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97 349

FY 1992 - FY 1993
ACTION PLAN



USAID HONDURAS
MAY 17, 1991

USAID/HONDURAS
FY 1992 - FY 1993 ACTION PLAN

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SECTION I. RELATIONSHIP TO LAC BUREAU OBJECTIVES AND COUNTRY STRATEGY

This FY 1992/93 Action Plan was developed concurrently with USAID Honduras' FY 1992-96 CDSS and with the "Economic Assistance Strategy for Central America, 1991-2000". These documents are consistent with the Enterprise for the Americas Initiative (EAI) and with LAC program objectives outlined in 90 State 144647 and 90 State 434641. Embassy Tegucigalpa and the Country Team reviewed this Action Plan and our CDSS and found them consistent with U.S. foreign policy goals and objectives.

This Action Plan covers the final two years of the Callejas Administration (1992-93) which will culminate in Honduran National Elections in November 1993. These elections not only will mark another important step forward in consolidating Honduran democracy, but most likely will be a national referendum on the historic economic reforms initiated in 1990. The ultimate outcome of these events will be influenced heavily by actions taken by the USG and by the entire donor community over this Action Plan period.

Thus, 1992-93 will be critical years in Honduras for achieving LAC objectives of supporting the evolution of a stable, democratic society, promoting broad-based sustainable economic growth, and encouraging Honduran support for more effective regional cooperation. These objectives are threatened, however, by Honduras' deteriorating economic conditions. It already has one of the lowest per capita incomes in the LAC region (\$481) and is one of the few IDA-eligible countries in Latin America. In 1990, Honduras experienced its first declining GDP since the early 1980s and the highest inflation rate in its history. These problems were caused by: the deep but incomplete reforms of 1990; a heavy debt service burden, especially to the IFIs; stagnating exports and investment; and exogenous factors such as the 1990 petroleum price shocks and flood damages. Delays throughout the 1980s in implementing fundamental macroeconomic reforms magnified the depth of the adjustment needed in the 1990s and their social costs. As a result, there is growing unemployment and widespread social discontent that could threaten Honduran democracy, and cause a political backlash against those very economic reforms that will ultimately ensure higher growth rates. This backlash could undermine Honduras' position as a Central American leader of positive economic reforms.

The challenge for the USG is to keep Honduras moving forward with its bold and courageous reforms, to continue supporting Honduran efforts to strengthen its fragile democracy, and to promote more effective Honduran regional cooperation at a time of declining A.I.D. resources for Central America. In the 1990s, this effort cannot be based on A.I.D. resources alone. It also must involve the International Financial Institutions (IFIs), other bilateral donors, and other USG agencies complementing our efforts to implement the Central America Strategy. In Honduras, this calls for:

- Dialoguing with the GOH to encourage sound macroeconomic and sectorial policies needed to produce high rates of sustainable economic growth;

- Mobilizing expanded IFI and other donor resources through Consultative Group and PDD mechanisms;
- Supporting rescheduling of Honduran debt through Paris Club, EAI, and other arrangements;
- Ensuring Honduran participation in EAI debt reduction schemes, forgiving wherever possible USG loans such as A.I.D. Development Assistance and PL-480 Title I credits in accordance with Honduras' status as a low income country;
- Continuing ongoing efforts to help Honduras improve its investment climate so as to increase its exports, generate additional foreign private investment, liberalize trade, participate fully in EAI and Caribbean Basin Initiative (CBI) incentives and tap resources from the A.I.D.-supported Department of Commerce Latin American Trade Center;
- Supporting the reactivation of other USG programs such as Export-Import (EXIM) Bank, Overseas Private Investment Corporation (OPIC) and Commodity Credit Corporation (CCC);
- Working with other USG agencies to implement a coordinated United States approach to strengthening democratic institutions;
- Promoting full participation of the traditionally disadvantaged in the economy and in democratic processes; and
- Encouraging Honduran participation in regional cooperation mechanisms that further reinforce the adoption and implementation of key policy reforms.

A. Program Overview

It is within the above context that USAID will implement its FY 1992/93 Action Plan. In designing this program we reviewed ongoing activities within our portfolio to judge their consistency with the "Economic Assistance Strategy for Central America, 1991-2000" and our new CDSS. As a result of that review we found that most of our policy reform agenda and ongoing projects already coincided with that Strategy (see Annex D). In a few cases, however, it was necessary to adjust our approach and to concentrate our policy dialogue and project interventions more sharply on a fewer number of key constraints to sustainable economic growth and to strengthening democratic institutions. The results of our review are summarized below in Part C. In addition, because of expected budget shortfalls, we are limiting the number of new project starts in FY 1992/93.

In accordance with the "Economic Assistance Strategy for Central America, 1991-2000" and our new CDSS we identified six Strategic Objectives for our program. They are:

USAID/HONDURAS GOALS, SUBGOALS, AND STRATEGIC OBJECTIVES	
GOALS and SUBGOALS	! STRATEGIC OBJECTIVES
I. BROAD-BASED, SUSTAINABLE ECONOMIC GROWTH	
A. Policy Reforms for Economic Growth.	! 1. Improve Sector Policies in: Agriculture; Trade and Investment; and, Finance.
B. Private Sector Response.	! 2. Increase Private Investment and Trade.
C. Increased Well-Being of the Disadvantaged.	! 3. Facilitate Implementation of Social Sector Policies.
D. Preservation and Sustainable Use of Natural Resources.	! 4. Improve Environmental Policies and Natural Resource Conservation Programs.
II. STABLE, PARTICIPATORY DEMOCRACY	
A. Responsive Government Institutions.	! 5a. Strengthen Democratic Institutions.
B. Democratic Pluralism and Values.	! 5b. Promote a More Pluralistic Honduran Society.
III. EFFECTIVE REGIONAL COOPERATION	
Honduran Regional Cooperation.	! 6. Promote More Effective Honduran Regional and International Cooperation.
IV. OTHER	
None.	! None.

