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Abstract: This paper assesses the political and socio-economic consequences of the Poverty Reduction Strategy (PRS) in Honduras. The analysis uses several techniques (poverty narratives, stakeholder analysis and taxonomy analysis) and quantitative and qualitative data (socio-economic indicators, PRS spending execution and interviews with stakeholders). It argues that the PRS constitutes a missed opportunity to widen further the political space in which poverty reduction is formulated and to deliver pro-poor growth. The inclusion of multiple actors with different interests, capacities and influence led to a consensus too imprecise to articulate a set of priorities, left alone a pro-poor growth agenda. Recently, by shifting unilaterally the growth pillar of the PRS towards infrastructure investments and trade integration, Honduras may have lost yet another opportunity to support a truly participatory democracy.

Key Words: Poverty Reduction Strategy, Political Space, Pro-poor Growth, Honduras

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1. Introduction

More than five years after the appearance of the first Poverty Reduction Strategies (PRS), whatever enthusiasm was originally generated has given way to gloomy evaluations. Even the international financial institutions report disappointing results. Some of latest reports from the World Bank and International Monetary Fund¹ show that despite significant increases in poverty-reducing expenditures among PRS countries (an increase of 2.5 percent of GDP between 1999 and 2002), improvements in the quality of their policies and institutions remain below the achievements of non-PRS countries. Neither have net Official Development Aid flows to PRS countries grown at a faster pace than to other IDA countries since 2000. In Latin America, as shown below, the four countries enrolled in the Heavily Indebted Poor Countries-Poverty Reduction Strategy (HIPC-PRS) initiative do not even share a common record of improved economic growth and reduced poverty, however modest, after joining the initiative.

Multiple causes are offered to explain the ineffectiveness of PRS in delivering pro-poor growth. A first set of explanations refers to failures in the design and formulation of the PRS that impair their effectiveness during implementation: weak states and institutions; slow progress in forging effective partnership between public and private sectors; little change in the political space granted to new players; lack of national ownership and commitment; and serious

¹ World Bank Operations Evaluation Department 'The Poverty Reduction Strategy Initiative: An Independent Evaluation of the World Bank's Support Through 2003' (Washington DC, 2004); IMF and World Bank '2005 PRS Review: Balancing Accountabilities and Scaling Up Results' (Washington DC, 2005).

inconsistencies among donors.² Other critiques point to different culprits. The World Bank³ argues that the PRS were inadequate from the beginning, centring on public expenditures, and within them, on health, education and other social programmes, and overlooking critical areas such as infrastructure and rural development. On a different note, Gottschalk⁴ indicates that the macroeconomic framework often included in the PRS Paper (PRSP) typically focuses on price stability and fiscal balances and pays little attention to economic fluctuations and volatility, which also have major effects on poverty and growth. A report from the Institute of Social Studies/Sida,⁵ puts the blame on the over-optimistic and inflexible nature of macroeconomic frameworks.

Jointly these explanations may provide a compelling story of what went wrong, but they do not illuminate the relevance of each set of factors. Given the diversity of the 35 current PRS participants and the specificity that the mix of initial conditions, institutional capacities and stakeholder relations confers on each case,⁶ the present study does not pursue an aggregate analysis. Instead, it focuses on Honduras, arguably the HIPC-PRS participant with the best prospects in the Latin American region, as dire conditions of political instability, ownership and institutions have proven more deleterious in Bolivia, Nicaragua and Guyana.⁷ The paper explores how the two sets of explanations, that is, a flawed design process and a deficient macroeconomic

² D. Booth 'Introduction and Overview', *Development Policy Review*, Vol.21, No.2 (2003), pp.131-59; G. Dijkstra 'The PRSP Approach and the Illusion of Improved Aid Effectiveness: Lessons from Bolivia, Honduras and Nicaragua', *Development Policy Review*, Vol.23, No.4 (2005), pp.443-64; S. Hickey 'The Politics of Staying Poor in Uganda', CPRC Working Paper 37, University of Manchester (2003); Institute of Social Studies/Sida 'El Más Difícil Todavía: Crecimiento Pro-Pobre en Honduras', Stockholm 2005; Oxfam 'From "Donorship" to "Ownership"? Moving Towards PRSP Round Two', Briefing Paper 51 (Oxford, 2004); World Bank 'The Poverty Reduction Strategy Initiative'.

³ World Bank 'The Poverty Reduction Strategy Initiative'.

⁴ R. Gottschalk 'The Macro Contents of PRSPs: Assessing the Needs for a More Flexible Macroeconomic Policy Framework', *Development Policy Review*, Vol.23, No.4 (2005), pp.419-42.

⁵ Institute of Social Studies/Sida 'Aprendiendo sobre la Marcha: La Experiencia de Reducción de la Pobreza en Honduras', Stockholm 2004.

⁶ Booth, 'Introduction and Overview'.

and growth content, fare in the Honduran case. It also explores the political set-up prior to the PRS and how this affected its shaping. The paper argues that the PRS process has consolidated the political space opened a decade ago with the burgeoning of new civil networks but has failed to widen it further. Ironically, by including everyone in the dialogue process and almost no one in the formulation of the PRSP, the PRS missed the opportunity to be a truly participatory exercise. Also, the process produced a strategy too imprecise to be effective in either reducing poverty or stepping up economic growth. The paper further argues that the political space factor may prove to be more significant in the future reduction of poverty. New strategies for economic growth are already in place but without a more participatory political space, factors such as lack of ownership and commitment or the erosion of democratic legitimacy may derail future pro-poor growth efforts.

The paper uses several methodologies to analyse this hypothesis. It utilises available official information on performance regarding poverty and other social indicators (including economic growth and PRSP spending execution, among others) as well as perceptions and opinions collected from interviews with key stakeholders of the Honduran PRS process conducted over the course of two years. In order to give shape to both the politics and economics driving the PRS process, the paper uses poverty narratives,⁸ stakeholder analysis, statistical comparisons and a taxonomy analysis of growth potential adapted from Behrman.⁹

The next section recounts key antecedents on the opening of the political space in Honduras and the role that poverty and economic reforms have played in that process. Section 3 focuses on the content flaws of the Strategy and its ‘convenient’ lack of priorities to ensure a broad consensus. Section 4 reviews available empirical evidence to conclude that the PRS has not

⁷ Institute of Social Studies/Sida, ‘Ilusiones y Desilusiones del Crecimiento Pro-Pobre. Dilemas y Perspectivas para la Reducción de la Pobreza en Honduras’, Stockholm 2004.

⁸ S. Hickey, ‘Capturing the Political? The Role of Political Analysis in the Multi-disciplining of Development Studies’, Global Poverty Research Group, 2006.

