

Special Report

**The effectiveness of EU
support to priority sectors
in Honduras**



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Special Report

The effectiveness of EU support to priority sectors in Honduras

(pursuant to Article 287(4), second subparagraph, TFEU)

The ECA's special reports set out the results of its performance and compliance audits of specific budgetary areas or management topics. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

This performance audit was produced by Audit Chamber III — headed by ECA Member Karel Pinxten — which specialises in external action, security and justice. The audit was led by ECA Member Bettina Jakobsen, supported by Katja Mattfolk, head of private office; Kim Storup, private office attaché; Alejandro Ballester-Gallardo, principal manager and Werner Vlasselaer, head of task. The audit team consisted of Thomas Arntz, Aurelia Petliza and Ainhoa Pérez-Infante.



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Abbreviations and acronyms

APN: Support to the National Plan (Apoyo al Plan Nacional)

CSP: Country Strategy Paper (multiannual programming instrument)

EuroFor: European support programme to the Forestry Sector (Programa de apoyo europeo al sector forestal)

EuroJusticia: Promoting a fast and accessible Justice in Honduras (Promoviendo una Justicia Rápida y Accesible en Honduras)

EUROSAN: Food Safety, Nutrition and Resilience in the Dry Corridor (Seguridad Alimentaria, Nutrición y Resiliencia en el Corredor Seco)

GDP: Gross Domestic Product

MADIGEP: Support measures for Institution Building and Public Policy Management (Medidas de Apoyo al Desarrollo Institucional y la Gestión de Políticas Públicas)

MOSEF: Project for the modernization of the Honduran Forestry Sector (Proyecto Modernización del Sector Forestal de Honduras)

MIP: Multiannual Indicative Programme (Strategic objectives of the EU's relationship with Honduras for the period 2007-2013)

NIP: National Indicative Programme (the time-span of the 2007-2013 CSP was split into two successive NIPs, respectively covering the periods 2007-2010 and 2011-2013)

PAAPIR: Support programme for the Public Administration and Regional Integration (Programa de Apoyo a la Administración Pública y a la Integración Regional)

PAPSAC: Sector support programme for Water and Quality (Programa de Apoyo Sectorial Agua y Calidad)

PASS: Support programme to the Honduran Security Sector (Programa de Apoyo al Sector Seguridad en Honduras)

UNICEF: United Nations International Children's Emergency Fund

WHO: World Health Organisation

I
Honduras is a Central American country that suffers from high poverty rates and widespread violence. In recent years the EU and its Member States have strengthened their cooperation with Honduras, notably with the signature of an Association Agreement in 2012. The EU has channelled its development cooperation funding to Honduras in the form of both projects and budget support.

II
We assessed the effectiveness of the EU's bilateral development support to priority sectors in Honduras. We therefore examined the Commission's management and the degree to which the EU's development support objectives have been achieved. The audit focused on the 2007-2015 period where the EU payments amounted to 119 million euro. The priority sectors examined were poverty reduction, forestry, and security and justice.

III
We concluded that the EU's development support to priority sectors in Honduras during the audited period was partially effective. It contributed to a number of positive developments in these sectors, but difficult country circumstances and a number of management weaknesses hindered its impact. The overall situation in the country remains worrying. The level of poverty has increased, the area of forest land had decreased and there is still widespread violence and a very high homicide rate.

IV
The EU's actions were relevant and generally delivered the expected outputs, albeit with significant delays mostly due to exogenous factors. The Commission's approach was insufficiently focused because the financial assistance spread over many areas, thus increasing the risk of jeopardising its impact. We found shortcomings in the tools used by the Commission to monitor the performance of the EU actions.

V
Although there is a good donor coordination structure in Honduras, actual collaboration was relatively limited which led in some specific cases to overlapping support. The Commission is nevertheless making efforts towards joint programming with EU Member States as from 2018.

VI
The Commission has developed dialogue strategies to structure its policy dialogue in various areas with the Government of Honduras. This is good practice, although it has not made written assessments of the degree to which the objectives set by its dialogue strategies have been achieved. Overall, the Commission has implemented a constructive policy dialogue, which contributed to achieving the objectives of EU actions.

VII

The EU Delegation in Honduras lacked the necessary macro-economic and public financial management expertise to manage budget support operations. Furthermore, providing budget support in Honduras involved substantial risks due to the unstable macroeconomic framework and weak public financial management. The Commission managed to partly mitigate these risks. However, it did not assess budget support eligibility in a sufficiently structured manner to demonstrate that the progress achieved by the country was in line with clearly defined benchmarks and targets. Furthermore, the Commission did not always react consistently when the partner country did not respect the budget support eligibility conditions. This sent contradictory messages that could be detrimental to aid effectiveness.

VIII

We make a number of recommendations for the Commission to strengthen the EU approach, the management of budget support operations, the performance measurement of EU actions and policy dialogue in the priority sectors.

Honduras faces significant development challenges

01

Honduras is a lower middle income country located in Central America (see map in **Annex I**) with a population exceeding 8 million. Since the general elections that took place in November 2009 after a '*coup d'état*', the country has been continuously ruled by the same political party.

02

Honduras was ranked 131 out of 188 on the 2015 United Nations human development index list¹ and is therefore considered to have a medium human development. The country has one of the highest poverty rates in Latin America 68.2 % of the population are affected, with 39.7 % of the population in a situation of extreme poverty². Honduras is also one of the most inequitable societies in Latin America.

03

Over the years, Honduras has adopted several strategies to address its development challenges (see **Box 1**).

1 Human Development Report 2015, United Nations Development Programme.

2 According to 2014 data of the National Institute of Statistics ('*Instituto Nacional de Estadística*').

Box 1

Government development strategies

In 2001, the Government adopted a Poverty Reduction Strategy Paper as a framework for channelling development aid. It was the only country in Latin America to do so. This was a requirement to benefit from debt relief under the Highly Indebted Poor Countries initiative. The Government reviewed the Poverty Reduction Strategy during period 2006-2008 to improve its focus on the very poor, but never officially endorsed the modified strategy.

Following the 2009 '*coup d'état*', the political parties agreed on a long-term plan called 'Country Vision 2010-2038'³ and a medium-term plan called 'National Plan 2010-2022'⁴. The long-term plan outlines four ambitious general objectives that relate to social, political and economic policies to be achieved by 2038. It is to be implemented by two national plans and seven government plans. The national plan for 2010-2022 focuses on 11 strategic areas.

3 '*Visión de País 2010-2038*'.

4 '*Plan de Nación 2010-2022*'.

Introduction

04

Macroeconomic instability has been identified as one of the causes of low growth and insufficient poverty reduction. Honduras is also known as a very violent country with a per capita murder rate that is among the highest in the world. Together with impunity and corruption, this is a fundamental obstacle to development in Honduras.

Within Central America, Honduras receives most EU development support

05

The EU is Honduras' second largest trading partner, after the United States. In June 2012, the EU and its Member States signed an Association Agreement with the Central American countries. The Agreement relies on three pillars; political dialogue, cooperation, and trade. The trade pillar provisionally entered into force for Honduras in July 2013, while the political dialogue and cooperation pillars will be activated once all EU Member States have ratified the Agreement.

06

The EU and its Member States have also signed a Political Dialogue and Cooperation Agreement with the Central American countries: this entered into force on 1 May 2014. The Agreement provides for a political dialogue at several levels and includes the possibility of cooperation in the field of foreign and security policy.

07

Among the dozen major donors in Honduras, the EU ranks fourth, representing 11 % of all official development assistance in the country. The Commission programmes the EU's bilateral support for periods of seven years. The overall envelope was increased from 223 million euro for the 2007-2013 period to 235 million euro for 2014-2020 (see **Annex II**). The main priorities identified for 2007-2013 were poverty reduction, natural resources and security and justice. The main priorities for 2014-2020 are food security, with a focus on family agriculture; employment and decent work and rule of law.

08

From 2007-2015, these allocations resulted in contracts totalling 194 million euro and payments totalling 119 million euro (see **Figure 1** and **Annex III**). About half the value of bilateral support is provided through budget support⁵, both general budget support and sector budget support. The other half is implemented in the form of projects. The Commission accompanies the EU's actions with policy dialogue.

5 Budget support is an aid modality that involves the transfer of funds by the Commission to the national treasury of a partner country in order to provide additional budgetary resources to support a national development strategy or a sector strategy. It is accompanied with policy dialogue, performance assessment and capacity development.



Source: European Commission.

09

As well as programmed bilateral cooperation, Honduras has also benefited from:

- regional cooperation programmes for Latin America. These concern social cohesion, good governance, urban local development, water sector knowledge, energy for isolated communities and climate change. The total regional allocation has risen substantially: from 556 million euro for 2007-2013 to 805 million euro for 2014-2020;
- the Central America sub-regional programme, which focuses on security and justice, climate change and private sector development for generating employment. The overall allocation has also been markedly increased: from 75 million euro for 2007-2013 to 120 million euro for 2014-2020;
- 47 projects financed from thematic budget lines such as education, decentralisation, food security and human rights. The expenditure concerned amounts to 24 million euro;
- the Latin America Investment Facility which for Honduras has committed 7 million euro to a road project and has an electricity project in the pipeline;
- A project of 1.1 million euro financed under the Instrument for Stability to support the Truth and Reconciliation Commission after the '*coup d'état*' in 2009 (see paragraph 1).

10

We assessed the effectiveness of EU development support to priority sectors in Honduras. We therefore examined the Commission's management and the degree to which the EU's development support objectives have been achieved. The audit focused on the 2007-2015 period and was carried out between November 2015 and April 2016. The priority sectors examined were poverty reduction natural resources, and security and justice. These sectors received 89 % of expenditure under bilateral support over the 2007-2015 period (see **Annex III**).

11

Our audit work consisted of a desk review, interviews of staff from Commission headquarters and the European External Action Service, and a visit to Honduras. The objective of the visit was to collect further information and interview staff of the EU Delegation, representatives of the national authorities, beneficiaries, other donors and civil society organisations.

The EU approach was generally relevant and well-coordinated but insufficiently focused

12

We examined whether the Commission, in collaboration with the European External Action Service prioritised sectors for support by addressing the main country needs in a consistent manner. We also examined whether the Commission had appropriately coordinated its approach with other donors active in Honduras.

EU strategies addressed important needs but the funding was spread over too many areas

13

When programming its bilateral support for Honduras, the Commission targeted many priority areas⁶. The Commission's programming documents generally provided convincing arguments for engaging in new areas as they responded to high needs that were covered by relevant and credible national strategies. In some cases, however, the Commission's strategy for 2011-2013 provided for support in areas (i.e. renewable energy, energy efficiency and quality systems for improving competitiveness) for which the Honduran Government had not adopted a sector strategy. It is therefore not demonstrated that the Commission support in these areas was also a priority for the Government.

14

The Commission implemented its strategies through actions that involved providing financial assistance (see **Annex III**). The objectives of these actions (see **Box 2**) were broadly defined, in particular for poverty reduction which was a priority sector for the 2007-2013 period. They related to many areas including education, health, water and sanitation, quality systems, statistical systems and public financial management. The limited focus meant that the efforts and the financial assistance were spread over many areas, which jeopardised their potential impact. In addition, the Commission's strategic choices involved frequent changes as it reacted flexibly to changes in the national strategies. As a result, some of these areas received support only for a relatively short period of time. The main examples concerned support for basic education, health, quality systems and water and sanitation which were priority areas during three or four years.

6 The Commission identified six 'priority sectors' for the 2007-2013 and the 2014-2020 period. These priority sectors covered many different areas such as education, health, water and sanitation, forestry, renewable energy, security and justice and more. For details see **Annex II**.