Our Strategic Objective Indicators are presented in Table III. We are focusing available resources to meet the objectives of the Central America strategy as follows.

1. Promoting Broad-Based, Sustainable Economic Growth

A main thrust of our strategy is to support GOH efforts to implement and deepen sector policy reforms (in agriculture, finance, and trade and investment) that can produce an annual growth rate of at least 3.8 percent by 1993. This is probably the minimum growth needed to help ensure that Honduras conducts its 1993 national electoral campaign in the context of a recognizably improved economy. It would create a more positive outlook about liberalization reforms and hopefully ensure their continuation, whichever party wins the November 1993 elections.

This shift to a full policy-based sector approach in FY 1992/93 assumes that the GOH continues to implement sound stabilization policies that merit ongoing support from the International Monetary Fund (IMF), the World Bank (IBRD) and the Inter-American Development Bank (IDB). We expect that IMF/IBRD will assume the leadership role in dialoguing with the GOH and funding short-term stabilization programs while we concentrate our resources on supporting sectoral policy reforms. This will complete Honduras' graduation from ESF-supported to IFI-supported stabilization assistance. USAID, however, will continue to provide fast-disbursing ESF-Cash Transfers in support of critical structural reforms in key sectors of the economy. We expect that this sector approach will encourage other donors (e.g., IBRD, IDB, bilaterals) to increase their funding of fast-disbursing sector programs. This is the type of assistance Honduras urgently needs to grow and to cope with its onerous debt burden.

2. Developing Stable, Participatory Democracy

To develop a stronger Honduran democracy, USAID will continue implementing its Strengthening Democratic Institutions (SDI), Municipal Development and related projects within the context of an overall USG strategy of participation by and funding from various USG agencies (State, DOD, DOJ, USIS, and NED). We will continue promoting more pluralistic development by supporting private organizations and macroeconomic and sector policy reforms that are leading to a freer, more competitive and transparent market economy. Other democratic initiatives identified in IAC's Central American Strategy (e.g., working with the police, military, political parties, journalists, human rights issues and drug education) will be supported by other USG agencies or through A.I.D. regional and centrally-funded projects within the context of the U.S. Mission's overall strategy for strengthening Honduran democracy.

3. Effective Regional Cooperation

To promote more effective regional cooperation, USAID will encourage Honduran participation in regional mechanisms and projects that reinforce GOH adoption of key economic and other policy reforms. The recent agreement by the Central American Presidents at Puntarenas to unify customs

duties, is just one example of how regional policy harmonization can help reinforce key GOH reforms. Other areas include Honduran participation in regionally-funded projects and initiatives that promote horizontal cooperation among Central Americans on key regional issues and full Honduran participation in initiatives such as EAI, PDD and CBI.

B. Policy Dialogue Agenda

1. Policies for Promoting Broad-Based, Sustainable Economic Growth

During FY 1992/93, USAID's policy dialogue calls for actions to achieve increased economic growth based on sounder sector policies, especially in agriculture, finance, trade and investment. The GOH administration which took office in January 1990 initiated deep stabilization reforms. As expected, the Honduran economy has encountered hardships in adjusting to improved economic policies. GDP declined in 1990. The reforms are likely to be maintained only if the Honduran economy responds favorably to improved policies prior to the end of this Action Plan period.

In November 1993, Honduras will hold a general election. This will be an opportunity for a referendum on economic reform programs. A buoyant economy during the Action Plan period will enhance the prospects of continuing the reforms. In contrast, poor economic performance will undermine current and future reform initiatives. It is essential that the benefits of the economic hardships of 1990-91 become apparent, such as through increased positive flows of donor assistance.

Keeping this in mind, the Mission is cognizant of the urgency in improving the performance -- not just the policies -- of the Honduran economy in FY 1992 and FY 1993. As outlined in our FY 1991 PAAD and in our FY 1992-96 CDSS, we believe that stronger economic performance is possible in these years. This requires a surge in agricultural growth in response to continuation of sound stabilization policies, a timely and substantial improvement in agricultural policies, and continued reforms in the trade and investment area and other sectors. These are the three key areas of USAID's policy dialogue during FY 1992 and 1993 in pursuit of the broad-based, sustainable economic growth objectives. Specifically, policy dialogue will focus on:

- **Continuation of Sound Macroeconomic Stabilization Policies:** In order to attain sustainable economic growth, the GOH must continue to implement sound exchange rate, monetary, and fiscal policies. We expect the IMF and World Bank to take the lead in these areas. Consequently we do not anticipate an explicit stabilization component in the ESF program after FY 1991. However, given the importance of sound macroeconomic policies in achieving sustainable economic growth, we will continue to monitor progress in macroeconomic policies and discuss these policies with the GOH and IFIs as part of the policy dialogue.

- **Improvement in Agricultural Policies:** Agriculture is the only sector capable of a significant response to improved economic policies prior to the November 1993 elections. As discussed in the Mission's approved

Agricultural Sector Strategy presented to A.I.D./W in early 1990, this response requires deep and comprehensive sectoral policy reforms to improve land tenure security, pricing and access to inputs. Improved land tenure security requires regulatory changes to permit fee simple titling, land rentals and land transfers through market mechanisms. Pricing reforms consist of the elimination of remaining price controls on agricultural products and inputs, and better trade policies affecting agricultural products and inputs, and policies to improve the agricultural sector's access to credit, inputs and technology also will be pursued as outlined in USAID's Agricultural Sector Strategy approved in 90 STATE 164131.