⁹ J. Behrman, ‘Increasing Incomes for the Poor and Economic Growth: Toward a Simple Taxonomy for Policies’, Asian Development Bank Institute Research Paper No.36, Manila, 2002.

achieved its established goals, especially poverty reduction and economic growth. Having analysed the consequences of the process to date, Section 5 explores the prospects of the ‘revised’ PRSP to effectively support pro-poor growth, but finds little ground for the official optimism. Section 6 provides some final remarks.

2. Widening the Political Space in Honduras: The Role of Poverty and Economic Reforms

Five years after the World Bank and International Monetary Fund Boards approved the Honduras PRSP and the country reached its ‘decision point’, Honduras graduated onto its ‘completion point’ in April 2005. This will grant access to substantial debt relief over the coming years (US\$ 556 in net present value). To rationalise the use of debt relief resources, Honduras was asked to articulate an ambitious strategy that would lead to reduction of its poverty level from 63.9 percent in 2002 to 40 percent by 2015, and sustained growth rates of 4.5 to 5 percent of GDP until 2015.¹⁰ Sustained and rapid economic growth was identified as the backbone of a successful PRS in Honduras and elsewhere. In articulating a pro-poor growth, the original strategy brought together the traditional macroeconomic conditionality present in the faltered first wave of structural reforms in the 1990s (i.e., fiscal discipline, privatisation, liberalisation, and exchange rate adjustments) with widespread institutional reforms and pro-poor spending targets. An unprecedented feature of the HIPC-PRS process in Honduras and elsewhere is that conditionality would now promote a wider participation of governments, donors and local civil society groups. The participatory elaboration of the PRSP was expected to lead to a perception of national ‘ownership’ and therefore, advocates claim, to sustainability over time.

¹⁰ Republic of Honduras, ‘Estrategia de Reducción de la Pobreza’. Tegucigalpa: Gobierno de Honduras, Secretaria Despacho de Presidencia, 2001.

These expectations now seem too ambitious and optimistic, especially after taking into consideration the socio-political and economic history of the country. To analyse this history in the context of poverty reduction, Hickey's poverty narratives provide a useful approach.¹¹ Hickey distinguishes four elements to incorporate the political into the — traditionally economically-dominated — development arena: political capital, political capabilities, the polity approach, and political space. Of these four elements, political space has particular advantages in contexts of antagonistic relations among different actors, institutions and discourse striving to shape poverty reduction agendas in specific contexts.¹² Political space is an approach to understanding the politics of poverty reduction in a specific historical context and place resulting from series of contests and conflicts among actors, with an emphasis on issues of representation, inclusion, information dissemination, antagonistic interests and degrees of influence of different players in society.¹³

These emphases fit nicely in the Honduran context leading to the formulation of the PRS. The last 25 years of Honduran history have been characterized by incomplete political and economic transitions. The currently open political transition pursues a truly participatory democracy that goes beyond the electoral system which replaced military rule. Several authors have argued that the consolidation of a competitive electoral system following military rule has been a major accomplishment in the recent political history of the country.¹⁴ Elections have

¹¹ Hickey, 'Capturing the Political?'

¹² According to Hickey, there are serious concerns regarding the adequacy of the other elements in capturing the relations between different players around the formulation and implementation of pro-poor policies. He argues that they are either biased to economicist notions of supply and demand (the polity approach), or are better geared to addressing issues of social capital and governance than poverty reduction strategies (political capital and political capabilities); see Hickey 'The Politics of Staying Poor in Uganda'.

¹³ Ibid.

¹⁴ M. Blanchman and K. Sharpe, 'The Transitions to "Electoral" and Democratic Politics in Central America', in W. Leogrande and J. Mendelson Forman (eds.) *Political Parties and Democracy in Central America* (Boulder 1992), pp. 33-52; R Sieder, 'Election and Democratisation in Honduras since 1980', *Democratisation*, Vol.3, No.2 (1996), pp.17-40; United Nations Development Programme 'Informe sobre Desarrollo Humano.Honduras 2002. Por una Democracia Incluyente', Tegucigalpa, 2002.

become the only stable political mechanism in an otherwise fragile setting dominated by popular dissatisfaction. Fragility is an embedded feature of the political culture of the country as illustrated by the succession of 13 national constitutions, three Central American federal constitutions, 140 administrations and more than 400 armed conflicts in the period following independence.¹⁵ But elections alone have been insufficient to revitalise the democratic life of the country. After two decades of uninterrupted elections, widespread popular dissatisfaction with the bipartisan political institutions and generalised clientelism are still engrained in the political system of the country. Rápalo describes it as a continuous electoral campaign.¹⁶ As a result, Latinobarometro reports that only 33 percent of Honduras unambiguously support democracy over authoritarian regimes, while according to Seligson almost 90 percent of Hondurans feel that politicians favour their own interests over those of the poor.¹⁷

Economic reforms have also fed political dissatisfaction. The government of Honduras has pointed out, rather bluntly, that fifteen years of economic reforms have been insufficient to bring about economic growth and poverty reduction of the expected magnitude and speed.¹⁸ As the literature on political legitimacy makes clear, this may be expected to have serious consequences in a fragile democracy. Hirschman and Diamond argue that illegitimate political systems are obliged to provide some public good as justification for their survival — typically economic stability, economic growth or some notion of resumed order.¹⁹ Likewise, democratic

¹⁵ J. Castellanos, 'Seguridad Ciudadana, Sociedad Civil y Respuesta Institucional', in L. Salomón (ed.) *Gobernabilidad Democrática y Seguridad Ciudadana en Centroamérica: el Caso de Honduras* (Tegucigalpa 2000), pp. 87-118.

¹⁶ R. Rápalo, 'La Teoría del Contrato Social y las Experiencias de Concertación Social en América Latina', Colección Visión de País No.2, Tegucigalpa 2001.

¹⁷ Latinobarómetro, 'Latinobarómetro 2005. Resultados Totales por País', 2005. Downloaded from www.latinobarometro.org; M. Seligson, 'Encuesta de Buen Gobierno en Honduras: 2001', Proyecto de Cultura Democrática, University of Pittsburgh 2001.

¹⁸ Republic of Honduras, 'Alcanzando las Metas de la Estrategia de Reducción de la Pobreza. Informe de Avance del 2003 y Plan de Implementación de la Estrategia de Reducción de la Pobreza, 2004-6', Secretaria Despacho Presidencial, Tegucigalpa, 2004.

¹⁹ See A. Hirschman, *Essays in Trespassing* (Cambridge 1981); L. Diamond, 'Rethinking Civil Society: Toward Democratic Consolidation', *Journal of Democracy*, Vol.5, No.4 (1994), pp.4-17.

regimes that fail (or are perceived to fail) to deliver social goods risk being stripped of their legitimacy. Honduras may well be an example of the latter, where chronic and overwhelming poverty is not the only hindrance to democratic consolidation; in as much as economic reforms are not delivering, they may also be contributing to the erosion of democratic legitimacy .