Objectives of the EU actions in the priority sectors examined

Poverty reduction

APN (2009)	Support the implementation of the national plans and strategies with a focus on quality in basic education and health strategies to reduce maternal and child mortality. To a lesser extent, provides support for the civil service reform and the National Institute of Statistics ⁷ .
PAPSAC (2012)	Improve water and sanitation conditions and the competitiveness of the agri-food sector with a focus on quality.

Natural resources

MOSEF (2011)	Strengthen the Forest Conservation Institute ⁸ and local level forest management.
EuroFor (2013)	Support the implementation of the National Forestry Programme and community-based forest management.

Security and Justice

PASS (2008)	Support the security sector through the adoption of the National security and justice policy, the development of institutional capacities, prevention and rehabilitation policies and improvements in detention conditions.
Eurojusticia (2013)	Mainly focused on justice, strengthen institutional capacities to prosecute and punish corruption and violent crime, develop internal and external controls in the sector and improve access to justice.

⁷ 'Instituto Nacional de Estadística'.

⁸ 'Instituto de Conservación Forestal'.

15

Activities under the actions used to implement the Commission's strategies were complementary and well-coordinated with other EU support in the form of bilateral, regional and thematic programmes. Furthermore, in most cases the objectives and activities were in line with the needs of the sector supported. The audit nevertheless identified the following two exceptions:

- (a) Some of the support provided by MOSEF to municipalities did not address needs in the forestry sector. Examples included training on the principles of general hygiene, the construction of water reservoirs for general water supply purposes, the installation of garbage bins at primary school, the construction of paths and kiosks in an urban park and the installation of solar panels. However, EU actions insufficiently addressed land tenure uncertainty, which is one of the main weaknesses in the forestry sector. The uncertainty is caused by the fact that title to forest land has been granted by three institutions without coordination. This has an adverse effect on the fight against deforestation, forest fires and illegal logging.

Observations

- (b) Like other donors, the EU supported the education sector by focusing on pre-primary and basic education (grades 1st to 6th) instead of on the third cycle (grades 7th to 9th) although the latter required more attention according to the national authorities⁹.

16

Technical assistance was provided as part of the actions or, in the case of poverty reduction, by dedicated actions¹⁰. Technical assistance was prioritised by the national authorities. This allowed relevant needs to be addressed while avoiding duplications. However, as the Commission addressed many areas (see paragraphs 13 and 14), the funding available was not sufficient to address significant needs in the priority sectors - despite specific requests by the responsible line ministries. These requests concerned relevant needs that were also not addressed by other donors.

- (a) A number of technical assistance requests from the Ministry of Health were not honoured, including requests for a study into vitamin and mineral deficiencies in the population and for the development of an integrated health system and the related information systems.
- (b) Only a few local authorities that became empowered to manage water and sanitation were able to benefit from capacity development support and certain general requests for technical assistance in the water and sanitation sector were not met. The needs that were not addressed concerned assistance in the drafting of legislation, formulating local projects and the development of a water management information system.
- (c) The technical assistance delivered to enhance the quality systems for improving competitiveness did not address some of the main needs identified by the Government, such as the drafting of a regulation to implement the law promoting quality, the validation of methods for detecting toxic residues in food, the consolidation of various national strategies and development a strategic plan for the Honduran Accreditation Office.

Despite a good donor coordination structure there is not yet an effective division of labour

17

The main coordination mechanism brings together most significant donors¹¹ and is organised at three levels (see **Figure 2**) including at sector level where donors share information and exchange views. The Commission actively participates in several of these working groups.

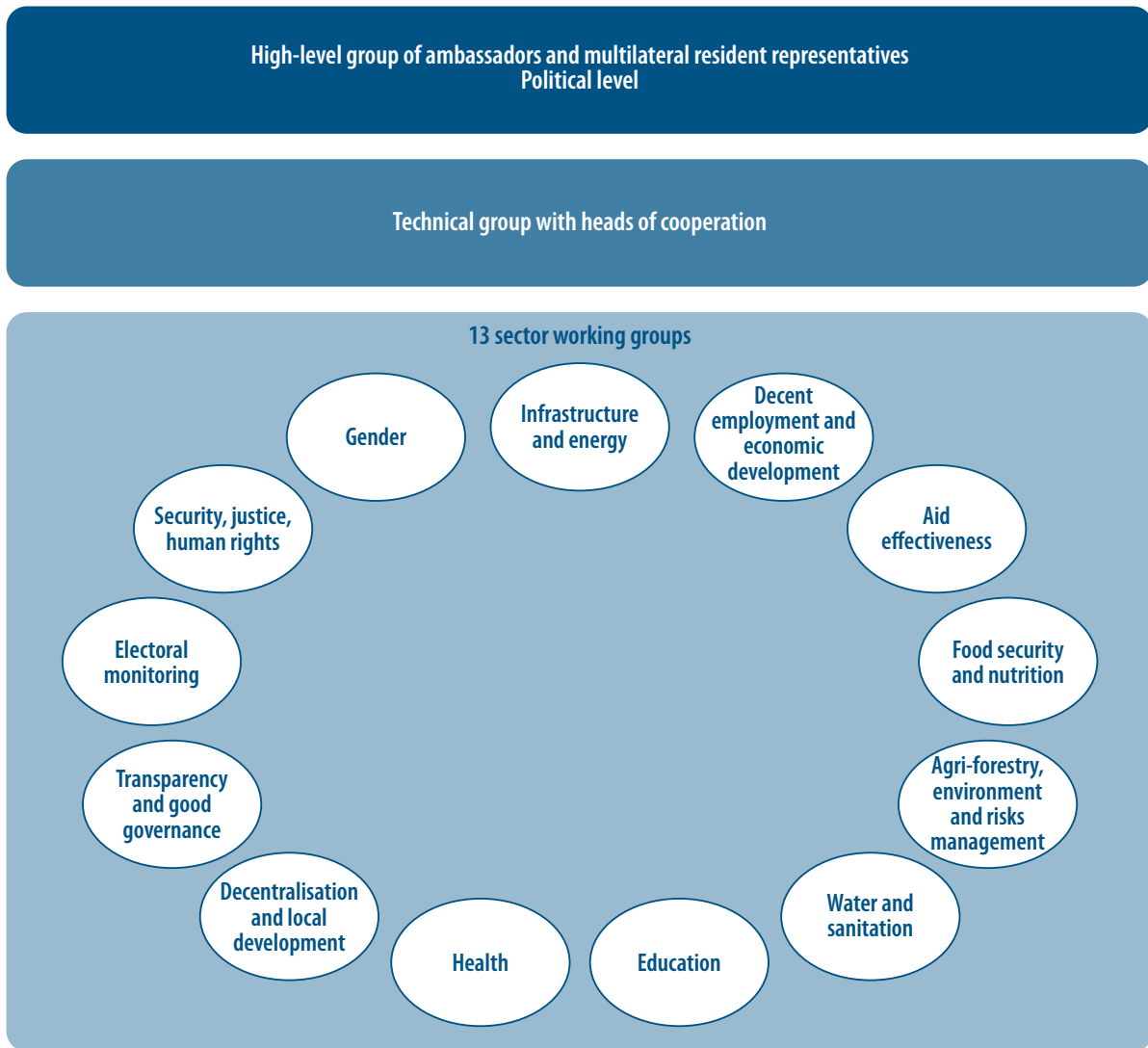
9 As stated in the National Education Plan (*Plan de educación 2010-2014!Para el cambio ya!*).

10 PAAPIR and MADIGEP.

11 Canada, France, Germany, Italy, Japan, the Netherlands, Spain, the United Kingdom, the USA, Sweden, Switzerland, the Central American Bank for Economic Integration, the Inter-American Development Bank, the World Bank, the International Monetary Fund and the European Commission.

Figure 2

Donor coordination in Honduras



Source: European Court of Auditors.

18

The Commission has closely cooperated with EU Member States, in particular by concluding delegation agreements with Germany and Spain in the forestry and justice sectors respectively. There has not yet been an effective division of labour but the Commission is making efforts towards joint programming as from 2018¹².

12 In 2013, a joint programming roadmap was agreed between the EU and the Member States active in Honduras.

19

Cooperation with other donors has been less intensive. At the time of the audit there was no real division of labour which meant that several donors with different approaches were active in the priority sectors, in particular education¹³, health and water and sanitation. In some cases this even led to an overlap in funding (see **Box 3**). The main obstacles to better donor coordination were the lack of cooperation by the Honduran Government and resistance on the part of some donors.

13 Donors focused on the first two cycles of primary education, but little support was provided for the third cycle of primary education or secondary education.

Box 3

Overlaps in funding

In the security and justice sector, there was to some extent an overlap in funding at the level of the Security Ministry, where training in criminal investigation for the National Police was delivered by multiple donors using different approaches and doctrines.

In the water and sanitation sector, half of all municipalities received no support at all, but many others received support from multiple donors simultaneously.

20

Another obstacle was the absence of a good overview of the support provided by donors. The necessary mapping exercises were not carried out for all sectors (e.g. quality systems for improving competitiveness), were incomplete and/or were not often updated.

Budget support was mostly provided for relevant national policies but the Commission's management was affected by some weaknesses

21

We examined whether budget support was provided in support of relevant and credible national strategies. We also examined whether there was an appropriate response to risks associated with providing budget support and whether the Commission employed sufficient appropriately qualified staff at the EU Delegation to manage the budget support operations.

Budget support was generally provided in support of relevant and credible national strategies

22

The Commission provided a significant part of its financial assistance in the form of budget support (see paragraph 8). It did so for poverty reduction since 2010 (APN and PAPSAC) and in combination with project support for the forestry sector since 2013 (EuroFor). More recently, a commitment was also made to use this aid modality to support food security (EUROSAN) from 2016. By providing budget support, the Commission in most cases supports the national development strategies (see **Box 1**), which included objectives in the areas concerned, and to relevant and credible sector strategies:

- (a) In the poverty reduction sector, for the period 2010-2014 the Government had an education strategy (*'Plan de educación!Para el cambio ya!'*) and a health strategy (*'Plan nacional salud'*), both of which were directed towards the Millennium Development Goals. The country also had a strategic plan for modernisation of the water and sanitation sector.
- (b) The forestry sector was governed by the 2004-2021 National Forestry Programme¹⁴, which aims to reduce environmental vulnerability and to develop the sector's ability to contribute to the economy.
- (c) For food security, the National Food Security and Nutrition Strategy was updated in 2010 and aims to increase food security, food availability and the level of nutrition. The President of Honduras declared in 2014 that the main priority was the so-called 'dry corridor', a region¹⁵ concerned by chronic under-nutrition. The Government implements its strategy through a national programme called the 'Dry Corridor Alliance'.

23

There was, however, no clear Government strategy¹⁶ for the PAPSAC objective to enhance quality systems for improving competitiveness¹⁷. Although the National Plan refers to the need to increase the country's competitiveness and productivity, it does not identify the need to improve quality systems. The National Strategy for Competition¹⁸ also does not consider that improving quality systems is a priority. Furthermore, national efforts to improve quality systems were fragmented and had no specific budget, and the institutions involved¹⁹ lacked the competence to develop policies and reforms.

14 *'Programa Nacional Forestal 2004-2021'*.

15 This region covers the central part, the west and the south of Honduras.

16 According to the European Commission Budget support guidelines, Sector Budget support programmes are subject to the existence of relevant and credible sector strategies.

17 Quality systems are concerned with normalisation, metrology, accreditation and ensuring conformity.

18 *'Estrategia nacional de competitividad'*.