- Deepening of Other Sectoral Reforms: Continued structural reforms -- particularly in the areas of trade, investment and finance -- are needed to improve the efficient allocation of resources to economically and financially viable activities. USAID will support continued progress toward a low and uniform tariff on imports, improvements in the investment climate through a new investment law, better regulation and improved efficiency in financial markets, and accelerated privatization of state-owned enterprises. The policy dialogue will seek to improve the investment climate through regulatory, judicial and legal reforms. The Mission is undertaking a financial sector assessment which is expected to recommend deep financial sector reforms to promote domestic savings, encourage long-term lending for land acquisition, infrastructure, housing and business ventures, improve bank solvency, deepen and extend financial instruments and markets, improve bank regulation, liberalize interest rate policies, and phase out directed lines of credit as the financial markets respond to improved policy environment. All of these policies are needed to bolster investment and trade in the 1990s.

The above policy thrusts dovetail with the Bureau's Central American Strategy. They reflect the key constraints identified in our CDSS and their implementation will advance the strategic objectives specified in our CDSS

The policy reforms will facilitate a strong, positive private sector response to improved economic policies. Lower trade barriers will promote efficiency and increased private sector exports. A better investment climate -- resulting from streamlined regulations, financial sector reforms improved land tenure security, and a reduced public sector role in the economy -- will stimulate private investment. Improved financial sector performance is key to generating the domestic savings needed to finance this investment and is fundamental to improve the allocation of productive resources to the most efficient economic activities. The latter include small enterprises and farms which have been deprived of credit because interest rate ceilings prevent lenders from adequately covering risk and administrative costs.

Ongoing dialogue on those policies that facilitate increased participation in the economy by the Honduran disadvantaged will be intensified. We continue to dialogue with the GOH on policies to improve social sector resource allocation and utilization. Education policy dialogue centers on improved utilization of resources, a better teaching environment, instructional change, improvement of multigrade teaching, measures of student achievement, and a more equitable distribution of the education budget.

Ongoing policy dialogue in health concentrates on improving the efficiency of primary health service delivery and reducing the proportion of the health budget going to curative care and salaries. Increased local decision making and control of fee income also is emphasized.

World attention on environmental issues coupled with the completion of the A.I.D.-supported Honduran Environmental Profile and Policy Inventory have stimulated GON interest in the environment. The Mission will pursue the following policies:

- removal of restrictions relating to land titling and agricultural prices that discourage investments in on-farm soil conservation measures;
- clarification of ownership rights for timber resources;
- establishment of incentives to make the forest products industry more efficient and less wasteful of lumber resources;
- a rationalization of coastal zone resource management relating to mariculture development;
- development and enforcement of chemical contamination controls;
- the development and implementation of a comprehensive water law to make allocation and use of water resources more efficient;
- the effective management of biological reserves and buffer zones; and
- improvements in the management of municipal wastes.

2. Policies for Developing A Stable, Participatory Democracy

USAID is strengthening the democratic process in Honduras by supporting institutional, technical and policy reforms in the Judiciary, Congress, the National Elections Tribunal (TNE), the National Registry of Persons (RNP), and municipal governments. USAID's policy dialogue focuses on changes which professionalize the Judicial and the Electoral systems. In the Judiciary, special emphasis is being placed on implementing the Judicial Career Law and increasing cooperation with the Attorney General's Office. The dialogue with Congress focuses on building support for a better informed staff, more technical development of legislation and improved oversight. A key future focus of this dialogue is the need for bipartisan committees with permanent, career staff. In the National Registry of Persons, policy dialogue will support passage of a career service law, particularly in the data management and identity card sections. We will also continue to urge passage of a Honduran Electoral Reform Law that among other changes creates a career RNP technical staff and provides for separate elections of municipal officials.

Major policy breakthroughs were made in late 1990 in the area of municipal reform. Congress approved a new Municipal Reform Law (see 90 Tegucigalpa

20484). This landmark legislation devolves substantial authority to municipalities and reverses traditions, procedures and paternalistic attitudes that frustrated local government development efforts for decades. The law gives municipalities greater financial autonomy, increased taxing authority, ownership of public lands and control of natural resources. USAID efforts will focus on helping municipalities develop the institutional and technical capacities to carry out these new responsibilities and encouraging the GOH to continue to decentralize even more authority and resources away from central ministries and autonomous agencies and promoting greater citizen participation in the local decision making process.

Other high priority objectives for strengthening Honduran democracy include: reducing the size of the military budget; addressing the growing military presence in the civilian economy; professionalizing the Honduran police (FUSEP); placing the police under civilian oversight; improving the human rights record; strengthening political parties; promoting a more responsible press and implementing drug education and public awareness campaigns. These will be pursued by other USG agencies within the context of the U.S. Mission's overall Strengthening Democratic Institutions Strategy coordinated by the Country Team's Democratic Initiatives Committee. The Milgroup, for example, is professionalizing the military by supporting a new Defense College and improving the military justice system through support to the Adjutant General's Office.

3. Policies for Promoting Effective Regional Cooperation

USAID will support GOH participation in regional and international approaches. In collaboration with ROCAP, we will urge further GOH participation in the regional harmonization of economic policies and use of regional institutions. Policy dialogue will support reforms which permit Honduras to better take advantage of efficient regional trade such as: lower protective tariffs and a market-determined exchange rates. We will encourage Honduras participation in PDD and ROCAP-sponsored general meetings and seminars on policy topics of general interest (the "horizontal" response). USAID will assist Honduras in implementing policies adopted by the regional community (the "vertical" response).

We will support dialogue and the sharing of development and policy reform experiences. For example, regular sectoral meetings should take place among various ministers (Finance, Agriculture, Health, Education, etc.) to discuss sector-specific issues; regional meetings of mayors or private sector representatives should be held to exchange development experiences. We will monitor this process and follow up bilaterally where appropriate.