Although reforms have significantly reshaped some areas of the economy,²⁰ they have been incomplete and unable to mitigate the vulnerability and volatility of the economy in Honduras. The result has been a lack of rapid and sustained economic growth and poverty reduction, with a per capita annual GDP growth of just 0.6 percent for the last fifteen years, and a modest reduction of poverty from 75 percent to a (still alarming) 64 percent of households in 2004. Throughout the 1990s, the Honduran economy experienced the stagnation of productivity growth in manufacturing exports; a highly volatile export diversification; inconsistent export promotion strategies; and chronic fiscal indiscipline. Tax reforms were timidly attempted but failed to change the tax structure until more substantive reforms were implemented between 2002 and 2004. Export taxes were fully eliminated only at the very end of the decade. Financial markets were scarcely transformed and supervision was not introduced until 1997. Critically, no reforms have been undertaken in the labour market, in which a highly regulated formal sector co-exists with a substantial informal sector.²¹ Even when export promotion achieved the diversification of agro-exports and the emergence of a *maquila* sector, production technologies did not change, links with the rest of the economy were not established and the price volatility of the new agro-exports was comparable with that of traditional exports.

Paradoxically, by delivering further economic well-being, political aspirations rise in line with higher stability. If they suppress political aspirations, stability is compromised.

²⁰ Price-setting public agencies were dismantled; an export led growth strategy was launched; the long-standing fixed exchange rate regime was lifted.

²¹ A. Hernández, 'Honduras: Contexto Económico y Social en la Época del Ajuste Estructural', in L. Salomón (ed.), *Gobernabilidad Democrática y Seguridad Ciudadana en Centroamérica: el Caso de Honduras* (Tegucigalpa 2000), pp. 19-57.

Although it has some country-specific overtones, this story of faltered reforms is not unprecedented or unfamiliar in the region.²² What makes the Honduran reforms different is their unexpected role in opening the political space to new actors. Opposition to the reforms grew in parallel with the succession of timely elections, which fulfilled the demands by broad sectors of society for increasing political participation. Traditional civil actors still strong in the early 1990s were fiercely opposed to the liberalising reforms intended by the Callejas administration. The *Plataforma de Lucha contra la Democratización del País*, made up of the traditional social movements (workers, campesinos and co-operativists), visibly led that opposition. The launch of the reforms delivered a mortal blow to *Plataforma*, which was dissolved. Its demise paved the way for the emergence of a new civil society initiating a second political transition from an electoral system to a participatory democracy.²³ New actors started to emerge and shun the old movements. New civil networks were formed, widening the range of issues discussed publicly, from poverty reduction to State–society relations. There was more specialisation among these new groups: some worked in poverty reduction and debt relief, others in immigration, childhood development, gender discrimination, youth, micro-enterprises, citizenship, good governance, decentralisation, reform of the judiciary, and so forth.

The attitude of tolerance and co-operation of the successive, democratically-elected governments — partly under pressure from the international community — was also instrumental in the burgeoning of civil networks. Specific organisations emerged in the mid and late 1990s that pursued the creation of a broad and inclusive space for debate and consensus-building in areas of education, democratisation, and the fight against corruption, among others. Another cornerstone in broadening a participatory dialogue in the country was the post-Hurricane Mitch reconstruction process. Civil society representatives participated actively in the process leading to the

²² E. Ganuza, S. Morley, S. Robinson and R. Vos (eds.) *¿Quién se Beneficia del Libre Comercio?* (New York 2004).

formulation of the *Plan Maestro de Reconstrucción y Transformación Nacional* (clearly an antecedent of the PRSP) and were present at symbolic points in the reconstruction process, such as the 1999 donors' reconstruction summit in Stockholm. These events have contributed to the widening of the political space in Honduras and permitted new voices to be heard, bringing higher expectations of effective participation. The PRS process soon put these expectations to the test.

3. The Poverty Reduction Strategy: A Missed Opportunity

This section analyses the role that the PRS played in the widening of the political space as a platform to a participatory fight against poverty in Honduras. The analysis follows a stakeholder analysis methodology. The analysis is based on 63 interviews with key stakeholders in Government, Congress, organised civil society, academia, think-tanks, the media, the Church, unions and the international community posted in Honduras. Interviews were conducted in 2003 and 2004 in Tegucigalpa. Focus group interviews were also carried out in the municipalities of San Pedro de Copán, Santa Cruz de Yojoa, Siguatepeque and Yamaranguila. This mix of municipalities represented middle and small-sized cities, urban and rural locations, and agriculture and services dependent economies.

The stakeholders consulted shared the view that the main value added of the PRS has been the consolidation of a national dialogue as a common, non-traumatic and almost irreversible practice. Views differ, however, on the effectiveness of the participative dialogue and the initial expectations held with respect to the PRS. The Government's evaluation of the consultation

²³ M. Posas, 'Gobernabilidad Democrática y Sociedad Civil en Honduras', in L. Salomón (ed.), *Gobernabilidad Democrática y Seguridad Ciudadana en Centroamérica: el Caso de Honduras* (Tegucigalpa 2000), pp. 59-85.

process describes the PRS as widely participatory at both the national and regional levels. One Government report claims that four national consultations in Tegucigalpa and 13 regional consultations elsewhere mobilized over 1,300 representatives and more than 200 non-governmental organisations (NGOs).²⁴ The same report indicates that the process of consultations followed clear and established rules on the incorporation of proposals: these ought to be congruent with the national reality; fruit of a wide consent; not geographically tied but a national priority; and without evidence of being inefficient. The result of the consultation process was the inclusion of 40 concrete action lines proposed by the civil society along nine different themes: the country's global vision; rural poverty; urban poverty; education; health; culture; social protection of specific groups; equal and sustainable economic growth; and the sustainability of the strategy.

The stakeholders interviewed did not all share that sanguine view, however. Small civil society organisations revealed satisfaction at their participation and at being listened to, even when their proposals — very local in scope — were rarely included in the mainstream strategy. In contrast, nation-wide, organised, specialised and vocal civil society networks expressed unequivocal disappointment and frustration at a PRS that, according to them, failed to incorporate their proposals. Influential national networks such as INTERFOROS or *Bloque Popular* argue that the top-down consultation methodology and the hastiness of the consultation and elaboration processes prevented the inclusion of their proposals.²⁵

Just as important as the mechanics of the preparation process, are the expectations raised on the role and scope of the PRS. Most of consulted stakeholders — including some government representatives and wide segments of the civil society — displayed an almost naive and simplistic

²⁴ Republic of Honduras, 'Evidencias al Proceso de Consulta de la Estrategia de Reducción de la Pobreza', Secretaria de Presidencia, Tegucigalpa, 2001.