19 The National Quality System and the Ministry of Planning and External Cooperation.

Providing budget support involved substantial risks that the Commission has to some extent mitigated

24

There are substantial risks related to providing budget support in Honduras, in particular in relation to macroeconomic instability and weaknesses in public financial management, such as fraud and corruption. In line with its risk assessment framework²⁰, the Commission described these risks and sought to mitigate them.

Macroeconomic stability

25

Macroeconomic stability of the beneficiary country is a key condition for ensuring that EU budget support is effective. Honduras' macroeconomic policy was not stable. In 2008, the International Monetary Fund was unable to reach agreement with Honduras after assessing that the Government did not comply with its recommendations in relation to the monetary and exchange policy, the control of costs and supervision of the banking system. A new agreement with the International Monetary Fund was not concluded until October 2010, but it was shelved again in March 2012 after disagreement about the necessary macroeconomic policy, in particular the need for liberalisation of the foreign exchange market. In December 2014, the International Monetary Fund finally came to a new understanding with the Honduran Government on a macroeconomic policy, and this has been implemented successfully ever since. The country nevertheless remains vulnerable to external shocks, in particular in relation to the growth of the United States economy and the price of oil.

26

Mitigating measures implemented by the Commission comprise dialogue, which has been particularly strong with the Ministry of Finance thereby also enhancing its competence. Technical assistance is also used, in particular to help analyse the situation, assess the risks and make economic projections. The Commission's conditions for the disbursement of funds (see **Annex IV**) included the requirement for a credible and relevant stability-oriented macroeconomic policy. However, there was little detail on just what was expected. Reference was made to a number of indicators, but no targets or thresholds were defined. The Commission's decisions to commit and disburse budget support were therefore not based on a sufficiently structured assessment that progress was satisfactory. This approach is of particular concern with regard to decisions made during the years that Honduras had no agreement with the International Monetary Fund as the risk of an unstable macroeconomic framework was more likely (see paragraph 25).

²⁰ The risk assessment framework was introduced in line with the recommendation in the Court's Special Report No 11/2010 'The Commission's management of General Budget Support in ACP, Latin American and Asian Countries' (<http://eca.europa.eu>) and COM(2011) 638 final of 13 October 2011 'The future approach to EU budget support to third countries'.

27

Owing to the macroeconomic situation in 2012 and the lack of agreement between the country and the International Monetary Fund, on several occasions the Commission withheld its budget support payments until the prospects for macroeconomic stability had improved and the International Monetary Fund was negotiating a new agreement. This good practice sent a strong signal to the Honduran Government that helped to redress the situation. During the period that the Commission withheld budget support²¹, it nevertheless signed the EuroFor financing agreement providing for additional budget support. We consider that this sent contradictory messages that could be detrimental to aid effectiveness.

Public financial management

28

Sound public financial management systems are critical to policy implementation and the delivery of public services, and are therefore another key condition for effective budget support. Public financial management in Honduras is affected by significant weaknesses, but the Government has adopted successive plans to improve the situation. A reform plan²² adopted in June 2011 did not meet the Commission's expectations as it was not sufficiently detailed and did not have quantifiable indicators and targets. The Commission considered the improved reform plan of May 2012 to be credible though still rather general.

29

Public financial management has improved, if not as fast as expected. Overall, it remains weak. Persistent problems according to the Commission are:

- (a) Government spending exceeds the approved budget and the available income;
- (b) the level of payment arrears remains unknown;
- (c) the budget is not fully managed through the treasury single account;
- (d) the effectiveness of the Honduran Court of Audit²³ is limited;
- (e) the e-platform for public procurement is not transparent;
- (f) the level of corruption remains problematic.

21 In total, budget support for the APN and PAPSAC was withheld for 17 and 23 months respectively.

22 *'Plan para la mejora de la gestión, transparencia y escrutinio de las finanzas públicas 2012-2014'*.

23 *'Tribunal Superior de Cuentas'*.

30

The Commission has made efforts to mitigate the risks with regard to public financial management.

- (a) The Commission has contributed to Public Expenditure and Financial Accountability assessments, and the technical assistance action PAAPIR provided expertise leading to the proposal of more efficient and required actions. Capacities were developed within the Presidency, the Ministry of Finance and internal control units. Assistance was also provided for the analysis of reforms and compliance with budget support conditions. Lastly, short-term assistance was used to improve the reform plan, elaborate budgetary availability certificates to avoid extra budgetary expenditure and familiarise staff with budget support.
- (b) Since 2012, following the drafting of its policy dialogue strategy (see paragraph 42), the Commission has become more active in policy dialogue on public financial management. The main focus of this dialogue has been improvements to budgetary management, covering topics such as fiscal revenue, budgetary transparency and controls on public-sector deficit and expenditure (e.g. wages). The dialogue had a positive impact on, for instance, the approval of the first multiannual budget (for 2016-2018) and the introduction of expenditure certificates to limit extra-budgetary spending. The system of certificates requires ministries to ensure that funding is available before making commitments.
- (c) The Commission's conditions have included the requirement²⁴ for a programme of improvements covering political priorities, programmes and projects, reforms, indicators, targets and baselines. This requirement contributed to the adoption of the 2011 reform plan (see paragraph 29). As regards the implementation of the reform plan, since 2012 the Commission has prepared structured assessments of public financial management so that reform expectations can be compared with progress made. This is a good practice – although because the expectations were not precisely defined it is not clear to what extent or by when reforms are expected (see **Box 4**).

24 The condition was included in the financing agreement for APN.

Box 4

Examples of unspecific reform expectations

- Extra-budgetary expenses to be substantially reduced, but no indication when or by how much.
- The introduction of an accrual accounting system without specifying a deadline.
- The use of a Treasury Single Account without specifying a deadline.
- Audit coverage to be increased, but no targets specified.

The EU Delegation lacked the expertise to manage budget support operations in the field

31

Budget support management requires different skills to project management. The EU Delegation in Honduras lacked the necessary macroeconomic and public financial management expertise to manage budget support operations in the field. Until 2013, the EU Delegation relied on assistance from the regional Delegation in Nicaragua to deal with budget support issues and macroeconomic analysis. Although the Delegation in Honduras can to some extent rely on headquarters, the lack of in-country expertise still affects the management of budget support. This is particularly important in Honduras, where budget support was provided despite chronic macroeconomic instability (see paragraphs 25 and 26).

EU actions generally delivered the expected outputs but weaknesses in the monitoring tools hindered the assessment of the results achieved

32

We examined whether actions were implemented as planned and outputs were delivered as intended. We also examined whether the Commission monitors the implementation and performance of its actions appropriately.

Expected outputs were generally realised, with some delays owing mainly to the difficult context

33

The activities planned under Commission actions in the priority sectors examined generally took place and outputs were mostly realised. In the security and justice sector, however, outputs were only partially achieved. This was due to the difficult context following the 2009 '*coup d'état*' and also to the fact that the national authorities did not sufficiently cooperate in the implementation of the projects. As a result, the harmonisation of the legal framework, which was one of the main objectives of the PASS programme, did not materialise.

34

Although outputs were generally achieved, implementation delays occurred in all priority sectors owing to the 2009 '*coup d'état*', the lack of agreement between the country and the International Monetary Fund in the period 2012-2014 (see paragraph 35) and capacity constraints affecting the national authorities.

Observations

35

Delays were most noticeable in the forestry sector, mostly caused by the 2009 'coup d'état'. After the cancellation of the initial forestry programmes in 2009, the Commission was unable to sign the MOSEF and EuroFor financing agreements until the second half of the programming period (2011 and 2013 respectively), and implementation did not begin until the end of the period (2012 and 2014). MOSEF was also affected subsequently by contracting and implementation delays. All local grants and most of the projects targeting the Forest Conservation Institute were signed in the last month before the final contracting deadline. As a result of all this, EU assistance to the forestry sector will probably remain in place until 2019 although it was initially planned to be concluded by 2014.

Notwithstanding the use of diverse tools, performance monitoring displayed some weaknesses

36

The Commission used several tools to monitor EU support, such as indicators, field visits, results-oriented monitoring and evaluations. The selection and use of indicators was affected by weaknesses.

- (a) Almost half of the PASS indicators were not sufficiently relevant as they did not relate to action objectives.
- (b) The progress of some action objectives was not monitored by means of indicators. Examples were the improvement of service quality in the water and sanitation sector, the reduction of maternal and child mortality and the creation of decent jobs in the forestry sector.
- (c) In the water and sanitation sector, indicators only related to activities and not to outcomes, and were not fully in line with national strategies. For example, they referred to the number of people given new or improved access to water and sanitation instead of the national share of households with access to drinking water in rural areas.
- (d) Indicators frequently did not have baselines. An accurate starting point is necessary for measuring progress and for assessing whether targets are realistic but also sufficiently ambitious. Where baselines were set, they were not always reliable due to weaknesses in data collection by the Honduran authorities.
- (e) During our interviews, the Government of Honduras and various ministries questioned the quality and relevance of the monitoring data collected by the National Institute of Statistics, which sometimes differed from the monitoring data produced by the ministries concerned.
- (f) In some cases indicators were not credible (e.g. zero illegal logging) or only defined after funds had been committed. Indicators and targets for the APN were not selected until the financing agreement had been signed.

Observations

37

Field visits were also used by the Commission as a monitoring tool. Although the Commission documented its field visits, they were not planned on the basis of a risk analysis.

38

Results-oriented monitoring was conducted by external consultants during or after the implementation of actions. During the period examined, monitoring was carried out in every priority sector and for all actions with a significant progress. The consultants issued recommendations which were not consistently followed up. In some cases (APN) this was because the recommendations were only issued towards the end of the implementation period, while in others it was simply that the national authorities did not take the necessary action to implement the recommendations.

The Commission made good efforts to have a constructive policy dialogue contributing to positive changes

39

We examined whether the Commission had a structured approach to policy dialogue that included clear objectives, frequent interaction, record-keeping of progress and the assessment of results. We also examined whether policy dialogue was in line with the objectives of EU actions, and whether it was active, constructive and sufficient to bring about a real impact.

The Commission has developed relevant policy dialogue strategies for most priority sectors

40

The terms of the EU's policy dialogue with Honduras were established in the Political Dialogue and Cooperation Agreement (see paragraph 6) and will in future be covered by the Association Agreement (see paragraph 5). The overall framework for policy dialogue is appropriate. Since 2012, the EU Delegation in Honduras has developed eight policy dialogue strategies covering macroeconomic policy, public financial management, development policy, decent work, food security, forestry, water and sanitation, and quality systems for improving competitiveness.

Observations

41

These strategies, which were updated in 2013 and 2015, contain the objectives for policy dialogue. They represent good practice, although they do tend towards generalities and lack clarity with regard to the number and level of contacts required. Furthermore, they do not provide exhaustive coverage: there is not yet a specific dialogue strategy for poverty reduction or security and justice.

42

Important aspects of policy dialogue are documented in country reports prepared by the Delegation for Commission headquarters. The dialogue is also partly documented by project managers, which file 'back-to-office' reports to the Commission on important meetings. Reports of this kind have been filed, for example, in relation to health, education, forestry and quality systems for improving competitiveness. However, the implementation of policy dialogue strategies is not exhaustively documented. Furthermore, the Commission has not assessed the achievement of the objectives set by its policy dialogue strategies.

The Commission's policy dialogue facilitated the implementation of EU actions and led to some tangible improvements

43

Policy dialogue is led by the donors rather than the national authorities, which amounts to a second-best approach. The Commission has made considerable effort to have a relevant and constructive policy dialogue at all levels. When dialogue is coordinated with other donors, the Commission is involved in most initiatives. The Commission also conducts dialogue bilaterally or in steering committees overseeing the actions it finances, for example in the areas of forestry or security and justice. Overall, the Commission's dialogue has been in line with the action objectives and contributed to their implementation.