On the international level, we will encourage Honduras to take full advantage of opportunities for enhancing trade, investment, and increasing donor flows. This includes full Honduran participation in the EAI, CBI, PDD, and regional consultative group mechanisms as well as supporting Honduran efforts to join GATT, thereby gaining access to markets and benefiting from improved trade policies. Continuous and aggressive USG leadership at both the field and Washington levels will be of critical importance to help Honduras mobilize increased assistance from the IMF, IBRD, IDB, and bilateral donors. Furthermore, Honduran participation in Paris Club debt reschedulings and Consultative Group meetings will be indispensable for achieving higher economic growth.

Honduras has benefited from regional institutions and also has much to offer. The Central American Bank for Economic Integration (CABEI) is located in Tegucigalpa and is staffed largely by Hondurans. We expect that the GOH will continue to reduce its arrears to CABEI and will continue to benefit from that institution. We recognize a major restructuring of CABEI is necessary to ensure that it can play the dynamic development role its founders envisioned for it.

Honduras has a number of institutions with excellent programs that could benefit the entire region even more if they received increased regional support. For example, the Pan-American Agricultural School at Zamorano is one of the best training institutions in Latin America. The National Forestry School (ESNACIFOR) has one of the best forestry training and seed production facilities in the region. Regional mechanisms that make better use of these Honduran facilities would promote more effective regional cooperation.

C. Program Adjustments

We reviewed each activity within our portfolio to judge its consistency with "Economic Assistance Strategy for Central America, 1991-2000" and the Mission's new CDSS. We found most activities fully support the objectives of that Strategy. In a few cases, however, it was necessary to adjust our approach to concentrate our policy dialogue and project interventions more sharply on fundamental constraints to sustainable development and to target more tightly our support for democratic institutions within the Country Team approach. In addition, we narrowed our approach to supporting structural reforms and limited the number of new initiatives in accordance with the program consolidation strategy outlined in our CDSS.

Within the Central American Strategy, USAID has established clearly its FY 1992-93 priorities. For example, in the DI component our strategic objective is "strengthened democratic institutions and a more pluralistic Honduran society" and we will focus USAID funding on Objectives 1, 3, 4, 5 and 9 (the Justice Sector, Electoral Tribunal, National Congress, Municipal Government, and Strengthening Pluralism and Leadership Training). Other DI objectives included in the Central American Strategy will be addressed by other USG agencies or by centrally and regionally funded A.I.D. projects.

USAID's strategic objectives for promoting broad-based, sustainable economic growth also are well established. We assume that significantly higher levels of IFI and other donor fast disbursing balance of payments and sector assistance will be available. That is, the IMF, IBRD and IDB will assume a lead role in providing increased assistance to Honduras and helping the country find a long-term solution to its serious IFI debt service problems. USAID's strategic objective is to "improve sector policies in agricultural, trade and investment, and finance". This will be achieved by supporting key sector policy reforms and ongoing projects that are achieving their objectives and addressing key policy and program constraints identified in LAC's Central American Strategy. Other strategic objectives under this component of LAC's Central American Strategy are

"increased private investment and trade"; "improved implementation of social sector policies"; and "improved environmental policies and natural resource conservation programs".

Under the promoting more effective regional and international cooperation strategic objective, we will urge Honduran support for those regional mechanisms that directly reinforce GOH adoption of key economic and other policy reforms to improve trade and investment. Increased international cooperation from the IFIs and bilateral donors is required to achieve higher levels of economic growth. USAID believes that ROCAP should place emphasis on promoting horizontal cooperation among Central Americans on regional issues instead of getting bogged down in supporting some regional institutions that may not have the full support of the Central Americans themselves.

Based on LAC's Central American Strategy and our new CDSS, we made the following additional adjustments to our program:

- The limited activities of the Small Farmer Titling Project were determined to be insufficient by themselves to address the fundamental land tenure issues constraining the agricultural sector. As a result, that activity was permitted to come to its scheduled termination. The broader issues of land tenure security, land rentals, and land transfers based on market mechanisms will be addressed through the Structural Adjustment Program (SAP) and PL-480 Title III, with the required technical assistance provided under the Policy Analysis and Implementation Project.
- Similarly, USAID's Small Farmer Coffee Project will terminate in FY 1991. Although coffee remains an essential small farmer crop and source of foreign exchange and employment, financial and other policies are the fundamental constraints to growth in coffee exports. Those policies will be addressed as part of the sector approach to policies promoted through the Structural Adjustment Program and PL-480 Title III programs. Specific support for coffee farmers will be targeted on quality improvements in the processing of coffee to capture higher prices.
- After reviewing the nonformal educational media component of the primary education program, we determined through an impact evaluation that further expenditure of funds would not produce beneficial results commensurate with additional expenditures. As a result, we terminated that grant fifteen months early.
- Fragmentation of resources in the face of declining ESF levels is avoided by folding agricultural policy reforms into the Structural Adjustment Program starting in FY 1992 rather than proceeding with the multiyear FY 1991 Agricultural Sector Adjustment Program approved in last year's Action Plan. This change concentrates our policy leverage in one major program. Key agricultural sector reforms also will be supported in PL-480 Title III Self-Help Measures as well as in the FY 1991 ESF Program.

- The design of the Structural Adjustment Program (SAP) will assure inclusion of the trade, investment, and finance reforms needed for full Honduran participation in the Enterprise for the Americas Initiative.
- An amendment for the public sector portion of the Policy Analysis and Implementation project was approved for FY 1991 in last year's Action Plan review. To concentrate support for the technical assistance needed for developing and implementing the sectoral policy reforms in agriculture, trade and investment and finance, we decided to expand the scope of the amendment and defer it to FY 1992 rather than developing new DA funded components of the sector program. This was suggested in the decision cable on last year's Action Plan.
- The Housing Guaranty-financed Shelter and Infrastructure Policy Program, which was approved in last year's Action Plan for FY 1992, is deferred until Honduras regains its creditworthiness and reenters international capital markets. This is due to GOH's unexpected delay in defining housing sector policies and to concerns about Honduras' ability to grow out of its current debt service problems before FY 1993.