²⁵ Interestingly, though, the Institute of Social Studies/Sida paper, 'Aprendiendo sobre la Marcha', compares the official 2001 PRSP with alternative proposals presented by INTERFOROS ('Estrategia de Combate a la Pobreza', Tegucigalpa, 2000) and ASONOG ('Estrategia de Combate a la Pobreza', Tegucigalpa, 2001). On a nine criteria comparison, the three proposals look surprisingly similar in content. Also, the two alternative proposals fail to spell out the financial costs of their strategies.

vision of what they expected from the PRS. They conceived the PRSP as the central output of the PRS process and as a instruction manual with precise actions to reduce poverty. High ranking government officials and the international community had lower expectations. They envisioned the PRS more generally as a flexible framework with which to tease out major consensus around poverty in Honduras, by opening up a discussion of the limitations of existing information sources and analyses, good practices in the fight against poverty, the need for institutional reform and strengthening of technical capacities, and the financial means needed to achieve concrete goals.

The PRS process failed to tackle upfront two critical aspects, which were ultimately to reduce its capacity to deliver its goals. The first of these was the representation issue, the second (and related) issue was the trade-off between consensus and precision in the formulation of a strategy. Neither the PRSP nor any background documents of the PRS process define mechanisms to select civil society representatives to be part of the dialogue. Instead, participants of 22 different sectors (considered in Honduras to constitute civil society) were invited to participate in the dialogue process. All of the great and influential civil society organisations, including critical organisations, were included. Interviews with stakeholders confirmed the perception that none of the major players was excluded from the dialogue process. But this policy of inclusion led to problems of its own, and the failure to resolve the representation issue more selectively had significant consequences. By mingling heterogeneous groups in terms of ideology, capacity, expectations and interests, the resulting consensus lacked precision and priorities — the second problem highlighted above. The long routes taken during the PRS process to reach very broad consensus led to a failure to prioritise and detail specific policies. This, along with the lack of a common agenda among the civil society participants, was convenient for the Government, which used it as a justification to pursue a top-down approach, with the inclusion in the eleventh hour of a non-negotiated macroeconomic framework and the approval of the PRSP

without a finalised monitoring system — an instrument which was expected to boost social control and accountability and to confer a critical role to civil society.

In addition to the lack of priorities, the contents of the PRSP are marked by a number of shortcomings, limiting its effectiveness in supporting pro-poor growth and poverty reduction. First, although the PRSP recognises the multiple dimensions of poverty, it restricts its analysis to monetary metrics. Second, although the PRSP contextualises poverty reduction strategies over time, it fails to critically evaluate the capacity of liberalising policies aimed at curbing poverty throughout the 1990s. Instead, it takes for granted that textbook policies will achieve the highly ambitious goals consistent with an over-optimistic macroeconomic framework. Third, the PRSP calls for a decisive push to lingering reforms such as decentralisation, electoral reform and information co-ordination among public institutions, even though the actual relevance of these reforms does not match their cursory treatment in the PRSP. Fourth, the excellent and comprehensive systematisation of all existing projects and future needs at the moment of writing the PRSP contrasts with the lack of flexibility surrounding the international financial flows associated with the PRS²⁶ Fifth, a clear tension arises between increasing conditionality associated with the HIPC-PRS initiative, and a true national ownership — even when conditionality sought the uncontroversial widening of local participation. Sixth, this increased local participation reveals the difficulties of seeking broad consensus among stakeholders with opposed interests and different degrees of influence. An analysis of local participation in the PRS discloses a series of asymmetries. Existing gaps between participation in the consultation process and a real influence in the drafting of PRSP are especially relevant. For example, the enormous influence of the former President of the Republic contrasts with the systematically low participation and influence of the National Congress during the elaboration of the PRSP. However, Congress is instrumental in approving the reforms needed for the implementation of the PRS effective. The role played by local governments, the Church and the media in the conception

of the PRS is also characterised by limited influence, although they are all key stakeholders in its implementation.

4. Has the PRS Achieved its Goals?

In spite of the limitations mentioned above, the implementation of the PRS has resulted in some notable progress. This section argues, however, that this progress cannot hide the failure of the Strategy to deliver its higher ‘goods’, that is, poverty reduction and economic growth.

The most significant progress has been made on institutional development and good governance. PRS progress reports highlight a number of such developments: the institutionalisation of national dialogue through the Consultative Group; the separation of the Electoral National Tribunal from the Registration Office for Persons; the creation of an independent Accounting Tribunal; the launch of the Anti-Corruption National Council; and the approval of the State Policy on Women, among others.²⁷ Efforts to increase the State’s revenue-generating capacity stand out among the economic reforms implemented. Three laws have been approved to that effect in 2002 and 2003: the Financial Balance and Social Protection Law; the Tax Equality Law; and the Public Finance Rationalization Law. Although it is difficult to determine how these and other policy reforms have been effective in changing the livelihoods of the poor, there are worrying signs. If we compare the list of accomplishments with the list of earmarked institutional changes for the first two or three years of the PRS, the gap is certainly wide.²⁸ Some key reforms, such as the reform of the legislative or the new operative guidelines of

²⁶ Dijkstra, ‘The PRSP Approach and the Illusion of Improved Aid Effectiveness’.

²⁷ See Republic of Honduras, ‘Alcanzando las Metas de la Estrategia de Reducción de la Pobreza’; and Republic of Honduras, ‘Estrategia para la Reducción de la Pobreza. Informe de Avance 2004’, Secretaria Despacho Presidencial, Tegucigalpa, 2005.

²⁸ Republic of Honduras, ‘Estrategia para la Reducción de la Pobreza’.

decentralisation and local government, are still awaiting approval. The strategy for the rural economy is still unfinished, and the monitoring system of the PRSP was put in place only four years after its approval.

The implementation of projects mirrors the slow progress in the implementation of PRS-related policies. Even projects in operation prior to the PRS showed low levels of execution. According to the 2003 PRS progress report,²⁹ only 54.5 percent and 42.2 percent of funds originally earmarked for 2001 and 2002, respectively, were disbursed in those years. Resources from external loans and grants prior to the PRS were also subject to low execution levels: 66 percent and 55 percent in 2001 and 2002, respectively. Financial restraints associated with delays in the disbursement of the PRS related funds cannot on their own explain these low execution levels: difficulties in absorptive capacity are also an important part of the story.

More recent information shows an improvement in disbursement, but large execution differences still remain by strategic area and, more significantly, around the pillar of equitable economic growth. In 2003 and 2004, growth strategies suffered sizeable delays in the implementation of related projects, as had also been the case in 2001 and 2002 (see Table 1).³⁰ Barely 40 percent of expected expenditures on growth programmes were executed in 2003 and only 26 percent in 2004. In contrast, other programmatic areas have been executed substantially above initial expectations. These deviations point both to weak planning and financing problems (especially due to fluctuations of grants) rather than an overall lack of funding. Likewise, there are large differentials between Congress-approved resources in the national budget³¹ and amounts

²⁹ Republic of Honduras, 'Alcanzando las Metas de la Estrategia de Reducción de la Pobreza'.