44

Although the EU is one of the main donors in Honduras, its financial contribution over the period under examination amounted to an average of only 0.2 % of the country's GDP. The leverage it can expect to exercise through policy dialogue is therefore limited – far lower, for instance, than that of the United States as Honduras' largest trading partner. The Commission's dialogue nevertheless also had an impact that went beyond the action objectives. For example:

- (a) In addition to its actions, the Commission's dialogue in the forestry sector also addressed other relevant issues, such as the fight against bark beetle infestation and negotiations for a voluntary partnership agreement between the EU and Honduras on forest law enforcement, governance and trade. These negotiations were successful, and an agreement likely to be signed in 2016 will commit Honduras to trading only in legally harvested timber products and to developing a system to verify the legality of its timber. The negotiations also helped to enhance capacities in the forestry sector.
- (b) In the area of human rights²⁵, the Commission's policy dialogue was instrumental in promoting the opening of an Office of the UN High Commissioner for Human Rights in Honduras. The Honduran Government has expressed agreement and the Office is expected to open soon. The Commission has successfully promoted legislative reforms, such as a law on the protection of human rights defenders. It has also helped to create a platform for dialogue with civil society on human rights and for exchange with the Government.

- 25 This area is closely related to security and justice.
- 26 Two meetings in 2011, one in 2012 and one in 2013.
- 27 The other observatory was planned by the Mission against Corruption and Impunity in Honduras, an international commission set up to investigate corruption. The Organisation of American States proposed the observatory to provide the authorities with support over four years in the investigation and prosecution of crimes and reforms to the justice system.

45

Certain factors weakened the potential impact of the Commission's dialogue:

- (a) We found little evidence that the Commission addressed, through its dialogue, some of the areas supported by the APN. There were, for example, only few bilateral technical meetings with the national authorities to address major difficulties in achieving the education targets²⁶. The dialogue with other donors in this area covered general aspects, such as management systems and the new education act. It did not tackle the high levels of repetition and abandonment in education. Furthermore, there is no evidence that the Commission's policy dialogue covered the implementation of the national statistics strategy for 2011-2015 or the civil service reform, although this was an intended part of the action.
- (b) The Honduran authorities were not always receptive to the Commission's policy dialogue. Despite EU efforts, for example, the Government did not adopt a national security and justice sector policy. Furthermore, the Commission has not successfully promoted the Judiciary Observatory set up with EU support. Its visibility and effectiveness are threatened by Government support for the creation of a different observatory²⁷.

In difficult country circumstances, EU actions have contributed to positive developments but the overall situation in Honduras remains worrying

46

We examined whether EU actions had made a positive impact. To do so, we assessed developments in the priority sector as well as any links between those developments and the EU support.

The level of poverty increased

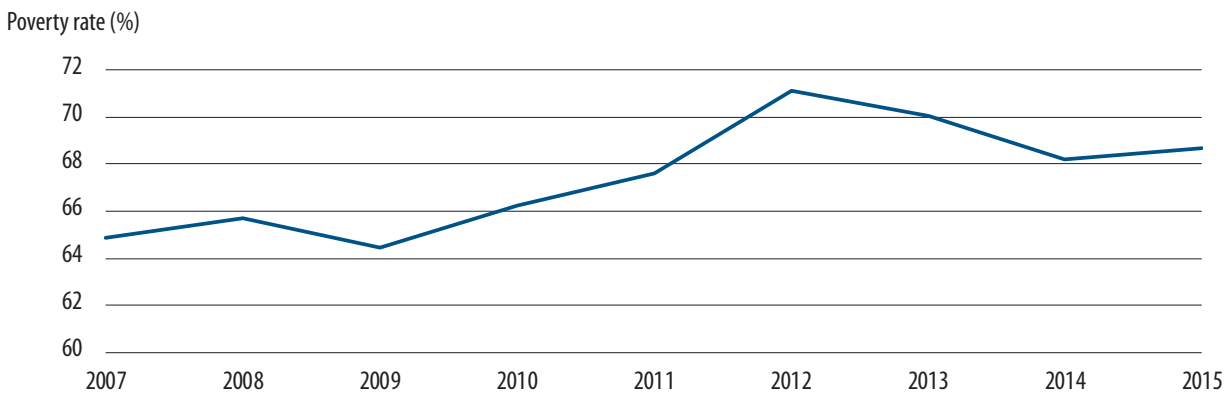
47

Despite increased social spending, the level of poverty, calculated on the basis of income and basic needs, increased during the 2007-2015 period (see **Figure 3**). Although poverty is predominant in rural areas, extreme poverty has sharply increased in urban areas. Honduras remains one of the poorest and most inequitable²⁸ countries in Latin America.

28 Gini coefficient of 0.58 % in 2014.

Figure 3

Poverty level in Honduras (%)



Source: National Institute of Statistics.

Observations

Education

48

A number of positive results have been achieved in education. The Ministry of Education has adopted a new education act²⁹ and several regulations. The major area of progress recognised by the international community is compliance with the minimum of 200 days/year of classes in the public schooling system. In addition, around 400 pre-basic educational centres have been opened each year in disadvantaged areas, and improvements to the Human Resources Administration System have led to the elimination of around 15 000 ghost teacher posts.

49

However, the 2015 target defined by the Millennium Goals for the number of children completing primary school was not reached. Only three of the seven targets for 2013 in the national plan for 2010-2022 (see **Box 1**) were achieved³⁰. Of the education indicators defined by the 2010-2014 Government Plan, seven were not measurable, ten showed good progress and eleven were below expectations³¹. None of the eight targets to be reached by 2014 under the APN were achieved. The results for six of them even fell below the baseline³².

50

There is no evidence that the APN had much impact in the education sector. Although the budget of the Ministry of Education increased significantly during 2007-2010, it then stagnated during the implementation of the APN. Efficiency increased, however, with a better financial allocation for pre-basic education and a decline in salary costs from 55 % of expenditure in 2007 to 49 % in 2014.

Health

51

Four of the five APN targets relating to health were achieved. The number of institutional births increased, as did the rate of prenatal and postpartum care. The number of medical consultations in rural centres was also up. The overall health objective of the APN was achieved as child and maternal mortality rates slightly decreased over the period under review. Nevertheless, the targets set by the 2010-2014 national health plan and the Millennium Development Goals were not reached (see **Table 1**).

- 29 General Law on Education ('*Ley Fundamental de Educación*').
- 30 The number of days at school, lower secondary education rates and the average number of years in school.
- 31 As concluded by the Honduran Court of Audit.
- 32 The net coverage of pre-basic education, the net coverage of the third cycle of basic education, competence in mathematics in the third grade of basic education, the rate of children abandoning the system, competence in Spanish in both the first and second cycles of basic education.

Table 1 Child and maternal mortality rates

		Child mortality rate (per 1 000 live births)	Maternal mortality rate (per 100 000 live births)
Situation in 2009		26	108
Targets	2010-2014 National health plan (targets for 2014)	15	60
	Millennium Development Goals (targets for 2015)	16	45
Situation in 2014		24	73

Source: National Institute of Statistics, National health plan, Millennium Development Goals.

52

The existence, nevertheless, of the necessary political will was demonstrated by the significant increase in the budget of the Ministry of Health in the period 2007-2015 and the efforts to make spending more efficient. In this regard, central spending declined, with salary costs falling from 18 % to 15.4 % of expenditure. Together with other donors, the EU played a part in these improvements. However, structural weaknesses, recurrent outbreaks of disease³³ and frequent ministerial changes hindered further progress.

Water and sanitation

53

Honduras has a relatively high rate of access to water (86 % of households in 2012) and sanitation (80 % of households in 2012)³⁴. This is close to, or exceeds, the Millennium Development Goals for 2015 (88 % and 75 % respectively). There are nevertheless significant disparities between rural and urban areas. Drinkable water also poses a major challenge. It is estimated that only 10 % of the rural population has access to water treated with chlorine, versus 70 % in urban areas³⁵.

54

Since the beginning of the implementation of PAPSAC in 2012, there was no improvement in access to tap water (see **Figure 4**) and sanitation rates³⁶ due to insufficient levels of investment³⁷. The budget allocated to the national water provider³⁸ increased in the 2007-2014 period, but the additional funds received by the service provider were mainly absorbed by non-discretionary expenditure such as salaries and debt payments.

33 Such as chikungunya, dengue, malaria and Zika fever.

34 National Demographic and Health Survey 2011-2012, Government report on the National Plan 2010-2014 and *Foro Nacional de Convergencia*, a civil society organisation that monitors the implementation of national development strategies.

35 National programme to improve drinking water quality, a part of the National Drinking Water and Sanitation Plan.

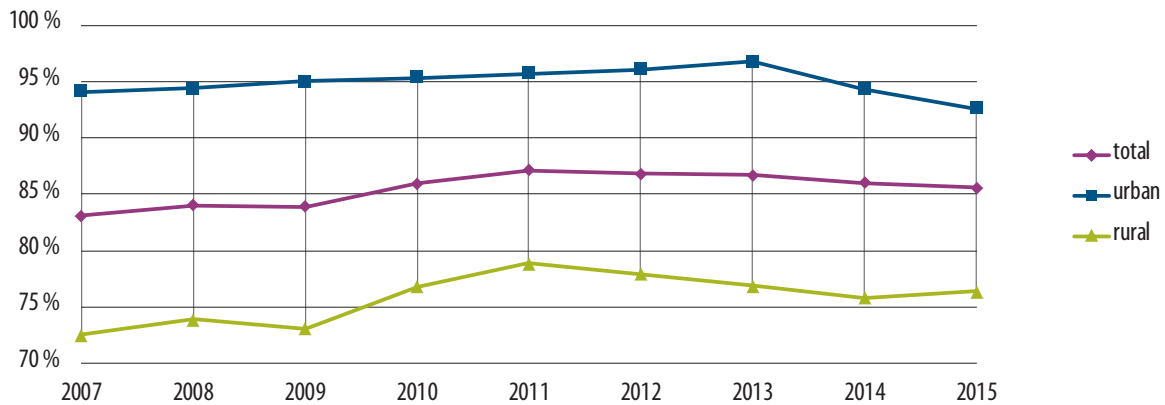
36 WHO/UNICEF Joint Monitoring Programme for water supply and sanitation. Honduras. Updated June 2015. Also data obtained from the National Institute of Statistics.

37 World Bank, 2013. Honduras - A Public Expenditure Review: Decentralisation of water and sanitation services.

38 *Servicio Autónomo Nacional de Acueductos y Alcantarillados*.

Figure 4

Households with access to tap water in Honduras



Source: National Institute of Statistics.

55

Within this context, the EU contribution to the sector was relatively limited. The national authorities used funding from several donors to provide 13 957 people with access to water and sanitation, while also strengthening 20 municipal water boards and local supervision and control units, establishing three river basin councils and approving the National Drinking Water and Sanitation Plan and the related financial rules.

39 2 800 million kilograms worth a total of 2 100 million dollars (source: Central Bank of Honduras).

Quality systems for improving competitiveness

56

The PAPSAC targets were achieved. These were output targets relating to the number of processes accredited, producers certified and awareness campaigns. However, the ultimate impact of this support on the competitiveness of Honduran products cannot be measured. There are indications that the impact was rather limited. From 2012 to 2015, exports increased slightly by volume but declined overall by value. The volume of exports to the EU fluctuated, but the peak of 2011³⁹ was not subsequently achieved again despite the conclusion of the Association Agreement in 2012 (see paragraph 5).