SECTION II. PERFORMANCE

TABLE II

LAC COUNTRY PERFORMANCE INDICATORS FOR HONDURAS

	<u>Macroeconomic Reform</u>	<u>Domestic Finance of Deficit</u>	<u>Exchange Rate</u>	<u>Business Regulations</u>	<u>Trade Regime</u>	<u>Market Pricing</u>	<u>School Enrollment (1982)</u>	<u>School Enrollment (1987)</u>	<u>Infant Vaccination (1989)</u>	<u>Contraceptive Prevalence (1987)</u>	<u>Environmental Management</u>	<u>Commitment to Democracy</u>
LAC Rating of Honduras	8	3.6	7	2	8	6	95	102	80.5	33	7	6

PERFORMANCE RATINGS

	<u>Overall Performance Ranking</u>	<u>Overall Performance (100%)</u>	<u>Macroeconomic Policy (50%)</u>	<u>Social Services (20%)</u>	<u>Environmental Management (10%)</u>	<u>Democracy/ Human Rights Commitment (20%)</u>
LAC Rating of Honduras	7	72.6	34.4	15.7	7.0	15.5

TABLE III:

USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, and PERFORMANCE INDICATORS

GOALS and SUBGOALS	GOAL and SUBGOAL INDICATORS	Estim. Target Target Target				STRATEGIC OBJECTIVES	STRATEGIC OBJECTIVE PERFORMANCE INDICATORS	Estim. Target Target Target				
		1990	1991	1992	1993			1990	1991	1992	1993	
I. BROAD-BASED, SUSTAINABLE ECONOMIC GROWTH												
A. Policy Reforms for Economic Growth.												
(Encourage the adoption of, and continued adherence to, economic policies that promote investments, productive employment, and export-led economic diversification.)	GDP Growth:	-1.0%	1.7%	3.2%	3.8%	1. Improve Sector Policies in Agriculture, Trade and Investment, and Finance.	Agricultural GDP Growth:	0.2%	1.2%	5.4%	4.9%	
	Per Capita GDP Growth:	-3.6%	-1.0%	0.5%	1.1%		Nontraditional Export Growth, volume:	-7.8%	10.1%	8.5%	8.5%	
	Per Capita Private Consumption Growth:	-5.8%	-4.8%	-0.3%	1.9%		Gross Domestic Savings/GDP:	5.9%	9.7%	12.7%	13.8%	
	Debt/GDP:	157.0%	151.0%	155.0%	161.0%		Private Investment Growth:	-11.2%	14.4%	14.7%	14.2%	
	Debt Service/GDP:	12.4%	16.8%	17.3%	12.8%							
	Debt Service/exports:	25.9%	36.6%	35.7%	25.7%							
	Bal. of Payments Current Account/GDP:	-17.3%	-20.5%	-17.4%	-14.2%							
	Children Under 5 Malnourished:	31.0%	31.0%	30.0%	28.0%							
B. Private Sector Response.												
(Encourage vigorous response by the private sector to a favorable policy environment.)	Industrial GDP Growth:	0.0%	1.0%	1.6%	2.2%	2. Increase Private Investment and Trade.	Gross Private Investment/GDP:	7.0%	11.3%	12.5%	13.8%	
	Direct Foreign Investment, \$ millions:	44	48	55	66		Export Growth (volume):	0.7%	5.2%	7.3%	5.8%	
							AID-Supported Export Sales, \$ millions:					
						Agriculture	20.0	38.0	55.0	76.0		
						Manufacturing	4.0	6.0	7.2	8.4		
						AID-Supported EPZ/FTZs Transfers, \$ millions:	0.5	2.1	5.5	12.1		
C. Increased Well-Being of the Disadvantaged.												
(Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.)	Population Growth Rate:	2.8%	2.8%	2.8%	2.7%	3. Facilitate Implementation of Social Sector Policies.	Contraceptive Prevalence:	46.0%	47.0%	48.0%	49.0%	
	Infant Mortality (per 1000):	59	57	54	52		Vaccination Coverage:	75.0%	76.0%	78.0%	80.0%	
	Water Supply Coverage:	62.5%	64.4%	67.6%	69.1%							
	Sanitation Coverage:	63.6%	66.1%	67.9%	69.4%							
	Primary School Completion Rate::	50.0%	52.0%	53.0%	54.0%		Years to Complete Primary School:	9.6	9.4	9.3	9.2	
	Unemployment Rate:	13.8%	14.6%	14.5%	13.9%		AID-Supported Job Creation, 000s person-yr.:	14.1	16.3	18.3	22.9	

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TABLE III:		USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, and PERFORMANCE INDICATORS												
GOALS and SUBGOALS	GOAL and SUBGOAL INDICATORS	Estim. Target Target Target				STRATEGIC OBJECTIVES	STRATEGIC OBJECTIVE PERFORMANCE INDICATORS	Estim. Target Target Target						
		1990	1991	1992	1993			1990	1991	1992	1993			
I. BROAD-BASED, SUSTAINABLE ECONOMIC GROWTH (continued)														
D. Preservation and Sustainable Use of Natural Resources.	Implementation of environmental, water quality, and chemical and waste contamination laws.	Qualitative target				4. Improve Environmental Policies and Natural Resource Conservations Programs.	Enactment of regulations to implement:							
(Encourage preservation and sustainable use of the natural resource base.)	People abandoning slash-and-burn farming, thousands	34	39	26	35		Environmental Laws							X
	Ecologically sound management of mangrove forests.				X		Water Quality Laws							X
	Operational Environmental Fund.				X		Chemical and Waste Contamination Laws							X
	Functioning financially self-sufficient environmental NGO.				X		Establishment of standards for cultivation in mangrove forests and coastal zones.							X
	Expanded contacts with international conservation foundations.				X		Privatization of wood processing.							X
							Private ownership of natural forests on private land.							X
							Honduran strategy for environmentally sound development.							X
							Reorganization of government agencies managing natural resources.							X
							Debt-for Nature Swaps							X