³⁰ Funds effectively spent in 2001 and 2002 on projects related to economic growth, sustainability and urban poverty averaged 12 percent, 17 percent and 17 percent, respectively. Execution rates improved to 48 percent, 50 percent and 91 percent among projects in the areas of protection of specific groups, human capital and rural development, respectively.

³¹ See Republic of Honduras, 'Presupuestos de la Nación', Congreso de la Nación, Tegucigalpa, 2004; Republic of Honduras, 'Política Presupuestaria para el Ejercicio Fiscal 2005 y Presupuesto Plurianual 2005-2008', Secretaria de Finanzas, Tegucigalpa, 2004.

reflected in the PRSP revision document³² as poverty spending. For the 2004 fiscal year, that gap reached 234.6 million dollars. It affects most PRSP strategic pillars except for economic growth and sustainability. This is, however, hardly good news for pro-poor growth as most of the discrepancies concentrate on human capital investments (203 million dollars).³³

< Table 1 about here >

In effect, there is no good news regarding economic growth or poverty reduction goals. A brief overview of the progress of these two PRS goals shows that neither has been achieved in Honduras. Only in 2003 and 2004 were economic growth rates close to or in excess of 4 percent, but even achieving the expected goals of GDP growth, per capita GDP growth and poverty spending in those years has not led to the fulfilment of the intermediate poverty reduction goals. This is all the more relevant given that other PRS goals related to education (pre-basic enrolment and secondary enrolment of a growing population), access to electricity, telephone coverage, environmental vulnerability and gender were achieved. This is not to say that all PRSP goals apart from poverty reduction were achieved: primary education, access to safe water and sanitation and gender empowerment performed below expectations in both years (see Table 2).

< Table 2 about here >

³² Republic of Honduras, 'Alcanzando las Metas de la Estrategia de Reducción de la Pobreza'.

³³ Republic of Honduras, 'Estrategia para la Reducción de la Pobreza', argues that the main reason for these differences is the adoption later during that year of a new definition of poverty spending that recognised only public education and health salaries up to 3.5 and 5 times the average GDP per capita, respectively, as poverty-related.

Is Honduras a special case among HIPC-PRS countries, at least in the Latin American region? Has the region as a whole performed better than Honduras and other HIPC-PRS countries? Table 3 provides period averages on key performance indicators before and after countries reached their initial decision points (that is, their national PRSPs were approved). The year of 1998 is considered the key point for the region as a whole as Guyana and Bolivia reached their decision points in that year. Table 3 shows that, with the exception of Bolivia, per capita debt service in the Latin American HIPC-PRS countries has declined since their eligibility. That reduction is significant because it has taken place in a period when debt service increased substantially in the region as a whole. However, the traditional gap in terms of per capita social expenditures of HIPC-PRS countries and the rest of the region has not narrowed. Not only HIPC-PRS countries, but the other countries in the entire region, have maintained their expenditure efforts on education, health and nutrition since the late 1990s. HIPC-PRS countries have been able to maintain their historical trends of social welfare improvements but so has the region as a whole. Poverty and indigence indicators have experienced a slight reduction in Honduras and Nicaragua, but have increased in Bolivia since participation in the HIPC-PRS initiative. In Honduras and Nicaragua, economic growth has accelerated since joining (partly because of enormous reconstruction financial flows following Hurricane Mitch, and still below expectations overall), while in Bolivia and Guyana (as in the rest of the region) economic growth has slowed down. Increasing fiscal deficits, deteriorating terms of trade and decreasing (or sluggish) investments may well have played a role in the limited poverty reduction achieved in the four HIPC-PRS countries. None of these factors has altered their relative leading position in inflation control, trade openness and investment. Worryingly for economic growth, however, fiscal primary deficits and capital formation have both deteriorated in the HIPC-PRS countries, including Honduras. All in all, while the HIPC-PRS initiative appears to have facilitated debt service reduction and social spending increases, economic growth has not picked up as expected.

< Table 3 about here >

5. A ‘Revised’ PRSP and its Future Prospects

Having concluded that the PRS has neither widened the political space in Honduras nor supported the expected pro-poor growth, this section focuses on future prospects. In particular, it centres on the potential for a ‘revised’ PRSP to help deliver the ambitious growth and poverty goals.

Interestingly, changes have taken place in the contents of the original PRSP rather than in the other aspects of the PRS process. More specifically, the PRSP has shifted its strategic emphasis onto the economic growth pillar. In order to analyse such changes, two studies have developed a methodology to determine the prospective impacts of pro-poor growth proposals.³⁴ The methodology consists of mapping the likely location of interventions within a two-dimensional space delimited by efficiency and poverty impacts. The aggregated impact of a given policy will be determined by the sum of several impacts resulting from various aspects of the policy.

Although it is not possible to determine quantitatively the total aggregate effect of a given policy, its mapping shows at least whether all the impacts considered will work in similar or in opposite directions. The analysis is of course tentative, not least because most of the Honduran initiatives are in their initial stages of implementation. Also, the selection of policy aspects is illustrative rather than exhaustive and is mainly determined by available knowledge on the formulation of the policy. For these reasons, the expected magnitude of the impacts of such interventions is difficult to spell out. Notwithstanding those difficulties, the mapping of several strategies allows us to systematise both the potentialities and limitations that each initiative faces in order to become

pro-poor (see Figure 1). Finally, the analysis assumes that political and institutional conditions in the country are such that the proposed interventions are feasible. Although this is not necessarily realistic in the immediate future for all the policies, this assumption is likely to hold in the medium to long term. The very survival of the PRS would itself be taken as an indication of a national commitment to carry out these reforms.

As indicated above, the original PRSP³⁵ (2001) emphasised primarily macroeconomic policies and reforms aimed at improving the investment climate as the foundation of its economic growth strategy. Fiscal balance was the priority for macroeconomic management.

Competitiveness was only dealt with from the institutional side but its operational side (badly needed strategies of enhanced productivity in the rural sector) was overlooked. The backbone of the competitiveness strategy was the simplification and reduction of administrative costs and the approval of the Competition Development Law. Similarly, progress in the financial system was intended to come from regulatory measures put in place by the approval of the Banking and Insurance National Commission Law and Deposits Insurance Fund Law. The ‘revised’ PRSP of 2004³⁶ acknowledges — surprisingly bluntly — that the fiscal deterioration and the vulnerability of the economy to coffee and oil price variations are symptoms of the incapacity of macroeconomic strategies alone to ensure pro-poor growth.³⁷ By proposing a ‘change in the focus of the strategy’ of economic growth,³⁸ the Government now seeks to prioritise investments in

³⁴ Behrman, ‘Increasing Incomes for the Poor and Economic Growth’; and Institute of Social Studies/Sida, ‘Ilusiones y Disilusiones del Crecimiento Pro-Pobre’.