EU support prompted reforms in forestry management, but it is too early to see an overall impact

57

EU support to the forestry sector prompted additional reforms. Combining project support with the possibility of receiving sector-specific budget support from the EU hastened the formulation and adoption in 2013 of a single sectoral policy empowering the Forest Conservation Institute. The EU support also contributed to reforms aimed at improving governance in the sector, strengthening municipal forest management and simplifying administrative procedures.

58

The reforms have not yet achieved much overall impact. The percentage of forest land in Honduras actually decreased from 59 % in 2011 to 48 % in 2014⁴⁰. This not only reduced the country's forest cover but also affected biodiversity. A main contributing factor was the reduced area under forest management, as evidenced by a fall in the number of forest management plans⁴¹. As a result, one in every two hectares was no longer subject to a management plan. Consequently, cross-cutting issues such as forest fires have become more difficult to address. The number of fires and the area affected have increased steadily since 2012.

59

The reasons for the absence as yet of much apparent impact include the following:

- (a) The strengthening of the Forest Conservation Institute was affected by legislative delays. As a result, the Institute was not at full operational strength by the time EuroFor started. This was a missed opportunity to achieve efficiency gains in the implementation of forestry policy in general and EuroFor in particular.
- (b) The national authorities made very little use of the additional budgetary resources resulting from EU support to achieve forestry sector objectives⁴².
- (c) The sector was faced by significant additional challenges, such as the bark beetle plague (see 44 (a)).

40 Honduras Statistical Forestry Yearbooks for 2011 and 2014.

41 A forest management plan is a technical, legal and operational document that sets out how to manage a particular forest in a sustainable way during a period of at least five years. It includes objectives, an investment plan and an action programme.

42 The funds transferred each year from the Honduran National Treasury to the Forest Conservation Institute did not increase in 2013 and 2014. There was an increase in 2015 (1.3 million euro), but this was considerably smaller than the EU budget support disbursed to that point (1.8 million euro).

EU support has helped justice and public security institutions to work more closely together, but the situation in the country remains critical

60

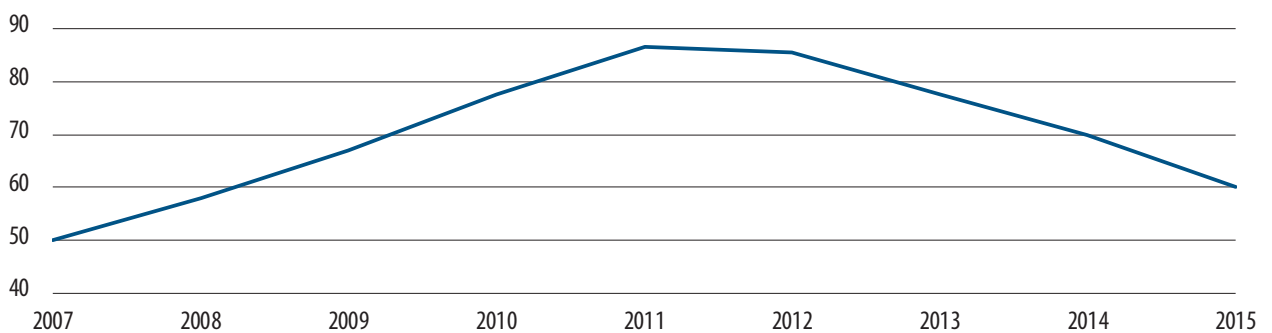
Since 2011, the fight against violence, impunity and corruption has gained considerably in momentum in Honduras. With the support of the EU, this has resulted in some progress. The PASS and Eurojusticia steering committees improved the exchange of information between justice and public security institutions, one positive result of which was the emergence of interinstitutional agreements on, for example, shared training. Interinstitutional coordination nevertheless remains limited by the fact that each institution follows its own strategy. Furthermore, moves to adopt a single national security and justice sector policy and harmonise the legal framework were unsuccessful owing to institutional weaknesses and the difficult context following the 2009 'coup d'état'.

61

Widespread violence remains a problem. While the homicide rate does not perfectly reflect the overall security situation, it is an important indicator (see **Figure 5**). Despite a decline since 2012, the homicide rate remains very high for the region (less than 30 deaths per 100 000 inhabitants in Central America) and by global standards (less than ten deaths per 100 000 inhabitants⁴³).

43 United Nations Office on Drugs and Crime, Global Study on Homicide 2013, available at <https://www.unodc.org/gsh/>

Figure 5 Annual homicide rate per 100 000 inhabitants in Honduras



Source: Honduras police.

62

There are different interpretations as to the reasons for the decline in the homicide rate. The government relies on a hard-handed approach, for example by deploying military police instead of focusing more on prevention. While it is possible that prevention activities and the strengthening of public security institutions have contributed to the decline, there is no hard evidence for this. As the EU's financial contribution was relatively small and some of the main objectives of PASS were not achieved, it is likely that the impact of EU funding was fairly limited.

63

The audit examined the effectiveness of EU development support to priority sectors in Honduras. We found that, in difficult country circumstances, the EU actions were relevant, generally delivered the expected outputs, and contributed to a number of positive developments in these sectors. At the same time, the overall situation in the country remains worrying. The level of poverty has increased, the area of forest land has decreased and there is still widespread violence and a very high homicide rate. We also found weaknesses in the Commission's management of EU assistance. Based on these elements, we conclude that the EU's development support to priority sectors in Honduras was partially effective.

64

The Commission's approach to providing development support in Honduras correctly targeted areas with high needs that were in most cases covered by relevant and credible national strategies. However, the flexibility of the approach meant that various areas received EU support only for a relatively short period of time, which increased the risk of jeopardising its potential impact. Furthermore, we found that the EU actions for delivering support had very broad objectives, and hence the financial assistance was spread over many areas or did not address some priority needs. Although there is a good donor coordination structure in Honduras, actual collaboration was relatively limited, which led in some specific cases to overlapping support. The Commission is nevertheless making efforts towards joint programming with EU Member States as from 2018 (see paragraphs 12 to 20).

Recommendation 1 - Strengthen the EU approach by enhancing its consistency and focus

For the next change in its strategy for supporting priority sectors in Honduras, the Commission should strengthen its approach by:

- (a) ensuring that support to priority sectors is provided sufficiently long to be able to reach the targets set;
- (b) narrowing the focus of its actions to fewer well-defined areas that involve assisting a limited number of institutions;
- (c) pursuing its efforts towards joint programming with EU Member States and better coordinating its approach with other donors.

Conclusions and recommendations

65

The Commission provided a significant part of its financial assistance in the form of budget support thereby generally supporting relevant and credible national strategies. However, the EU Delegation lacked the necessary macroeconomic and public financial management expertise to manage budget support operations in the field. Furthermore, providing budget support in Honduras involves substantial risks relating to the macroeconomic framework and public financial management. The Commission was able to partly mitigate these risks through dialogue and technical assistance, and by setting conditions that had to be met before the disbursement of budget support. The Commission did not assess budget support eligibility in a sufficiently structured manner to demonstrate whether the expected progress was being achieved in line with targeted and clearly defined benchmarks. In one case, it made a commitment to deliver budget support while at the same time withholding disbursements for non-compliance with the overall eligibility conditions. This sent the partner country inconsistent messages that jeopardised aid effectiveness (see paragraphs 21 to 31).

Recommendation 2 - Strengthen the management of budget support operations

The Commission should further strengthen the management of its budget support operations by:

- (a) ensuring the consistency of the messages given when taking decisions on new budget support contracts. In particular, the Commission should avoid making budget support commitments while at the same time withholding disbursements because eligibility conditions relating to the macroeconomic framework and/or public financial management have not been met;
- (b) better structuring its future assessments of budget support eligibility to demonstrate whether the expected progress is being achieved in line with targeted and clearly defined benchmarks;
- (c) ensuring, at the next rotation of delegation staff, that the EU Delegation in Honduras obtains further macroeconomic and public financial management expertise.

66

Most of the activities and outputs planned for Commission actions have been realised, albeit with significant delays mostly due to exogenous factors. The Commission's monitoring of performance was affected by weaknesses in the selection and use of indicators, the planning of field visits, the timing of results-oriented monitoring and follow-up of the resulting recommendations (see paragraphs 32 to 38).

Conclusions and recommendations

Recommendation 3 - Strengthen the performance measurement of EU actions

The Commission should further strengthen the performance measurement of future EU actions by timely selecting sufficient, relevant and quantifiable performance indicators and setting baselines for them. In this connection, it should consider strengthening national systems for obtaining reliable data on demographic and other trends, in particular the National Institute of Statistics. It should improve the timing of its results-oriented monitoring and systematically follow up the resulting recommendations.

67

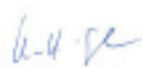
The Commission has developed dialogue strategies to structure its policy dialogue in various areas with the Government of Honduras. This is good practice, although these strategies tend to be rather general and do not cover all relevant areas, such as poverty reduction and security and justice. Moreover, the Commission has not made written assessments of the degree to which the objectives set by its dialogue strategies have been achieved. The Commission has generally made a substantial effort at all levels to obtain a relevant and constructive policy dialogue, which contributed to achieving the objectives of EU actions (see paragraphs 39 to 45).

Recommendation 4 - Strengthen the policy dialogue in the priority sectors

The Commission should further strengthen its policy dialogue in the priority sectors before 2018 by generalising the use of dialogue strategies in all relevant areas. This should include a clear definition of the expected results/outcomes of dialogue. The Commission should subsequently make written assessments of the extent to which the objectives of its dialogue strategies have been achieved.

This Report was adopted by Chamber III, headed by Mr Karel PINXTEN, Member of the Court of Auditors, in Luxembourg at its meeting of 25 October 2016.

For the Court of Auditors



Klaus-Heiner LEHNE
President

Map of Honduras



Cartography: Eurostat — GISCO, 06/2016

Administrative boundaries: © EuroGeographics © UN-FAO © Geonames

Indicative allocations to priority sectors in Honduras for 2007-2013 and 2014-2020

Period	2007-2013		2014-2020
Priority Sector	Poverty reduction		Food security
Areas covered	NIP 1 (2007-2010)	NIP 2 (2011-2013)	
	Education	Water and sanitation	Family agriculture
	Health	Strengthening quality systems	
Amount Priority Sector (Mio)	65.5	45.5	
	111		100
Priority Sector	Natural resources		
Areas covered	NIP 1 (2007-2010)	NIP 2 (2011-2013)	
	Forestry	Forestry	
		Renewable energy sources	
		Energy efficiency	
Amount Priority Sector (Mio)	21	47	
	68		
Priority Sector	Justice and public security		Rule of law
Areas covered	NIP 1 (2007-2010)	NIP 2 (2011-2013)	
	Security	De facto change from Security (PASS) to Justice (Eurojusticia)	Fight against corruption Increasing citizen participation
Amount Priority Sector (Mio)	41	3	
	44		40
Priority Sector			Employment
Areas covered			Decent employment and social protection
Amount Priority Sector (Mio)			85
			Support measures
			10
Total Amount (Mio)	223		235

Source: European Commission.

