



“WHITE PAPER”

National Reconstruction and Transformation Process Follow-Up Meeting (Tegucigalpa, 28-29 March 2001)

Paper presented by the Stockholm Declaration Follow-Up Group (G-12) in Honduras

1. Introduction

This paper is presented by the Stockholm Declaration Follow-Up Group (whose current members are Germany, Canada, Spain, the USA, Japan, the Netherlands, the UK, Sweden, the IDB, World Bank, IMF and UNDP) to the Government of Honduras, the country's civil and political society and the rest of the international community. It sets out the Group's perceptions and reflections on the national reconstruction and transformation process.

The ideas presented below complement the opinions expressed by the Follow-Up Group during the special Consultative Group meeting for Honduras held in Tegucigalpa in February 2000.

The paper is divided into two sections. The first describes the main areas of perceived progress in the reconstruction process. The second identifies what might be the main challenges involved in transformation.

A particular aim of the paper is to put forward elements that could help to clarify the link between the reconstruction process and the efforts begun by the Government and Honduran society to develop a Poverty Reduction Strategy (PRSP). This could serve as the framework to guide the country's transformation process and express it in concrete terms.

The paper therefore makes a qualitative assessment of what has happened so far and looks ahead to the fundamental changes required to give even greater impetus to the country's economic, political and social development.

2. Progress in Reconstruction and Transformation

The Follow-Up Group wishes to express its recognition of the efforts being made by the Government and Honduran society to implement the Master Plan for National Reconstruction and Transformation in full. The Group appreciates that substantial and consistent progress has been made in implementing the plan throughout the country.

One of this year's most important achievements is that the government and civil society have made significant efforts to attempt to draw up a Poverty Reduction Strategy proposal in a participatory way. The PRSP could become a key component of future transformation efforts in the country.

Furthermore, it should be mentioned that the country has managed to rehabilitate, rebuild and re-establish a significant number of bridges, roads, homes, water and drainage systems and health and education services in a relatively short space of time. This has made it possible to prevent the economic and social problems faced by the low-income population from getting even worse. Progress has also been made in the definition and launching of programmes for watershed management, disaster mitigation and risk management.

The Government has shown that it is ready and willing to strengthen the processes that will bring about greater transparency in the use of national and international resources. This is reflected in the preparation of the Efficiency and Transparency in State Procurement and Contracting Programme, the establishment of the National Anti-Corruption Council and other initiatives that attempt to encourage auditing and social oversight. There is also a climate of openness to greater control and accountability among civil society bodies carrying out reconstruction projects. The Government has also made significant efforts to create and strengthen mechanisms for gathering, systematising and providing access to information on investment in reconstruction processes.

Congress recently approved the judicial system reforms that seek to make justice administration more effective.

With regard to decentralisation and local participation, the Group acknowledges the important role played by municipal governments in national reconstruction. Over the last few years several municipal strengthening programmes have been consolidated and launched by donors in coordination with the Government of Honduras. These will have an impact on local government capacity building. Finally, the Group welcomes the reactivation of the National Decentralisation Commission, which is about to start implementing a Preliminary Action Plan aimed at making the Decentralisation and Municipal Development Programme operational.

There has also been important progress in the area of gender and human rights. The Equal Opportunities for Women Law (Decree No. 34-2000) and the Criminal Proceedings Code have been approved. The latter will facilitate a faster application of justice to those prisoners who are still waiting for their case to be legally resolved. The institutional status of the Human Rights Commission has been reinforced in terms of its legitimacy. Efforts have been made to include minority groups, particularly ethnic groups and the disabled, in the reconstruction processes, and to reactivate the Ethnic Groups Commission.

In the area of the economy the Group recognises that the government has made significant efforts to maintain macroeconomic stability and strengthen the country's financial system. The government also took a series of measures that enabled it to sign for year two of the Poverty Reduction and Growth Facility (PRGF) with the IMF in May 2000. These measures also enabled it to reach the decision point in the Debt Reduction for Highly Indebted Poor Countries (HIPC) Initiative in June and July 2000.

3. International cooperation and coordination between donors

Over the last two years the international community has become an important partner in the reconstruction and transformation process. Not only are donor countries and organisations contributing funds for reconstruction, they are also supporting debt relief, the inclusion of Honduras in the HIPC initiative and the preparation of the Poverty Reduction Strategy.

