

The Republic of Honduras

The Center for Global Development prepared this summary based solely on the publicly available proposal submitted by the Republic of Honduras to the Millennium Challenge Corporation.

Overview

The government of Honduras seeks \$257.5 million from the MCA. The fund would be invested in infrastructure, education, governance and finance over four years. The financial package would support the country's Poverty Reduction Strategy Paper (PRSP), which aims to raise real GDP to at least 4.5 percent and lower poverty rate by 1.6 percent a year on a sustainable basis.

Context

According to the compact proposal, Honduras has experienced slow growth in recent years due, in part to factors outside Honduras' control, i.e., Hurricane Mitch, which led to a negative growth in 1999, and the 2001-2002 global recession.

However, slow growth was also a result of policy choices that stifled capital influx to the country. Low quality infrastructure services made Honduras less attractive to investors.

Elements of the Proposal

In order to meet Honduras' PRSP, the government seeks to overcome the following constraints to economic growth:

- Deficient road infrastructure raises transportation costs in all areas of production and limits access to markets
- Uncertain land tenure discourages investment
- Limited irrigation reduces land productivity and stifles investment
- Lack of training opportunities deprives farmers and other business operators of knowledge
- Loss of product value due to lack of processing and packaging industry
- Poor infrastructure denies poor neighborhoods access to capital and other opportunities
- Light assembly industry suffers from lack of human capital
- Tourism does not reach its potential due to weak hotel network

Accordingly, Honduras would use MCA funds to make the following investments:

- \$142 million in infrastructure projects specifically designed to improve roads and increase market access for businesses
- \$10 million in a land titling trust fund to help reform property law
- \$75 million to programs supporting rural development (irrigation, flood control and technical assistance).

- \$13 million to support urban growth in apparel sector training, preschool education, micro-enterprise.
- \$22.5 million for the tourism infrastructure
- \$5 million for program administration and management

Proposed Outcomes

According to the compact proposal, in four years, Honduras would:

- Increase investment, employment and production in rural areas, particularly in agriculture and agro-industry
- Increase investment, employment and production in urban areas, targeting light assembly (maquila), small businesses and tourism
- Increase irrigation and flood protection
- Improve local access roads to low-income communities (1,320 kms of tertiary roads and 115 kms in Comayagua, Francisco Morazan, Intibuca and Valle)
- Increase land registry coverage
- Deliver technical assistance to increase product value added
- Develop tourist attractions in Tela Bay and Tegucigalpa
- Extend loans to small businesses

Consultative Process

According to the compact proposal, about 3,500 representatives of civil society organizations attended discussions in 13 cities. Participants came from various sectors at the local, regional and national level.