Bilateral support to Honduras: decisions during 2007-2015 (in euro)

Decision year	Programme name	Initially allocated	Contracted as of 31.12.2015	Paid as of 31.12.2015
2007-2013 programmes		219 100 000.00	180 704 286.95	116 339 650.22
Poverty reduction		102 600 000.00	81 004 660.17	68 906 315.17
2008	Apoyo Presupuestario al Plan de Nación (APN)	60 500 000.00	38 921 310.17	38 921 310.17
2011	Programa de Apoyo Presupuestario Sectorial Agua y Calidad (PAPSAC)	42 100 000.00	42 083 350.00	29 985 005.00
Natural resources		68 000 000.00	66 387 310.95	26 655 622.36
2010	Modernización del sector forestal (MOSEF)	47 000 000.00	46 420 000.00	11 781 637.00
2012	Programa de Apoyo Europeo al Sector Forestal - EuroFor	21 000 000.00	19 967 310.95	14 873 985.36
Security and Justice		36 500 000.00	19 148 940.82	10 306 872.92
2007	Programa de Apoyo al Sector Seguridad en Honduras (PASS) Fase 1	9 000 000.00	6 811 509.16	6 588 572.38
2013	Promoviendo una Justicia Rápida y Accesible en Honduras (Eurojusticia)	27 500 000.00	12 337 431.66	3 718 300.54
Other 2007-2013 programmes		12 000 000.00	14 163 375.01	10 470 839.77
2008	Proyecto de Apoyo a la Modernización de la Administración Pública y a la Integración Regional (PAAPIR)	5 000 000.00	7 548 932.69	6 264 996.94
2009	Phasing Out - Programa de Apoyo a la Seguridad Alimentaria en Honduras (PASAH)	2 000 000.00	1 978 008.79	1 978 008.79
2011	Programa de Apoyo a los Derechos Humanos (PADH)	5 000 000.00	4 636 433.53	2 227 834.04
2014-2020 programmes		53 200 000.00	13 395 500.00	2 479 100.00
Food security		30 000 000.00	3 997 700.00	799 540.00
2014	Seguridad Alimentaria, Nutrición y Resiliencia en el Corredor Seco (EUROSAN)	30 000 000.00	3 997 700.00	799 540.00
Employment		11 600 000.00	4 698 900.00	839 780.00
2014	Fortalecimiento Institucional del Empleo Decente y la Seguridad Social en Honduras (EURO +LABOR)	11 600 000.00	4 698 900.00	839 780.00
Rule of law		-	-	-
-		-	-	-
Other 2014-2020 programme (Technical assistance)		10 000 000.00	5 952 150.00	1 187 830.00
2014	Medidas de Apoyo al Desarrollo Institucional y a la Gestión de Políticas (MADIGEP)	10 000 000.00	5 952 150.00	1 187 830.00
TOTALS		272 300 000.00	194 099 786.95	118 818 750.22

Source: European Commission.

Annex IV

Conditions set in financing agreements for EU actions

Action	Public financial management	Budgetary transparency and oversight	Macroeconomic stability	Poverty reduction	Forestry
APN	<p>Satisfactory progress in the implementation of the Public Financial Management programme. Based on the conclusions of the Public Expenditure and Financial Accountability Assessment, presentation and implementation of a multiannual public financial management programme that includes:</p> <ul style="list-style-type: none"> • political priorities; • programmes and projects; • policy measures (reforms); • specific, measurable, attainable, relevant and time-bound objective indicators, targets, baselines; • a multiannual budget. <p>In years 3 and 4: The realisation and publication of a Public Expenditure and Financial Accountability Assessment.</p>		<p>Commission's positive assessment of the existence of a macroeconomic policy to safeguard economic stability. Based on:</p> <p>Annual presentation of an updated macroeconomic strategy showing the main macroeconomic and monetary measures and the results and evolution of the main macroeconomic variables.</p> <p>Satisfactory implementation of the macroeconomic and monetary policy, with a special focus on:</p> <ul style="list-style-type: none"> • inflation • level of gross reserves • external current account balance • tax revenue • public debt 	<p>Commission's satisfactory assessment of the progress of implementation of the Government Plan. Based on:</p> <p>In year 1: Presentation and publication of the Government Plan.</p> <p>Publication and annual presentation of a report on the implementation of the Government Plan with the following information:</p> <ul style="list-style-type: none"> • level of achievement of targets and indicators • level of achievement of policies • budget execution 	

Annex IV

Action	Public financial management	Budgetary transparency and oversight	Macroeconomic stability	Poverty reduction	Forestry
PAPSAC	<p>Satisfactory progress in the implementation of the Public Financial Management plan and/or reform of Public Financial Management, with particular emphasis on:</p> <ul style="list-style-type: none"> the tax policy and tax administration; the integrated financial management system; the credibility, transparency, control and audit of the budget; implementation of a comprehensive anti-corruption policy; purchasing systems; appropriate budgeting of tranches. 		<p>Satisfactory progress in the maintenance of a stable macroeconomic policy with a particular focus on:</p> <ul style="list-style-type: none"> control of spending on salaries and wages control of the floating debt the central government deficit the debt service progress in the implementation of the Civil Service Law the level of international reserves 	<p>In the water and sanitation sector, presentation of reports showing progress in:</p> <ul style="list-style-type: none"> Strengthening the leadership of the National Council for drinking water and sanitation, Approval and progress in the implementation of the sector policy Reactivation and functioning of the tripartite sectoral committee Elaboration and approval of the National Plan for drinking water and sanitation Progress in the implementation of the new general law on water Progress in the implementation of the Framework law on drinking water and sanitation <p>In quality systems for improving competitiveness, presentation of reports showing progress in:</p> <ul style="list-style-type: none"> implementation of the law on quality and consolidation of the activities of the national quality system; implementation of the competitiveness strategy; consolidation of activities of the National Agri-food Service's strategic plan for health. 	

Action	Public financial management	Budgetary transparency and oversight	Macroeconomic stability	Poverty reduction	Forestry
EuroFor	Satisfactory progress in the demonstrable implementation of the programme for the improvement and reform of Public Financial Management, with particular emphasis on: <ul style="list-style-type: none"> the tax policy and tax administration; the integrated financial management system; the credibility, transparency, control and audit of the budget; implementation of a comprehensive anti-corruption policy; purchasing systems; appropriate budgeting of tranches. 	Consistent and comprehensive budgetary information regularly available.	Satisfactory progress in the maintenance of a demonstrable stable macroeconomic policy with a particular focus on: <ul style="list-style-type: none"> control of spending on salaries and wages; control of the floating debt; central government deficit; debt service; progress in the implementation of the Civil Service Law; reforms of pension schemes and social security; reforms of public companies. 		Satisfactory progress in the execution of the strategy and sectorial policies, inter alia through reports proving progress in: <ul style="list-style-type: none"> Strengthening the leadership of the Forest Conservation Institute; Improving the organisational structure of the Forest Conservation Institute; Progress in implementing the National Forestry Programme; The functioning of the national Forestry Consultative Council in cooperation with regions and municipalities; Progress towards implementing the Forestry Law; Reduction of the average costs for the approval of formalities calculated per cubic metre of timber; Progress in the implementation of the national strategy against illegal logging, especially the IT system for the forestry register, administration and control; Progress in the voluntary partnership agreement between the EU and Honduras on forest law enforcement, governance and trade; Increasing the quality and quantity of information on the sector and publicly available information on the management of the Forest Conservation Institute.

Executive summary

III

The Commission is doing its utmost to help the country improve its level of development. It considers that under difficult circumstances, the EU's development support has demonstrated a real impact in the areas of intervention.

The Commission will continue to improve identified weaknesses in the management of its aid following the suggestions made by the Court. It would like to point out, however, that it is not possible to establish to what extent the 'management weaknesses' hindered the EU's development impact, especially in the context of a wide array of external factors.

As regards the area of forest land, the Commission stresses the fact that exogenous factors have been the main reason of the loss of forest lands. For instance, pine beetle is the cause of loss of 11% of country's forests.

IV

Focal areas in the country had to change in a flexible manner in order to respond to the changing needs of the country.

The EU's Multiannual Indicative Programmes, guarantee coherence, while at the same time allow for flexibility to take into account new developments and national policy options. Hence, the need to strike a careful balance between a rigid cooperation agenda that is not responsive to national priorities and one that strives to address changing circumstances in countries of operations, all while maintaining the sustainability of long-term goals.

Over time, the Commission focused on more narrowly defined sectors which was evidenced in changes in the prioritisation from the 2007/2013 CSP to the 2014/2020 MIP. In this context, when negotiating the MIP 2014-2020, there was a common understanding with the Government that there would be no rupture with the CSP 2007-2013 and the level of alignment with national priorities was highly appreciated by the Honduran stakeholders.

In addition, the Commission considers that it has a wide range of adequate performance monitoring tools, including policy dialogue, monitoring missions, and ROM (results-oriented monitoring).

V

The G16 Donor Coordination Group in Honduras is a very useful tool for coordination between donors. It has been working continuously since its inception in 1998, all while implementing aid-effectiveness principles.

The G16 has the merit of allowing a long-term political dialogue between the Government of Honduras and major donors. Donor coordination in Honduras has been therefore well-articulated and structured, minimising overlaps in cooperation efforts.

The joint programming, due to start in 2018, will further enhance cooperation efforts bringing them to an even higher level.

VI

Policy dialogue strategies are spelt out in sectors subject to budget support in which they constitute one of many instruments alongside others (financial support, technical assistance, monitoring etc.).

The degree to which the sector objectives were achieved is assessed in writing in each budget support disbursement file. The achieved impact is a combined result of all types of instruments, not only of the policy dialogue.

Nevertheless, the Commission will continue to reinforce its policy dialogue mechanisms, in particular the assessment and monitoring of policy dialogue progress and its proper documentation.

VII

The Commission ensures macroeconomic expertise at all times in all its Delegations, based on a cost-benefit approach. Despite the fact that the Delegation did not have a macro- and PFM- (public finance management) expert in place, until recently, it received technical support from the Delegation in Nicaragua.

In addition, the EU Delegation in Honduras has been benefitting from a wide array of expertise on PFM and macroeconomic issues: from the Headquarters, through missions to the field, technical assistance (PAAPIR - Support Programme for the Public Administration and Regional Integration) and daily contacts with the Headquarters on specific issues.

In addition, the Commission conducted HQ missions to Honduras and Washington to monitor the situation engaging not only with the Honduran Government but also with the IMF.

As a general remark, the Commission gives the utmost importance to recruiting the right candidates for Delegations and its staff members participate in regular training programmes and refresher courses in this regard.

The Delegation also strictly applies the Budget Support Guidelines at all times in its assessment of the eligibility criteria.

The provided budget support has been coherent and consistent, based on a close dialogue with the partner country and ensuring continuous policy dialogue and adaptation to difficult circumstances.

Furthermore, all the disbursement dossiers are carefully analysed with final decisions made by the Budget Support Steering Committee (BSSC). BSSC is a decision body that is always documenting the decisions taken by its members.

The Budget Support Guidelines allow for the respect of the dynamic approach as introduced in the Communication on budget support COM(2011) 638 final and the relevant Council Conclusions: 'In all forms of budget support, the EU will apply a tailor-made and dynamic approach to eligibility, focusing on progress in the implementation of credible and relevant sector reform strategies, to maximise the impact on the ground' (Council Conclusions 9371/12).

Observations

13

As regards the support in the area of renewable energy and energy efficiency, no cooperation activities took place in years 2011-2013. The actions foreseen in the National Indicative Programme (NIP) 2007-2013 in these areas were proposed as a follow-up to previous actions in the electricity sector, i.e. to GAUREE and GAUREE 2 projects (Autonomous Management and Rational Use of Electric Energy).

However, in the Mid-Term Review (2009), the Government, through the Minister in charge of the electricity sector, indicated that support concerning renewable energy and energy efficiency was not required. The national authorities responsible for the energy sector observed that the law incentivising renewable energies had produced new sources of renewable energy through private investment.

This is the reason why the EU Delegation included actions related to renewable energy and energy efficiency in its forestry programmes (MOSEF and CLIFOR). These activities have been carried out as climate change adaptation mechanisms and incentives for forest resource management (and not as energy sector interventions).

Regarding quality systems for improving competitiveness, this sector was a complementary component of the Commission's strategy to support the implementation of the EU Association Agreement with Central America.