The Follow-Up Group has encouraged a constructive and unprecedented way of working in its relations with the government and civil society. Coordination between donors, which was a Stockholm Declaration mandate, has been promoted and strengthened in Honduras, thanks largely to the Group's work. The Group has helped to establish information-sharing mechanisms, which have benefited all the programmes and reduced the duplication of effort among donors.

This space has also served to promote consensus among donors about the approach to transformation in Honduras and has created a more favourable environment for dialogue between the government and civil society. Attempts have been made to ensure that this is an open dialogue characterised by mutual respect. Without making impositions of any sort, the aim of this dialogue is to promote citizen participation and government leadership in the reconstruction and transformation process. The Group has also supported the setting up of sectoral working groups whose members are representatives of the government, civil society and the donors. These working groups have identified the key results and the corresponding sectoral monitoring indicators for reconstruction and transformation.

4. Challenges involved in transformation

The Follow-Up Group is convinced that the main challenge faced by Honduran society is to transform Honduras into a country in which the levels of both urban and rural poverty have been significantly reduced and which is fully integrated in the region and the community of democratic nations.

This challenge unavoidably involves the government and Honduran society in its entirety. It requires a series of measures to bring about effective reform of those political, institutional, economic and social structures that have hitherto prevented equitable economic growth that can be sustained over time.

In this sense, it is important to make investment in education and health more effective. The main aim of this investment should be to address the needs of the least favoured

groups who make up the majority of the Honduran population. Otherwise, the possibilities of reducing poverty and having a solid democratic society are limited.

The steps along this path need to include finalising the process of preparing the Poverty Reduction Strategy and, in the same area, signing the programme for year three of the PRGF. Both are directly related to the process of transformation and development that the country needs to consolidate. Bringing them to fruition is a task for the government, Congress, the political parties and civil society.

The Group believes that it is not possible to reduce poverty without generating a significant amount of social capital. Equally important is to increase private investment and consolidate the reforms required to make the economy more competitive. These include a more efficient civil service and a more solid financial system.

It will be possible to achieve this providing there is an overall long-term vision of the country, developed through partnership between central government, local governments, civil society, the private sector and the political community in Honduras and international cooperation.

The paper now goes on to describe the key factors that could form the basis for this transformation, and that the international community would be willing to continue supporting in the medium and long term.

4.1 Investment in social capital

The government, civil society and the political community must be aware that investment in human capital, and especially in education and health, is essential for addressing the problem of poverty. To achieve this, it is fundamentally important that the Poverty Reduction Strategy promotes a change of perspective and approach on these issues.

Honduras needs to have human resources with a minimum level of education in order to reduce poverty rates among the population and participate in an increasingly competitive world. To achieve this objective, it is important to have a system that accounts for the money invested by means of a system to monitor the progress achieved by students.

In addition to the above there is a need to intensify the processes of devolution and decentralisation of education system management. This would enable the percentage of Gross Domestic Product (GDP) allocated to education to achieve significant changes that would reduce the high repetition and school drop-out rates and achieve competitive quality in secondary and tertiary education. The model should take into account the regional, cultural and social specificities of the whole population, especially women and ethnic groups.

4.2 Modernisation of the State

The Group believes that a vital link in the development and poverty reduction chain is to carry out a series of reforms that will give greater legal and economic stability and transparency to the country and enable the state apparatus and institutions to be depoliticised.

This also requires that the relevant ministries and autonomous bodies take on their stewardship and facilitating role with greater emphasis. They should be promoting decentralisation, devolution and contracting processes in which the municipalities, private companies and private development organisations play an important role in the implementation of public policies and programmes.

For this purpose, the public services with the largest national coverage need to be managed more efficiently and effectively. This requires in-depth reforms of their structures and administration, but the government does not have sufficient financial resources to do this.

Contracting out the management of public services to the private sector must be done in a way that is agreed between the parties. It must be transparent and promote fair competition, with adequate regulatory capacity on the part of the state. It must at all costs be free of party political influence in the way it is managed. But above all, it must ensure benefits for the majority, especially the poor.

Modernisation also requires having a professional civil service. As well as ensuring proper administration of the state, this should promote more uniform, rational and equitable structures and practices for public servants.