TABLE III:

USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, and PERFORMANCE INDICATORS

GOALS and SUBGOALS	GOAL and SUBGOAL INDICATORS	Estim.	Target	Target	Target	STRATEGIC OBJECTIVES	STRATEGIC OBJECTIVE PERFORMANCE INDICATORS	Estim.	Target	Target	Target
		1990	1991	1992	1993			1990	1991	1992	1993
II. STABLE, PARTICIPATORY DEMOCRACY											
A. Responsive Government Institutions. (Encourage the strengthening of competent, civilian government institutions that will merit the confidence of political and military leaders, citizens, and investors.)	Electoral Reform Law			X		5a. Strengthen Democratic Institutions.	Improved Judicial System.				Qualitative target.
	Career Judicial Law			X			Improved Local Government.				Qualitative target.
	National Elections				X		Improved Legislative System.				Qualitative target.
	Peaceful transition of democratically elected civilian administrations.		X				Improved Election System.				Qualitative target.
	Public confidence in the ability of the judiciary to provide timely, independent, and objective due process.						Strengthened Controller General.				Qualitative target.
	Public reliance initially on local governments to meet urban service needs.						Judicial School				X
	Legislative independence from the executive branch and equal, open access to the legislative branch.						Center for Legislative Research and Studies			X	
	Domestically and internationally recognized free and open local and national elections.										
		Qualitative target									
		Qualitative target									
		Qualitative target									
B. Democratic Pluralism and Values. (Encourage pluralism, tolerance of opposing views, and support for democratic values on the part of nongovernment bodies, including the press, community organizations, labor unions, and business associations.)	Stronger NGOs and Community Organizations.					5b. Promote a More Pluralistic Honduran Society.	Increased citizen understanding of democracy.				Qualitative target.
						Stronger NGOs and community organizations.				Qualitative target.	

TABLE III:

USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, and PERFORMANCE INDICATORS

GOALS and SUBGOALS	GOAL and SUBGOAL INDICATORS	Estim. Target Target Target				STRATEGIC OBJECTIVES	STRATEGIC OBJECTIVE PERFORMANCE INDICATORS	Estim. Target Target Target			
		1990	1991	1992	1993			1990	1991	1992	1993
III. EFFECTIVE REGIONAL COOPERATION											
Honduran Regional Cooperation.	Net Positive IFI Financial Flows		X	X	X	6. Promote More Effective Honduran Regional and International Cooperation.	Effective Honduran Participation in Regional Cooperation Mechanisms and Institutions:				
	IFI and Bilateral Donor Support for Honduras:						PDO, CGs, CABEI, CA Parliament, etc.				
	IMF Agreements and SAFs/ESAFs:	X			X		Effective Honduran Participation in International Cooperation Mechanisms and Institutions, EAI, CBI, GATT, CGs, etc.				
	World Bank SALs and SECALs:	X			X		Reduced PL 480 Debt:				
	IDB Sector and Investment Loans:	X			X		principle, \$ millions	-12	0.6	0.7	0.8
	Transparent and Streamlined Government Operations:				X		interest, \$ millions	-2	2.2	2.1	2.1
	Open, transparent, and competitive market economy.						Reduced AID Debt:				
	World Bank and IDB financed social sector programs.						principle, \$ millions	-3.7	4.4	5.6	6.9
	World Bank and IDB support for:						interest, \$ millions	-7.7	7.8	8.0	8.2
	agricultural sector reforms	X			X						
	financial sector reforms	X			X						
	improving efficiency of decentralized enterprises	X			X						
	reform of BANADESA				X						
	energy system	X	X								
	World Bank support for Honduran financial system.				X						
	Increased National Budget for Infrastructure:										
	Improved Primary Road System:										
	Expanded Electrical Grid:										
	Participation in CA Summit Meetings:	2	2	2	2						
	Signature of EAI Agreements:	X	NA	X	NA						
IV. OTHER											
None.	None.					None.	None.				

C. Performance Narrative

1. Promoting Broad-Based, Sustainable Economic Growth

The GOH successfully implemented many of the USAID-supported reforms in its 1990 Economic Program including: historic devaluations and tariff reforms; enhanced public sector revenues through new taxes and increases in utility charges; removal of most agricultural price controls; and other structural reforms.

The first devaluation of the Lempira in modern Honduran history was particularly significant as were GOH steps toward unifying the exchange rate at a market-determined price. Equally historic were trade liberalization reforms approved by the Honduran Congress which included a reduction in the tariff range from 0 to 90 percent to 4 to 35 percent, elimination of virtually all customs exonerations, a reduction in surcharges, and a commitment to further lower the tariff range to 5 to 20 percent in January 1992. Other reforms included price liberalization for most agricultural inputs and products, removal of the subsidized exchange rate for basic grain imports, and a decrease in the monopoly power of the state grain marketing institute (IHMA).

In addition, the GOH cleared \$246 million in IFI arrears with a U.S. Treasury-led bridge loan; obtained IMF, IBRD, IDB and bilateral donor support for its Economic Program; finalized a Paris Club debt rescheduling; repaid the Treasury bridge loan; reduced its arrears to CABEI; and completed the December 5, 1990 Consultative Group Meeting. Many of USAID's 1990 macroeconomic objectives were achieved and in some cases, such as tariffs, exceeded. However, continued progress in other GOH reform areas, such as the exchange rate regime and the fiscal deficit, are still needed. (See the FY 1991 ESF PAAD). The GOH made operational its Social Investment Fund (FHIS) to cushion the impact of the economic adjustment among the most vulnerable groups.

The PL-480 Title II program provided food aid to 400,000 beneficiaries. Design work was initiated on a food coupon program targeted at those poor families most severely affected by macroeconomic reforms.