The signature of the EU Association Agreement with Central America on 29 June 2012 and the provisional application of Part IV of the Association Agreement from 1 August 2013 also justify the EU's intervention in this respect.

14

The EU assistance in these sectors was implemented because they were considered a priority in the Government's Poverty Reduction Strategy (PRS).

In addition, in 2006, the Delegation participated in the joint discussions that donors carried out with the Government under the PRS Consultative Advisory Board (*Consejo Consultivo de la ERP*) in order to review the PRS. Budget investment (domestic and external funds) concentrated in the following sectors: education, health & nutrition, social protection, infrastructure, production and access to assets, and governance. Therefore, these areas became also priority sectors for the EU actions of cooperation.

As regards the short period of provided support, a degree of flexibility in the EU programmes was necessary to react and adjust the activities to a changing situation after a political crisis caused by the *coup d'état* in 2009 (please see Commission reply to paragraph IV.).

15

(a)

The Commission stresses that the forestry sector is also related to water and sanitation management and to soil protection. In this light, the support provided by MOSEF to municipalities was assessed by the Delegation as coherent with the objectives of the project.

Reply of the Commission

MOSEF is the main project in the international community of donors that is strengthening the coordination between the three institutions granting titles to forest land.

Land tenure is a political issue by nature and a major concern across Latin America. While it cannot be solved by cooperation projects only, it has been addressed through a mix of other channels and instruments: (i) the EU-led FLEGT (forest law enforcement, governance and trade) initiative which is the most effective instrument to foster reform, (ii) policy dialogue in the context of negotiations for a bilateral FLEGT VPA (voluntary partnership agreement) with the EU, and (iii) specific contracts that provide assistance (e.g. PROCORREDOR project - '*Gestión Sostenible de Recursos Naturales y Cuencas del Corredor Biológico Mesoamericano en el Atlántico Hondureño*').

In addition, the Commission notes that land conflicts in a country of a rich cultural diversity with strong patrimonial heritage values can be addressed in two ways: land regularisation and consultation mechanisms of indigenous communities. The EU support to regularise land is therefore a 'step-by-step' approach.

(b)

It is during the audited period that Honduras changed its law on education to extend primary education up to grade nine. Donors aligned their support accordingly.

16

There were always more demands than available offers for technical assistance. Prioritisation mechanism was implemented through technical committees with participation of the EU, the Honduran Government and relevant institutions (on health, quality, water and sanitation).

Donor coordination was well-structured. Therefore, relevant needs that were not addressed underwent the same cost-effectiveness analysis.

Relevant areas that did not receive funding will be closely analysed to see what alternative actions/measures can be taken to support them.

Common reply to paragraphs 16 (a) to (c)

Through the demand-driven PAAPIR programme, the Commission was able to provide TA to sectors with crucial needs, following a careful assessment and prioritisation.

The Commission points out that it was impossible to meet all the demands.

(a)

In addition to the common reply above, in the specific case of the health sector, the study on vitamin and mineral deficiencies was approved by the Technical Committee of PAAPIR in 2013, but not subsequently carried out.

18

The Commission considers that good progress has been made in the process towards achieving an effective division of labour between donors. For instance, GIZ took up the issues of climate change and forestry and Spain of governance and reforms in the justice sector.

At the Delegation level, a Road Map for joint programming after 2018 has been developed. In the course of 2016, an analysis of the national context in Honduras in this regard will be carried out.

19

The Commission is continuously striving to enhance cooperation with the Honduran Government and all donors. The main coordination is done with the EU Member States. The EU Delegation is also very active in the G16 aiming to reach the best coordination possible with the main donors present in Honduras.

Box 3 – Overlaps in funding

The Commission considers that even if the approaches of the donors were different, they can be complementary.

In the water and sanitation sector, all municipalities involved in the project received support but not all received investments in infrastructure. In addition, COMAS (the Municipal Commission on Water and Sanitation) and USCL (the Monitoring Unit and Local Control) were created covering all the municipalities. The support for municipalities was based on capacity-building through these two entities.

20

The Delegation considers being very active in the coordination with other donors which is reducing the risk of overlap. While time-consuming, donor mapping is not always the most effective tool. Coordination by the beneficiary, based on empowerment and policy dialogue, seems to yield better results.

23

The eligibility of the sector was fully assessed according to the Budget Support Guidelines. Based on that, it was concluded that the sector policy was sufficiently credible and relevant to allow a satisfactory budget support programme.

As long as the sufficient credibility and relevance elements exist, a sector policy can be improved in time and enhanced. This is part of a continuous budget support programme and result of policy dialogue and technical assistance.

Moreover, the Commission notes that support to quality systems was implemented in the context of the EU Association Agreement with Central America, and it was validated by the Government.

26

The Commission considers that a structured analysis for the eligibility criterion of macro-economic stability is important and executed based on Budget Support Guidelines.

In the cases mentioned by the Court, progress was based on a number of specific indicators. The evolution of these indicators provided proof of positive progress and non-deterioration in a very complex conjuncture.

Concerning the lack of an agreement between the Government of Honduras and the IMF, such a situation is referred to in the Budget Support Guidelines. Paragraph 5.1.2 of the guidelines states the following: *'On the other hand, the absence of an IMF programme need not automatically imply that the macroeconomic eligibility criterion is not met (...). Where implementation is unsatisfactory or there is no IMF programme in place because of difficulties to agreed one with the IMF, a country may still be eligible if the budget support programme objectives are not at risk, particularly for SRC'.*

Even taking into account the decision of the IMF, the Commission concluded that this disagreement in a very technical, minor point did not preclude an overall positive assessment and further support to the Government's efforts to re-establish macroeconomic stability.

27

Budget support programme preparation in a specific sector can take place while other programmes are not making disbursements. This is part of the continuous policy dialogue and support to the Honduran Government in different sectors/policies. The overall message is to support the partner country despite difficulties in more than one sector via budget support.

Moreover, the Delegation pursued policy dialogue during the periods mentioned in the footnote, which should not be considered as a contradictory message of withholding budget support.

In addition, signing a Financial Agreement for budget support is also providing an additional negotiation opportunity for the EU.

The Commission sees no contradiction in the signature of Eurofor. It should be noted that this programme contained a very robust element of technical assistance managed through the delegated cooperation. It needed to start immediately and it was made clear through policy dialogue that no disbursement would take place until the macroeconomic situation was solved.

28

The Commission has strongly supported the PFM reform in Honduras and maintained a very close and continuous dialogue to support improvements and progress in this domain.

The improvement of public finances is monitored by successive PEFA exercises, which are a comprehensive joint undertaking of donors and the Government.

29

While the Commission recognises weaknesses, progress is notable and gradual improvements are taking place.

The macroeconomic and political conjuncture in the country made reform efforts slower. However, progress was registered. This positive evolution is even more relevant, important and difficult to achieve in a complex environment such as Honduras.

In addition, the Commission considers that it is very difficult to fulfil expectations on the pace of the reform. Although challenges exist, there have been important milestones achieved, particularly through the EU support, e.g.: the creation of the budget availability certificate to avoid deviations from planned expenditure by the line ministries. This innovation was introduced following missions from the HQ and dialogue with the local TA and the IMF.

Common reply to paragraphs 29 (a) to (c)

The Commission agrees with the Court's findings and makes every effort to monitor both policies and performance in this domain.

As noted by the Court in paragraph 30, this accurate assessment has served the Commission to rightly target the policy dialogue and capacity development initiatives in PFM areas that require most attention and in coordination with other donors.

Doing so, the Commission consistently and coherently supports the Government's efforts to improve PFM performance.

(d)

The latest available PEFA assessment allows for establishing a number of actions to improve this situation. This issue is addressed through the Commission's policy dialogue with the Government of Honduras.

(e)

This issue is addressed through the Commission's policy dialogue with the Government of Honduras.

(f)

Corruption presents a challenge to democratic governance and the rule of law.

At the same time, however, despite a challenging backdrop, the new Criminal Code (*Código Penal*) is currently under revision with the support of Spain and the Eurojusticia programme (through the socialisation process of the new draft Criminal Code). In addition, a project addressing corruption is being formulated under the MIP 2014-2020.

The Commission is also supporting an initiative with the youth for them to ascertain their rights and to reject corruption practices (*'Participación e incidencia a multinivel y multiactor en el marco de procesos de veeduría social en Honduras, en tema de violaciones, promoción y defensa de los derechos fundamentales de la juventud'*, reference EIDHR/2015/369-295).

30

(c)

The Commission will continue its efforts in further defining benchmarks against which progress is to be measured.

For some criteria (notably PFM), progress against initial reform milestones is particularly important; for others (macroeconomic, for example), maintaining stability-oriented policies is sufficient to confirm eligibility.

Reply of the Commission

Moreover, the ongoing policy dialogue will accompany the reform process and give opportunity to clarify expectations.

Box 4 – Examples of unspecific reform expectations

Please see Commission reply to the paragraph 27.

31

The Head of Cooperation and Project Managers involved in budget support operations followed technical training on budget support and are using their professional experience to ascertain the necessary PFM expertise.

In addition, there was a strong technical assistance in place (PAAPIR) supporting budget support activities (please see also Commission reply to paragraph VII.).

Furthermore, the Delegation benefits from a wide range of PFM and macroeconomic expertise: from the Headquarters, through missions to the field, technical assistance and regular contacts with the Headquarters on issues of concern.

33

As regards the security and justice sector, some highly positive outputs were achieved despite the particular difficulties in the sector.

For instance, the start of the inter-institutional trainings of the justice operators (judges, police and state attorneys) was very much successful. These were initiated and conducted for the first time as formal training courses leading to accreditation by academia.

Also, the support to the NGOs financed through PASS was successfully implemented, as well as the component to equip the beneficiary.

35

Due to the *coup d'état* in 2009, it was not feasible for the Delegation to further formulate the project, especially as the government was not officially recognised until mid-2010.

The delay in the implementation of MOSEF project was partly due to the fire in the offices of ICF (Institute of Forest Conservation) where MOSEF was located.

36

(a)

The Commission considers that it is necessary to take into account the context of the design and approval of PASS. Indeed, when the programme was approved in 2008, PASS objectives were without any doubt ambitious but realistic. The actions were deemed appropriate in that context.

The institutional crisis of 2009 that led to a *coup d'état* altered dramatically the panorama and all the efforts of the new administration were absorbed in restoring the 'institutionality' of the Honduran state. Furthermore, organised crime took advantage of the *coup d'état* and its aftermath to gain influence. Institutions of the Government were significantly weakened, particularly the Ministry of Security demonstrating a low capacity and political will.

Considering all these challenges, it would be appropriate to say that regardless of adverse circumstances generated by the political instability of 2009, PASS yielded significant outputs, despite not reaching the initial expectations.

(b)

Not all areas of a sector policy have to be translated into specific indicators. Only a limited number can be taken for specific indicators. In addition, overall sector progress, and therefore, all action objectives are monitored in the sector policy progress assessment.

In the case of APN, the progress of actions was monitored but the indicators of the Honduran National Plan were used to report the achievements of the budget support programme.

(c)

Given that at the time of design, indicators of national strategies were in the process of validation and were not detailed enough to be measured, it was necessary to propose an *ad hoc* indicator in the water and sanitation sector.

(d)

The Commission provided specific support to improve statistic data.

(e)

The Commission is engaged with the Government to redress that situation.

(f)

In the case of APN, the country's political situation was not favourable for the selection and adoption of indicators for the programme when the Financing Agreement was signed.

This was also communicated by the Delegation in the Standard Explanatory note for the adoption of Rider 1 to the Financing Agreement of the APN which states that during 2008 and 2009, the country's political and economic crisis made it impossible to negotiate an operational Financing Agreement given that the pre-conditions for a budget support programme were lost shortly after the Commission took the decision to fund the agreement.