The government, with the support of the international community, should also improve its information systems so that clear indicators and sources of statistics and data are in place. These should feed into the design, implementation and monitoring of transformation strategies and make it possible to channel resources to priority sectors. In particular, the government should carry out the population census as soon as possible and strengthen the INE, the National Evaluation and Management System (SINEG) and the National Banking and Insurance Commission (CNBS).

As a key requirement for state modernisation, Congress must approve a large number of laws needed for the transformation process in Honduras. However, the pace of approving this legislation is slow, and there are doubts about the future of many initiatives that are essential for increasing private investment and the country's development.

In this sense, it is important for Congress to consider these initiatives from the point of view of the long-term national interest in the framework of the Poverty Reduction Strategy.

Some examples are the laws that are vital to PRGF implementation such as the governing framework for the electricity sector, the civil service law, the reforms of the financial institutions system, pensions and social security, the simplification of administrative procedures for setting up businesses, the water management law, the forestry law and the territorial organisation law.

4.3 Strengthening the Rule of Law

There is consensus in Honduran society that the country is in need of profound changes to the way in which justice is administered and the structure of the judicial branch. It should be remembered that the justice system in Honduras needs to improve and

strengthen its credibility in the eyes of citizens. Honduran investors and investors from many other countries are currently bogged down in interminable lawsuits that have put a stop to investment, production and income generation. Furthermore, crime gives rise to insecurity and worry.

On the other hand, the international community views with great satisfaction the steps that have been taken towards modernisation of the justice system to create an environment of greater legal and citizen security. The Criminal Proceedings Code has now been approved and will shortly enter into force. This will give greater credibility and legitimacy to the criminal justice system. In December last year Congress approved the amendment to the chapter on the judiciary to reform the process of electing Supreme Court judges, and we hope it will be ratified in the next few weeks. Other bills are at different stages in the discussion process, such as the Judicial Career Structure Bill, the Appointments Board Bill and the Property Records Bill. These reforms are a necessary condition for moving from reconstruction to a transformation that will turn Honduras into a more democratic and prosperous country.

4.4 Transparency

To increase confidence among the Honduran population and the international community, it is important to show that national and international resources are being used correctly. The state inspection bodies have a key role to play in this process, and they should take on the leading role in the control and monitoring of public funds. These bodies currently seem to suffer from certain constraints in terms of their technical capacity and do not have sufficient credibility to convince the Honduran population. The state inspection bodies need to be modernised, strengthened and depoliticised.

Approval of the State Contracting Law is necessary so that a clear, well-defined and efficient framework will be in place for the procurement of goods and services. Without this, the environment in the country will not be trustworthy enough to take forward contracting processes using both national and international funds.

Furthermore, legislation that makes all citizens equal before the law needs to be reinforced to enable immunities and privileges to be lifted in those cases where justice demands it.

Appropriate mechanisms should be sought to bring about greater representativeness in National General Budget proposals, to ensure that the budget reflects the interests and expectations of the country's different social and economic groups.

Civil society has the responsibility to act as an independent agent, making sure that public resources are put to good use. Civil society could play an important role in monitoring the spending of the national budget, the efficiency and effectiveness of the services provided by state bodies, and the use of external resources. It should play this role in a non-partisan, independent and constructive manner, seeking to safeguard the common good.

Despite all this, it is important to highlight that during the recent national emergency the local and external resources made available to help the victims of Hurricane Mitch were used transparently. We believe that the experience accrued in the use of resources

during the emergency and reconstruction should serve as the basis for directing expenditure and investment in the transformation process.

4.5 Strengthening democracy

Honduras has started to intensify the process leading up to the national elections for president, congress, mayors and municipal corporations that will take place in November 2001.

This event is closely related to the consolidation of democracy and should not affect the reconstruction and transformation process; on the contrary, it should strengthen it. The international community trusts that the difficulties detected before, during and after the political party primary elections have now been overcome.

Furthermore, a complete reform of the election system and the organisation and functioning of the political parties must be promoted and carried out. This would enable, for example, the setting up of civic committees and other mechanisms for candidates independent of the traditional party structures to stand in elections for both municipal authorities and Congress. This would give rise to a new form of politics that would be more closely linked to problems and solutions at the local level, with greater accountability and responsibility to the community.