³⁵ Republic of Honduras, ‘Estrategia de Reducción de la Pobreza’.

³⁶ Republic of Honduras, ‘Alcanzando las Metas de la Estrategia de Reducción de la Pobreza’.

³⁷ The Millennium Development Challenge report also acknowledges this position explicitly, indicating that ‘Liberalisation and structural adjustment initiatives that started in 1990 ... have produced so far *disappointing* results as far as economic growth and poverty reduction is concerned’ (Republic of Honduras, ‘Honduras. Propuesta para la Corporación del Desafío del Milenio’, Secretaria Despacho Presidencial, Tegucigalpa, 2004, p.2; author’s translation and emphasis).

³⁸ Republic of Honduras, ‘Alcanzando las Metas de la Estrategia de Reducción de la Pobreza’, p.8; author’s translation.

infrastructures conducive ‘to correct the deficit of quality and coverage of public services’.³⁹ Such investments in infrastructure are by no means new in Honduras: the novelty lies in their being advocated as unequivocally leading to pro-poor growth. Investments in **economic** infrastructure — that is, ports, highways, telecommunications and electricity — becomes a first ‘new’ pillar of pro-poor economic growth in Honduras. The pro-poor nature of these investments, their advocates maintain, lies in the fact that access to and efficiency of related services increase, and reach the poor. For example, the improvement of transportation facilities is seen to promote the integration of small-scale producers into the agricultural export mainstream. As infrastructure investments demand future maintenance, the micro-enterprises of poor families may now be hired for such services. Investments in **productive** infrastructure — particularly irrigation systems — are also considered paramount to promoting rurally-inclusive growth. Irrigation is planned to provide water for more than 13,500 additional hectares between 2004 and 2006. To the extent that the irrigation systems reach small rather than large producers, their potential effects are considered pro-poor. The **tourism** sector is seen as another catalyst for pro-poor growth, primarily in rural areas. Tourism projects will promote locally the development of a parallel demand for economic and basic services beyond the needs of the industry. Such initiatives will support pro-poor growth as they target indigenous poor communities. Projects mentioned in the ‘revised’ PRSP refer to several archaeological parks, the construction of a regional research centre in Copán Ruins and the reconstruction of churches along the *Lenca* Route. Another similar project promotes the Mayan World, hoping to offer an attractive northwest regional tourist route. Other initiatives are directed at the training and financing of tourist micro-enterprises targeted to indigenous communities.

Trade integration constitutes the other major component of the pro-poor growth strategy. However, the treatment of this topic in the ‘revised’ PRSP is surprisingly shallow, given

³⁹ Ibid., p.9.

the enormous anticipated economic consequences and the political complexities of its negotiations. The 2004-06 PRSP implementation plan⁴⁰ devotes only two paragraphs to CAFTA and its impact on poverty. The report indicates the need to increase the competitiveness of the agricultural sector and the rural sector more generally. According to that report, this will involve transferring more resources to competitive crops marketed in the new open markets. Permanent protection for white corn and prolonged (but temporary) protection for basic grains are reported as important successes for Honduras resulting from the CAFTA negotiations. Other measures expected to favour the rural economy are better inter-sector co-ordination, improved rural infrastructure and irrigation, improvements in rural management, strengthening of agricultural fito-sanitary conditions, increased financing opportunities in the rural sector and a new forestry law. Specific support to hillside agriculture is also mentioned as part of the rural development programme PRONADERS. The Millennium Development Challenge (MDC) proposal identifies horticulture, cucumbers, aubergines, and pumpkins as possible new exports that will have a window of opportunity under the CAFTA agreement.⁴¹ That document also argues that the promotion of onions, carrots and peppers among small producers has led to some successful diversification of agro-activities. However, it is recognised that lagging and vulnerable sectors — typically subsistence grains, hillside agriculture and the economies of marginal communities — will remain disadvantaged. Neither the official report on CAFTA,⁴² the PRS progress reports nor the MDC report specify how additional support or compensation to such sectors will take place, how it will be targeted and what sources will finance it.

In spite of these alleged pro-poor growth strategies, doubts linger as to their (re)distributive impacts. First, it is not clear that the improvement of economic infrastructure will disproportionately improve the livelihoods of the poorest. This will only be the case if

⁴⁰ Republic of Honduras, 'Alcanzando las Metas de la Estrategia de Reducción de la Pobreza'.

⁴¹ Republic of Honduras, 'Honduras. Propuesta para la Corporación del Desafío del Milenio'.

⁴² Republic of Honduras, 'Honduras: Tratado de Libre Comercio con Estados Unidos. Informe Final de Negociación', Secretaría de Industria y Comercio, Tegucigalpa, 2003.

investments in ports, transportation and telecommunications lead to a sizeable reduction in the prices of staples and public services and if the construction of infrastructure is labour rather than capital intensive. At best, the revised PRSP fails to provide detailed and convincing evidence of these conditions for a pro-poor impact. Second, the increase in the demand for micro-enterprise maintenance services is estimated to amount to a total of five additional enterprises during 2005 (from 55 in 2004) and a further ten in 2006. These numbers are clearly insufficient to have a nationwide impact. Third, the financing needs estimated for communication infrastructure alone amount to 452 million dollars, of which only 196 million were ensured in 2005, with a further 90 million in negotiation.⁴³ If road tolls are introduced in order to meet these financial needs, small producers may not gain their hoped-for access to export circuits. Fourth, irrigation systems are not in general located among the poorest municipalities: only two of ten municipalities in which irrigations projects are planned score low in the Human Development Index. The remaining eight have intermediate or high levels in the index.⁴⁴ Similarly, tourism projects concentrate on the northern coastal areas of the country (Bay Islands, and the departments of Atlántida, Colón, Cortés) and the department of Morazán (where Tegucigalpa is located), which are the departments with the highest levels of human development in the country.

The mapping of each initiative in Figure 1 suggests a large degree of uncertainty associated with their design, implementation and/or financing sustainability. All initiatives are located either in the upper right quadrant or along the axes delimiting that quadrant of economic growth and poverty reduction. However, there are possible features or conditions associated with the initiatives that may take them into alternative quadrants — those of increasing growth and poverty and decreasing growth with increasing poverty. For instance, the construction of the logistical corridor may bring large economic gains if it reduces transaction costs substantively. If

⁴³ Republic of Honduras, ‘Estrategia de Reducción de la Pobreza’.

⁴⁴ Republic of Honduras, ‘Alcanzando las Metas de la Estrategia de Reducción de la Pobreza’; and UNDP, ‘Informe sobre Desarrollo Humano’.

trade integration does not result in an increased demand for low-skill labour, its impact in poverty may not be significant. Which of these features prevail is an empirical question that will depend on the final design and implementation of the initiatives. Ultimately, the *specific* design and implementation will determine whether or not a policy proposal results in pro-poor growth. There is certainly no reason for an unambiguous optimism regarding the capacity of these policies to support pro-poor growth: the enabling conditions that would shift each policy towards the pro-poor growth quadrant still need to be established.