Therefore, after rule of law was restored in the country, negotiations were carried out in order to define the indicators based entirely on the new Government's strategies.

Reply of the Commission

37

Field visits are planned on the basis of different criteria, including prioritisation of visits to projects/programmes with difficulties in order to provide close monitoring to mitigate the risks.

The KPI dashboard for 2015 indicates that the percentage of problematic projects that were subject to monitoring or evaluation activity during that year was 100%.

The Commission will monitor closely all projects with identified weaknesses or risks, *inter alia* through targeted field visits.

38

A methodology to monitor budget support as part of the result-oriented monitoring (ROM) was designed by the Commission in recent years and tested for the first time in Honduras.

Although the ROM performed for the APN in September 2013 did not provide specific recommendations for the APN, the observations reported by the experts have been considered useful by the Delegation in the identification and formulation of budget support interventions under the MIP 2014-2020.

The Commission will pursue a systematic integration of ROM recommendations in their ongoing programmes.

41

All dialogue strategies developed by the EU Delegation are in the context of poverty reduction.

The Delegation will further refine their policy dialogue in the future.

42

Policy dialogue strategies are defined for sectors subject to budget support and are regularly updated by the EU Delegation. They are also considered before each budget support disbursement.

In addition, as such, they form part of a wide spectrum of other instruments (e.g. technical assistance and financial support). Hence, their impact is a combined result of all types of tools and they should not be looked at in isolation.

Nonetheless, the Commission will continue making efforts to improve the documentation of its policy dialogue and its assessment.

44

Leverage depends on many factors including financial contribution political, social, cultural and trade aspects. Leverage cannot be compared to other countries based only on financial and trade terms.

Although EU funds represent a small proportion of the Government's budget, the Commission sees the actual leverage obtained in light of the technical capacity that the EU was able to deliver.

In the case of, for example PFM and macroeconomic stability, this support was both important and beneficial to Honduras and it allowed the EU to have policy leverage of an important scale.

45

(a)

Bilateral meetings took place to address, through policy dialogue, the areas supported by the APN. The EU policy dialogue on education took place in the context of the Donors Education Working Group called MERECE. Meetings were numerous and constant throughout the period. The number of meetings was considered sufficient and adapted to the resources available.

National statistics strategy and civil service reform were both part of the indicators under the APN programme. Therefore, they had to be included in the political dialogue with the Honduran authorities.

(b)

The creation of a different observatory was a risk with the arrival of the Mission to Support the Fight against Corruption and Impunity in Honduras (MACCIH). The EU Delegation's strong involvement in the coordination with other donors has mitigated the risk of the duplication of efforts.

The EU is now one of MACCIH's donors and is in a leading position to ensure complementarity in the sector.

47

The evolution of poverty needs to be assessed taking into account also external factors.

It would need to be assessed how poverty levels would have evolved without the impact of EU's cooperation programmes.

The Commission considers that without the EU's intervention, the impact of the 2008 global financial crisis on poverty levels would have been much worse.

49

The indicators were negotiated with the Government based on a national sectoral reform strategy.

The Commission uses technical assistance support and policy dialogue to address these issues.

50

The Commission considers an achievement in itself the fact that the salary costs declined from 55% to 49% in the education sector in a country as challenging as Honduras.

Since no systematic evaluation of APN and its impact on the education exists, it is rather difficult to objectively assess the impact of budget support.

Reply of the Commission

51

The Commission considers that APN has been one of the most successful interventions in the health sector. The Financing Agreement targets, which are the same for the National Development Plan (*Plan de Nación*), were met for the period 2010-2014. The results were the following:

- 66% of births in 2013 were delivered in health institutions (an increase from 53% in 2009). The increase represents 20,555 births.
- In 2013, 61% of new mothers had access to postnatal care during the first six weeks after childbirth (up from 51% in 2009).
- The prevalence rate (per thousand) of diarrhoea in children under five years of age decreased from 148 in 2009 to 126 in 2013.
- The prevalence rate (per thousand) of acute respiratory infections (pneumonia/bronchopneumonia) in children under five years of age decreased from 49 in 2009 to 45 in 2013.

52

The Commission considers that the indicators demonstrating progress in the sector are very encouraging, notwithstanding the mentioned persistent weaknesses.

54

The EU has been working in the sector that featured an increase of 24% in rural water and of 45% in improved rural sanitation based on the Joint Monitoring Programme (led by the UN and carried out every two years). This significant improvement as regards access to drinking water and rural sanitation took place in the period 1990-2015.

55

These indicators are related to official activity reports for specific indicators of PAPSAC. They do not represent all the results of the EU contribution to the sector.

It is important to highlight the achievements of the EU intervention in the sector policy framework such as the approval of national water and sanitation policies and operational plans.

In addition, the EU technical assistance contributed to several studies to support the institutions within the sector.

56

To influence the volume of Honduran exports to the EU is a very ambitious goal as it depends on external factors. The effects of the Association Agreement will only be fully seen in the longer term.

58

This overview of the sector illustrates well the magnitude of the challenges to be faced for improving the forestry sector in a country of high vulnerability to climate change. There is no doubt that the improvement of the sector governance is a key issue, bearing in mind the scenario and risk of non-intervention in addition to analysing the situation before and after the completion of the project.

The situation is further aggravated by the bark beetle crisis that hinders efforts made in this sector.

59

(a)

The fact that the Institute was not fully operational was due to legislative delays which are beyond the control of the Commission. In addition, the EU is contributing to the institutional strengthening in the sector improving the implementation of the forest policy.

(b)

The rationale of budget support is to monitor the compliance with the indicators and not necessarily to increase the budget allocation of the institution. In order to implement a sector strategy by the Government, it is not required to have an increased budget of the relevant institution.

60

Violence, impunity and corruption are among the most difficult problems to address in any country. The Commission considers that PASS and Eurojusticia helped to forge a more coordinated institutional response. The Commission agrees that a single national security and justice sector policy has not yet been achieved and is doing its utmost through programmes under implementation and general efforts in the sector to work towards that objective.

In addition, although the interinstitutional coordination remains limited, the EU is the only donor promoting the coordination between the three institutions in the sector: the Ministry of Human Rights, Justice, Governance and Decentralization (Secretaría de Derechos Humanos, Justicia, Gobernación y Descentralización); the Judiciary (Poder Judicial) and the Prosecutor's Office (*Ministerio Público*).

62

PASS was developed under particular political conditions. Following the *coup d'état* of 2009, cooperation was suspended for a year. When it resumed, the political conditions and priorities had changed significantly. They continued to do so in the course of the programme due to a surge in homicides. The project was significantly adapted, in a practical way, by simplifying the log frame.

Reply of the Commission

Conclusions and recommendations

63

The Commission acknowledges the positive assessment of its interventions by the Court.

There are external factors outside the EU control that affect outcomes and impact of the Commission's interventions. The political crisis of 2009 has affected all activities in the country. If the EU had not supported priority sectors, the conditions in these sectors would have been even more difficult.

As regards deforestation rates in years 2000-2014, a new assessment will be published by the end of 2016. Furthermore, losses in forest areas are largely due to exogenous factors (such as the pine bark beetle crisis) which are outside of the Commission's control.

64

The Commission finds that cooperation was encouraging.

The current programming with medium- and long-term interventions in each sector, through the same leading institutions, ensures consistency in the EU cooperation and reduces the risk of jeopardising its impact. The strong component of delegated cooperation and joint programming with Member States (Germany and Spain) contributes to minimising such risks.

Recommendation 1 - Strengthen the EU approach by enhancing its consistency and focus

(a)

The Commission accepts the recommendation.

(b)

The Commission accepts the recommendation and will continue to strike the right balance and to concentrate on the areas which guarantee highest impact.

(c)

The Commission accepts the recommendation.

The Delegation is already working towards joint programming and it will redouble its efforts to achieve it by 2018.

Joint programming is ongoing, according to the road map. Various actions are implemented via delegated cooperation under the same leading institutions, e.g.: UTSAN (Technical Unit for Food Security and Nutrition) in the food security sector (EU and FAO); Ministry of Employment in the employment sector (EU and Spain); Ministry of Environment in the forestry sector (EU and Germany).

65

The Budget Support Guidelines provide very detailed instructions on risk management and related tools. The main tool used is the Risk Management Framework which has been progressively introduced in the management of budget support programmes in Honduras.

On assessing eligibility, budget support rules for disbursement are strict and clear. Four eligibility criteria must be fulfilled to allow for a disbursement. This includes progress and developments in macroeconomic stability-oriented policies.

The Government demonstrated efforts and progress in trying to maintain and support macroeconomic stability-oriented policies based on a comprehensive analysis carried out by the Delegation. This was documented in the provided eligibility reports.

Recommendation 2 - Strengthen the management of budget support operations

(a)

The Commission accepts the recommendation as it is of the opinion that messages to the Government of Honduras are already consistent. Currently, the Budget Support Steering Committee confirms strategic options and only allows the Delegation to implement Budget Support programmes considering the short, medium and long-term in a consistent manner.

The Commission has a wide-ranging policy dialogue approach with Honduras. The Government's commitment towards reforms is a key element of policy dialogue and eligibility for budget support.

(b)

The Commission accepts the recommendation.

The Commission considers that this recommendation is already being implemented.

The Budget Support Guidelines include the instructions for a structured assessment and detailed templates and are fully and consistently applied.

The guidelines allow also for the respect of the dynamic approach as introduced in the Communication on budget support COM(2011) 638 final and the relevant Council Conclusions: *'In all forms of budget support the EU will apply a tailor-made and dynamic approach to eligibility, focusing on progress in the implementation of credible and relevant sector reform strategies, to maximise the impact on the ground'* (Council Conclusions 9371/12).'

(c)

The Commission accepts the recommendation.

Macroeconomic and public financial management expertise is a factor in the selection of staff that is taken into account during the rotation process.

Reply of the Commission

As of 1st September 2016, an expert with a budget support expertise has been assigned to the Delegation in Honduras.

In addition, the Commission will also continue to ensure additional macroeconomic and PFM expertise by alternative means.

Recommendation 3 - Strengthen the performance measurement of EU actions

The Commission accepts the recommendation and will continue to take it into consideration in its new programmes to strengthen sectoral monitoring and evaluation systems. For instance, Eurosan Budget will support the national agriculture census. This will strengthen the capacity of the National Institute of Statistics (INE).

67

The sectoral strategies, developed by the Delegation, are used as instruments to support the EU policy dialogue in the focal sectors. Every policy dialogue is documented in a written report. Assessments of the degree to which objectives have been achieved are done during sector analysis for the release of payments.

Recommendation 4 - Strengthen the policy dialogue in the priority sectors

The Commission accepts the recommendation.

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Event	Date
Adoption of the Audit Planning Memorandum/Start of audit	17.11.2015
Official sending of draft report to Commission (or other auditee)	20.7.2016
Adoption of the final report after the adversarial procedure	25.10.2016
Commission's (or other auditee's) official replies received in all languages	3.11.2016

We assessed the effectiveness of the bilateral EU development support to priority sectors in Honduras. We therefore examined the Commission's management and the achievement of the EU development support objectives. The audit focused on the 2007-2015 period. The priority sectors examined were poverty reduction; forestry; and security and justice.

We concluded that the EU's development support to priority sectors in Honduras during the audited period was partially effective. It contributed to a number of positive developments in these sectors, but difficult country circumstances and a number of management weaknesses hindered its impact. The overall situation in the country remains worrying. The level of poverty has increased, the area of forest land had decreased and there is still widespread violence and a very high homicide rate.



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