modern, transparent, responsible, efficient and competitive State.

The next section corresponds to the document denominated 2010-2022 National Plan, which includes 11 strategic guidelines aimed at meeting intermediate goals on route to fulfilling the vision:

- Sustainable development of the population.
- Democracy, citizenship and governance.
- Reduction of poverty, asset generation and equality.
- Education and culture as a means of social emancipation.
- Healthcare as a basis for improving living conditions.
- Security as a requisite for development.
- Regional development, natural resources and environment.
- Productive infrastructure as an engine of economic activity.
- Macroeconomic stability as the basis for savings.
- Country image, competitiveness and development of productive sectors.
- Climate Change adaptation and mitigation.

Authorities will use multidimensional strategic planning for a more integral approach. As can be seen, both the country vision and medium-term plan incorporate different themes that are intended to address the multidimensionality that characterizes development processes. In addition, the SNPD also includes tools aimed at implementing the planning process, promoting transparency and citizen participation and measuring progress in the process, among other purposes.

OBJECTIVES OF THE 2014-2018 GOVERNMENT STRATEGIC PLAN

El Plan de Todos para una Vida Mejor is the policy instrument of the Honduran government for the 2014-2018 period; it includes development guidelines and priorities. The plan aims to guide the management of the current government towards achieving the medium and long term objectives established in the National Plan and Country Vision, respectively. The plan has four goals: i) pursuit of peace and eradication of violence; ii) generation of employment, competitiveness and productivity; iii) human development, reduction of inequalities and improved social protection; iv) transparency and modernization of the State.

The goals are structured in 7 global strategic objectives. The plan includes a number of general and cross-cutting strategies, concerning different issues, including: the empowerment of and commitment to the 2014-2018 Government Strategic Plan; having an institutional framework with the skills and capacities necessary for a successful implementation and adequate monitoring; strengthening the decentralization of competencies towards the municipal level; improving mechanisms and criteria for better targeting beneficiaries; incorporating environmental sustainability and risk management in all programs and projects; updating the II gender equality and equity plan; and promoting active social participation in the different processes of formulation and implementation of policies, programs and projects.

THE GLOBAL STRATEGIC OBJECTIVES ARE:

- Strengthen social protection of families living in extreme poverty.
- Achieve rapid, inclusive and sustainable economic growth to increase employment and reduce poverty by supporting key economic sectors that respond quickly to investment promotion and improved competitiveness.
- Stabilize the macroeconomic situation.
- Strengthen infrastructure and logistical development.
- Strengthen democratic governance.
- Protect the lives and properties of Hondurans.
- Create an international relations system.

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48 Approved through legislative decree No. 286-2009.
### ANNEX II:

#### OBJECTIVES OF THE GOVERNMENT STRATEGIC PLAN

<table>
<thead>
<tr>
<th>Objective</th>
<th>Cabei Focus Areas and Strategic Initiatives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthen social protection of families living in extreme poverty</td>
<td><strong>Human Development and Social Infrastructure</strong>&lt;br&gt;• <strong>Improve basic housing conditions.</strong>&lt;br&gt;• <strong>Facilitate access to housing for low-income population.</strong>&lt;br&gt;• <strong>Expand the coverage and quality of potable water and sanitation.</strong>&lt;br&gt;• <strong>Expand coverage and quality of education.</strong>&lt;br&gt;• <strong>Expand healthcare coverage.</strong></td>
</tr>
<tr>
<td>Achieve rapid, inclusive and sustainable economic growth to increase employment and reduce poverty</td>
<td><strong>Financial Intermediation and Development Finance</strong>&lt;br&gt;• <strong>Intermediated financing for production and development.</strong></td>
</tr>
<tr>
<td>Strengthen infrastructure and logistical development.</td>
<td><strong>Competitiveness Services</strong>&lt;br&gt;• <strong>Trade in Goods.</strong>&lt;br&gt;• <strong>Tourism.</strong>&lt;br&gt;• <strong>Business Services.</strong>&lt;br&gt;• <strong>Industrial Activities.</strong></td>
</tr>
<tr>
<td>Protect the lives and properties of Hondurans</td>
<td><strong>Productive Infrastructure</strong>&lt;br&gt;• <strong>Road infrastructure.</strong>&lt;br&gt;• <strong>Port and airport infrastructure or related services.</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Energy</strong>&lt;br&gt;• <strong>Generation of Renewable Energy</strong>&lt;br&gt;• <strong>Efficiency in energy matrices.</strong>&lt;br&gt;• <strong>Management, transmission and distribution of electrical energy.</strong></td>
</tr>
<tr>
<td></td>
<td><strong>Competitiveness Services</strong>&lt;br&gt;• <strong>Support to public safety.</strong></td>
</tr>
</tbody>
</table>
The infographic is composed of three hexagons on the top that represents the main inputs of this strategy; the Government 2014–2018 Strategic Plan, the Sustainable Development Goals (ODS) and CABEI 2015–2019 Institutional Strategy. In the middle, a hexagon with the focus areas represents the ways this proposal will be implemented through strategic development initiatives. At the bottom, the main objectives this country strategy will address. All these elements are integrated with two triangles opposed to allegorize dynamism, strategic alignment and flexibility of the Country Strategy.