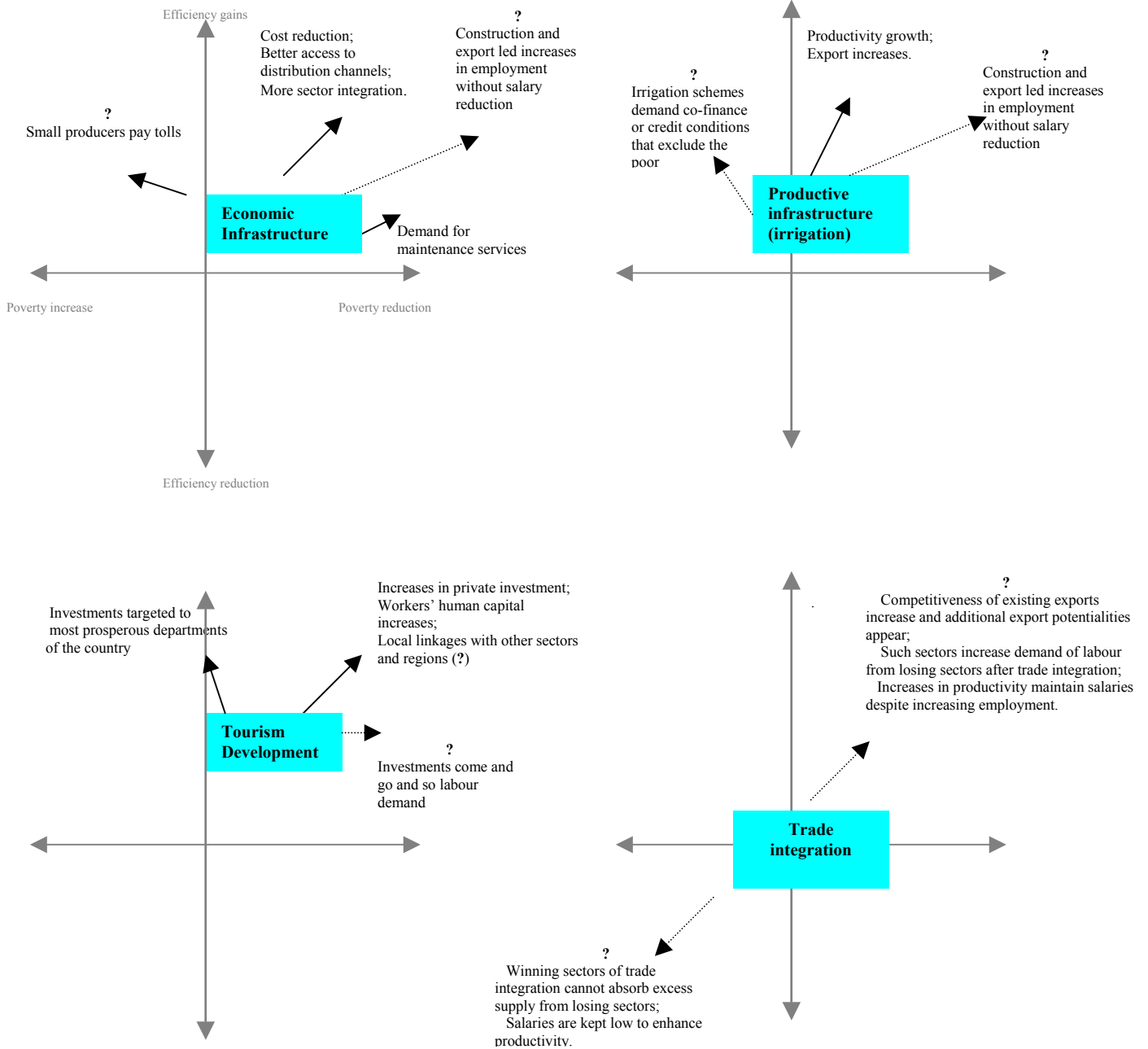
< **Figure 1 about here**>

6. Final remarks

The HIPC-PRS process has facilitated the reduction of debt service and the increase of social spending in Honduras and has consolidated the wider political space enjoyed by its society since the late 1990s. However, the PRS constitutes a missed opportunity to expand this political space still further, to increase the participation of the Honduran civil society and to support pro-poor growth. Not only has the PRS failed to provide a new pro-poor growth strategy (borrowing instead from a flawed economic model which delivered neither substantive economic growth nor poverty reduction), but it also lacks policy priorities. This lack of strategic priorities is the price it has paid for a PRS process which was all-inclusive in the consultative phase, but very narrow in its decision-making. As a result, the PRS has not inspired a sense of national ownership, and doubts about its future relevance are increasing. Worryingly, history appears to be repeating itself. The revitalized official optimism in the capacity of the ‘revised’ PRSP to unequivocally support pro-poor growth seems unjustified. The shift in emphasis towards infrastructure

investments and trade integration has not been yet developed sufficiently as to prove either financially sustainable or supportive of pro-poor growth. Furthermore, its formulation process makes the 'revised' PRSP another missed opportunity for widening further the country's political space. Even if Honduras eventually gets closer to supporting pro-poor growth, its political transition towards a more participatory democracy will remain incomplete unless more efforts are put into increasing this political space.

“Figure 1: Potentialities and Risks Associated with Pro-poor Growth Strategies in Honduras”



“Table 1: Expected and Executed PRSP Spending, 2003 and 2004”.

Area	Expected 2003 (US\$ million)	Executed 2003 as % of expected	Expected 2004 (US\$ million)	Executed 2004 as % of expected
Accelerating sustained and equitable economic growth	0.81	40.17%	5.73	26.39%
Rural poverty reduction	68.84	104.61%	59.73	136.04%
Urban poverty reduction	46.05	125.27%	46.37	93.26%
Human capital investments	327.95	106.48%	358.26	99.45%
Strengthening social protection to vulnerable groups	23.62	101.98%	26.18	99.39%
PRS sustainability	70.77	87.19%	92.03	125.69%
PRS Total	538.09	103.64%	589.23	105.90%
Sources of Financing				
National funds	340.15	101.06%	327.60	105.98%
Loans	117.83	95.28%	120.54	162.29%
Grants	52.02	176.05%	81.14	26.13%
HIPC	28.09	95.62%	59.95	100.01%
PRS Total	538.09	103.64%	589.23	105.90%
Poverty Expenditure as % GDP	7.8	8.1	8.1	8.6

Source: Republic of Honduras, ‘Estrategia para la Reducción de la Pobreza. Informe de Avance 2004’, Secretaria Despacho Presidencial, Tegucigalpa, 2005.