Finally, recent events have demonstrated the importance of reforming the procedure for selecting the members of the National Electoral Tribunal. The Tribunal currently reflects the party political power quotas established after each election. If it is to enjoy greater legitimacy and safeguard the interests of all Honduran citizens, the National Electoral Tribunal needs to be independent of party political influence.

In this context the Group believes it is important to promote and foster political debate, improving the mechanisms for participation. This will ensure that the new government that takes office in 2002 will assume ownership of the commitments taken on in the Consultative Group meetings in Stockholm and Tegucigalpa. With regard to this, the forums and networks that have been organised by civil society could be key spaces for promoting dialogue of this sort. The Forum for Strengthening Democracy (FFD) could support these initiatives.

4.6 Decentralisation and citizen participation

One of the most effective ways to achieve sustainable development is to involve local stakeholders, especially municipalities, in decision-making and problem-solving processes. Central government should accept that the municipalities are an inseparable part of the government system. As such, they have functions, responsibilities and rights that should be taken into account. Constitutionally, municipal governments exercise a public function that is independent of the powers of state and civil society, and within each municipal space their authority is backed by the force of law, as it is governed by the Municipalities Law.

The Follow-Up Group believes it is important for the government, with the help of AMHON and civil society, to establish a gradual decentralisation and municipal strengthening strategy. This reference framework should clearly indicate the path to be

followed in order to implement an orderly decentralisation process. The strategy should establish the resources that will be transferred from the General Budget, which services will be decentralised, how to build local governments' capacity to manage them, and how to build their capacity to generate resources and implement projects.

It is also important that the Honduran Social Investment Fund (FHIS) takes measures to transfer its role as implementer of social infrastructure works to local governments in the long term. In the medium term, it should gradually transfer its functions to local governments and eventually become a negotiator of resources for them. The funds freed up in the HIPC initiative that are allocated to the FHIS should therefore be channelled in accordance with this understanding.

It is of course recognised that there are differences between the municipalities in terms of their management capacities. Special measures will therefore always be required to improve their technical capacities, as will initiatives to develop new forms of funding for those municipalities at a disadvantage.

5. Conclusions

More than two years after Hurricane Mitch, Honduran society, under its government's leadership and with the support of the international community, has made significant efforts to rebuild the country. This process deserves special recognition from the international community. The challenges that lie ahead are related to consolidation of the transformation process in the country.

The Follow-Up Group is convinced that Honduras can become a more prosperous and democratic country, in which all citizens – without distinctions in terms of social origin, race, gender or religion – can have the capacity and opportunity to make progress economically and live with dignity. The Group believes that the key to achieving this lies in taking forward additional reforms to overcome the structural problems that have hitherto made it impossible, both before and after Hurricane Mitch, to reduce poverty, increase economic growth, strengthen democracy and achieve higher levels of equity.

As a pre-requisite for this, it must be recognised that there is a need to increase investment in social capital, modernise and strengthen state structures and operations, achieve greater efficiency and transparency in public and private actions, and find suitable approaches, attitudes and methods that can be used to provide permanent solutions to many of the problems Honduras is facing.

The interest and commitment the country has shown in intensifying this process is worthy of recognition, even though the levels needed to cement a genuine transformation have not yet been reached. This responsibility falls to the government and civil society, but above all the political community, which has the responsibility to take these commitments on board regardless of the party that comes to power in 2002.

The Group believes that these strategic goals and objectives could serve as the basis for consolidating still further the alliance for cooperation that has been established between the international community and Honduran society. This belief arises from the conviction that the international community has become an active partner in the country's

reconstruction and transformation processes, together with the government and people of Honduras in an atmosphere of collaboration and mutual respect.

To achieve this, it is essential for the Government of Honduras to consolidate its leadership in the sectoral working groups. These are a positive mechanism for coordinating efforts between different state bodies, civil society and international cooperation to draw up policies and monitor programmes and projects. In the short term, they can also serve as the framework for reaching consensus on the Poverty Reduction Strategy.

This is why the Follow-Up Group and the rest of the international community is backing the Poverty Reduction Strategy preparation process in which Honduran society is engaged. It is willing to continue supporting the preparation, implementation and monitoring of the PRSP, providing Honduras addresses the problems described above and sets itself on the right road to achieve a modern state capable of taking on board the commitments made.