Over 11,000 new jobs were generated in the 7,000 small and microenterprises that have received assistance from USAID's Small Business Development Project since 1988. These activities, when combined with USAID-supported activities in agriculture, export promotion, rural roads, and vocational education, contributed to the generation of over 14,000 jobs in 1990.

By making domestic production more profitable and imports less attractive, the GOH's 1990 macroeconomic reforms and agricultural price liberalization stimulated farmers to plant an additional 15,000 hectares in basic grains. Despite widespread flooding, Honduras appears to be increasing its corn and sorghum production over 1989 levels. USAID supported the maintenance of 4,500 kms of road, which improved rural access to agricultural markets.

Preliminary figures indicate that nontraditional agricultural exports increased 27 percent in 1990, most significantly cultivated shrimp (107 percent), melons (48 percent), pineapples (78 percent) and ornamental plants (22 percent). In part, these gains resulted from the GOH's foreign exchange reforms, and the increasingly effective support being provided by the USAID-supported Federation of Agricultural Producers and Exporters (FPX). In 1990, FPX helped attract new investments totaling over \$10 million, mainly in cultivated shrimp and melon production. Both FPX and the Honduran Agricultural Research Foundation (FHIA) successfully test-marketed mangos in Europe which should open new trade and investment opportunities.

The USAID supported Foundation for Investment and Development of Exports (FIDE) successfully promoted four privately owned Export Processing Zones (EPZs) that created 2,000 new jobs in 1990. The investment in the initial zone (Choloma) totaled \$10 million and generated \$4.0 million in U.S. purchases and has seven textile companies operating in eleven buildings (see 90 Tegucigalpa 18361). The Choloma Zone received follow-on funding from the IDB's Inter-American Investment Corporation for a major expansion. The second Zone (Búfalo) obtained its first client -- an American shoe manufacturer -- that is expected to create an additional 400 jobs in 1991. EPZs are projected to generate approximately 10,000 new jobs by 1993, and serve as models of how liberalization measures can attract foreign investment.

In 1990, FIDE's Overseas Offices contacted 4,600 potential investors which generated 66 site visits to Honduras. Through FIDE efforts, several U.S. investors were attracted to Honduran EPZs last year including apparel companies such as Big Yank, Sarah Lee Knits, UNITOG, Cardinal Glove and Oshkosh, plus the Frontier Shoe Company. FIDE continues to assist Honduran firms, particularly in the furniture and wood products sector, and to promote their exports to U.S. and European markets.

Over the past four years the USAID-supported Privatization Program helped privatize 12 state-owned enterprises resulting in the generation of over 1,000 new jobs, \$15 million in new investment and a reduction of \$25 million in GOH foreign debt. In the last quarter of 1990, the GOH sold the assets of a small state-owned quarry, and privatized the Social Security Institute's printing shop. The GOH is in the process of selling two hotels, a manufacturer of steel structures and a milk processing plant. USAID also is helping the GOH prepare a number of other state-owned companies for privatization including two cement plants, two sugar mills, a banana plantation, a large lumber mill, and a block of shares in the national airline.

In 1990 the Honduran Congress passed a law that allows foreign investors to own land within 40 kilometers of the Honduran coast. It removes one of the key legal constraints to developing the country's tourist industry and it should stimulate increased foreign investment. This legal change had been a part of USAID's policy dialogue with the GOH for the past four years.

Through the USAID supported Health Sector Program, Honduras achieved declines in infant mortality from 80/1,000 live births in 1980 to 59/1,000

in 1990. The GOH also adopted and implemented the policy of local retention and management of 75 percent of fee income at health posts and hospitals. This is a key policy breakthrough in the decentralization and improved efficiency of the Ministry of Health, because it is helping local health facilities become more self-sufficient and is increasing local control of services. A 1991 family health survey will produce impact data in early 1992 on infant mortality, and nutritional status, contraceptive prevalence, and incidence of diarrheal and respiratory diseases.

The GOH published the results of the USAID/UNDP-assisted Population Census which showed that the annual population growth rate had declined from 3.2 percent in 1980 to 2.8 percent in 1988. Such a decline could not have occurred without the successful USAID-supported Family Planning Program which has helped increase contraceptive prevalence to an estimated 46 percent of couples in union by the end of 1990.

The Advisory Council for Human Resources Development (CADERH), a private organization dedicated to strengthening vocational training, reduced per hour training costs by 50 percent and increased student retention from 60 percent to 82 percent in the 12 PVOs it assisted. Major progress also was made in improving primary education achievement and efficiency through nationwide distribution of new textbooks and better teacher training being supported by USAID's Primary Education Project.

The GOH completed and distributed in 1990 a comprehensive A.I.D.-financed Environmental Profile which presents the most comprehensive analysis of Honduras' environmental situation. This document is being used to develop improved policies and mechanisms for better addressing the country's environmental problems. Ongoing A.I.D. projects facilitated the planting of over 400,000 trees, irrigated 1,400 hectares of land, improved management of 68,000 hectares of pine forest and improved water and land use techniques on 3,500 hectares of hillside farms.

2. Developing Stable, Participatory Democracy

As a result of the ongoing USAID-financed Strengthening Democratic Institutions (SDI) Project the Honduran Supreme Court is implementing a Judicial Career Law that provides for merit selection and promotion. It is being followed in the appointment of lawyers who are selected for three USAID-supported programs -- Justice of the Peace, Prosecutors, and Public Defenders -- and it is being expanded to include the rest of judicial personnel.

Following the successful implementation of the A.I.D.-supported 1989 national elections, the Elections Tribunal (TNE) submitted an excellent plan to cleanse the National Registry records. This should enable the TNE to produce a more accurate list of eligible voters for the 1993 National Elections. The Honduran Congress also made progress in preparing an Electoral Reform Law which is expected to create a career registry service and may also provide for separate election of municipal authorities.