Note: 2003 exchange rate \$ per lemp: 17.2; 2004 exchange rate \$ per lemp: 18.2

“Table 2: Are the PRS Goals Being Achieved?”

Goal	Indicator	2001	2005	Achieved 2001?	Achieved 2002?	Achieved 2003?	Achieved 2004?
GDP growth	% of growth of real GDP (2000)	5.7	4.5	No	No	Yes	Yes
Per capita GDP growth	% of growth of per capita real GDP (2000)	2.6	2.4	No	No	Yes	n.a.
Social Spending	Spending on Poverty as % of GDP (2000)	7.0	9.7	n.a.	n.a.	Yes	Yes
Poverty reduction by 24 pp.	Poverty incidence (1999)	66.0	42.0	No	No	No	No
	Extreme poverty incidence (1999)	49.0	25.0	Yes	Yes	No	No
Double the net pre-basic enrolment rate	Pre-basic education enrolment rate (1999)	32.9	60.0	No	No	Yes	Yes
95% coverage of net enrolment rates of first two cycles of basic education	Net enrolment rate in first and second cycle (excluding over-aged) (1999)	89.8	95.0	Yes	Yes	No	No
Net enrolment of 70% in the third cycle of basic education	Net enrolment rate in third cycle of basic education (excluding over-aged) (1999)	24.2	70.0	Yes	Yes	No	Yes
50% of the emerging population complete secondary education	Net coverage of the diversified cycle (grades 10 to 12) excluding over-aged (1999)	12.4	50.0	No	Yes	Yes	Yes
Infant and under-5 mortality halved	Infant mortality rate over 1,000 alive births (1996)	36.0	18.0	No	n.a.	n.a.	n.a.
	Under-5 mortality rate over 1,000 alive births (1996)	48.0	24.0	No	n.a.	n.a.	n.a.
Halve under-5 malnutrition	Infant malnutrition rate (1996)	37.8	18.0	Yes	n.a.	n.a.	n.a.
Maternal mortality halved	Maternal mortality rate over 100,000 alive births (1996)	147.0	70.0	Yes	n.a.	n.a.	n.a.
80% of coverage of electricity services	Coverage rate of electricity (1999)	54.9	80.0	n.a.	n.a.	Yes	Yes
Triple the telephone density of the country	Density of fixed lines per 100 inhabitants (2000)	4.8	14.1	n.a.	n.a.	Yes	Yes
	Mobile telephone penetration (users per 100 inhabitants) (2000)	2.5	15.7	n.a.	n.a.	Yes	Yes
95% access to safe water and sanitation	% of population with access to safe water (1999)	81.0	95.0	n.a.	No	No	Yes
	% of population with access to sanitary disposal (1999)	70.2	95.0	No	No	No	Yes
Raise 20% the HDI of women	IDH relative to Gender (1999)	0.6	0.8	No	No	Yes	n.a.
	Index of Gender Empowerment (1999)	0.5	0.6	No	No	No	n.a.
Halve the environmental vulnerability of the country	Number of priority protected areas with management plans (2000)	5.0	39.0	n.a.	n.a.	Yes	Yes
	Total % of priority protected areas with management plan (2000)	12.5	100.0	No	No	No	No
	Air pollution in urban centres (ug/m ³) (2000)	668.7	n.a.	No	n.a.	n.a.	n.a.

Source: Adapted from Republic of Honduras, ‘Estrategia para la Reducción de la Pobreza. Informe de Avance 2004’, Secretaria Despacho Presidencial, Tegucigalpa, 2005.

“Table 3: Socio-economic Indicators in HIPC and non-HIPC countries in LA&C”

	Bolivia		Guyana		Honduras		Nicaragua		LA&C	
	Before	After	Before	After	Before	After	Before	After	Before	After
Debt and Expenditure Indicators										
Public exp. Health and Education (% GDP)	8.4	11.8	12.5	19.4	6.6	8.4	9.7	11.0	n.a.	n.a.
Per capita health and education exp. (US\$)	82.8	109.4	72.8	186.4	71.1	80.2	58.0	76.2	380.1	522.2
Per capita debt service (US\$)	49.7	59.5	174.9	135.6	85.4	62.4	53.4	46.8	138.1	293.5
Total per capita HIPC debt relief (US\$)	n.a.	239.1	n.a.	1,759.4	n.a.	122.9	n.a.	800.4	n.a.	n.a.
Social Indicators										
Poverty incidence (%)	57.4	61.5	n.a.	n.a.	79.9	77.3	71.8	69.4	45.9	43.4
Extreme Poverty incidence (%)	30.1	36.8	n.a.	n.a.	57.4	54.4	46.5	42.4	20.8	18.7
Life expectancy at birth (yrs.)	60.6	63.0	63.7	63.6	68.6	70.8	66.9	69.2	69.0	70.7
Under 5 mortality rate (per 1,000 a.b.)	109.5	75.5	87.0	73.0	55.0	41.0	60.0	43.0	48.5	35.3
Adult illiteracy rate (% over 15+)	19.1	14.7	n.a.	n.a.	28.7	22.5	35.6	28.4	13.6	11.6
Net primary enrolment (%)	90.7	95.2	89.7	97.0	89.7	87.4	77.3	80.7	89.8	94.6
Economic Indicators										
GDP growth rate (%)	4.3	2.4	5.8	0.3	2.8	3.7	2.9	4.8	3.3	1.2
Per capita GDP growth rate (%)	1.9	0.0	5.6	-0.2	-0.1	0.6	0.0	2.1	1.6	-0.3
CPI (%)	11.8	3.4	7.6	5.2	19.7	9.0	13.4	7.0	16.3	8.9
Trade openness (% GDP)	48.8	47.0	224.0	202.6	85.7	92.6	91.7	72.5	28.6	35.4
Terms of Trade (1997=100)	94.4	89.0	n.a.	n.a.	93.0	80.9	105.0	78.8	98.4	97.4
Primary fiscal deficit (% GDP)	-2.9	-6.2	n.a.	n.a.	0.9	-2.8	-1.4	-3.3	-1.7	-2.9
Gross Fixed Capital Formation (% GDP)	15.7	16.9	34.1	23.4	24.4	24.0	26.1	28.0	19.2	19.3

Source: poverty incidence as reported by CEPAL, *Panorama Social de América Latina 2004*.(Santiago de Chile, 2005).

Notes: ‘Before’ periods refer to 1990-1997 for Bolivia, Guyana and the Latin American and Caribbean region; 1990-1998 for Honduras and Nicaragua. ‘After’ periods refer to 1998-2003 to Bolivia, Guyana and Latin America and the Caribbean; and 1999-2004 for Honduras and Nicaragua. ‘a.b.’ stands for alive births and ‘CPI’ for consumer price index.