In late 1990, an A.I.D.-supported Municipal Reform Law was approved by the Honduran Congress. This landmark legislation was the culmination of three years of A.I.D.-financed studies and lobbying by Honduran municipal leaders supported by USAID/RHUDO technical advisors.

As of 1990, the Honduran Peace Scholarship Program provided more than 2,000 scholarships to socially and economically disadvantaged families. This gave them an opportunity to experience democratic values in the United States.

Another important Democratic Initiative has been to strengthen participation by historically disadvantaged groups. Over the past eight years, with USAID support, over 40,000 land titles were provided to the rural poor. This is more than had been granted during in the entire previous history of Honduras. USAID's Small Farmer Organization Strengthening Project benefited 10,000 cooperative members and has given them a larger stake in Honduran society. USAID continues to promote a more pluralistic society through provision of assistance to private development organizations and support for free market policies.

3. Effective Regional Cooperation

The GOH has continued its active role in following up the Central American peace process. It has participated in all the meetings and selected its representatives for the Central American Parliament. The GOH has indicated its strong support for the Enterprise for the Americas Initiative (through signature of a Trade and Investment Agreement) and for the Partnership for Democracy and Development. Honduras also successfully participated in a Paris Club debt rescheduling and a Consultative Group meeting. Moreover, the economic reforms of 1990 -- in particular, tariff reductions and exchange rate improvements -- set a firm basis for promoting Honduran participation in regional trade. The GOH is pursuing additional new trade policies that should set the stage for Honduras' full accession into the General Agreement on Tariffs and Trade (GATT). In spite of heavy net reflows to the IFIs, the GOH reduced its arrears to CABEI (Central American Bank for Economic Integration) by \$22 million.

SECTION III: NEW PROGRAM INITIATIVES

Summary Statement

The following amendments and new projects are proposed for FY 1992 and FY 1993 to implement USAID's plan for achieving objectives in our CDSS and in LAC's "Economic Assistance Strategy for Central America, 1991-2000". The corresponding New Project Descriptions (NPDs) are contained in Annex E.

1992

522-0365	Structural Adjustment Program (New)
522-0325	Policy Analysis and Implementation (Amendment)
522-0383	Small Farmer Organization Strengthening II (New)
522-0296	Strengthening Democratic Institutions (Amendment)
Food Aid	PL-480 Title II and Title III

1993

522-0381 Strengthening Accountability Systems (New)
Food Aid PL-480 Title II and Title III

In addition, our OPG with the International Executive Service Corps will be amended to compensate for the loss of core grant support per 91 State 49421. No stand-alone local currency projects are planned for either year.

Relationship of New Initiatives to the CDSS and the Central America Strategy: USAID feels that the activities listed above are supportive of the principal goals of the CDSS and the Bureau's Central America Strategy, namely broad-based, sustainable economic growth and the strengthening of democratic institutions. New starts, including Small Farmer Organization Strengthening II and the SAP, and the amendment to the Policy Analysis and Implementation project, are aimed at supporting implementation of policies that will generate higher rates of economic growth. At the same time, the SDI amendment and Accountability project are consistent with Mission's and Bureau's goals of strengthening democratic institutions.

They reflect our review of the activities in the portfolio and decision to concentrate support more sharply on a fewer number of fundamental constraints which can be supported within anticipated funding levels. During FY 1992 and FY 1993, the portfolio will continue to evolve toward a policy-based sector strategy supporting structural reforms in agriculture, in trade and investment, and in financial systems. Ongoing Democratic Initiatives are deepened and accelerated within the context of the USG-Country Team's approach to strengthening Honduran democracy. Key aspects of our new focus include:

- An increased concentration on supporting sector policy reforms with fast disbursing cash transfers and PL-480 Title III. USAID will continue to monitor macroeconomic trend indicators and implementation of stabilization reforms supported financially by the IMF and the World Bank.
- A recognition that the adoption of new sector policy reforms alone is not sufficient to ensure growth. Project funding for technical assistance, training, institution building and other activities continues to be necessary to help the GOH and private sector translate new policy measures into action and higher rates of economic growth.
- A concentration of USAID-supported Democratic Initiatives in a limited number of program areas while other USG agencies pursue actions in their areas of expertise within a coordinated Country Team approach.
- A continued narrowing of the focus of the program:
 - by fewer initiatives;
 - by providing new support in a limited number of sectors rather than fragmenting resources among a number of different sectoral programs;

- by allowing projects to reach their PACDs without extensions (e.g., Small Farmer Titling and Small Farmer Coffee); and,
 - by terminating early activities that are not meeting their objectives (e.g., the NGO managed, educational media component of Primary Education Efficiency).
- A substantial reduction in the mortgage.

As a result of this program focus, the only new starts proposed for FY 1992 are a multiyear Structural Adjustment Program (SAP) and PL-480 Title III Program to foster needed reforms in the agricultural, financial, and trade and investment sectors; support to the food coupon program cushioning the impact of macroeconomic and sector reforms on the poorest and most vulnerable groups of the Honduran population; and a follow-on Small Farmer Organization Strengthening II Project to deepen reforms in that key area.

Fragmentation of resources in the face of declining ESF levels is avoided by folding the FY 1991 Agricultural Sector Adjustment Program (ASAP) approved in last year's Action Plan into the FY 1992-94 Structural Adjustment Program (SAP). This concentrates our policy leverage into one major program. Key agricultural sector reforms also will be supported in PL-480 Title III Self-Help Measures. This is similar to the successful approach we used in our FY 1990 ESF Program that included some key agricultural sector reforms that were further reinforced by the PL-480 Title I Program. A similar approach was followed in the FY 1991 ESF Program that includes a more comprehensive program of agricultural sector adjustment that will be reinforced by the PL-480 Title III Program and then deepened under the SAP.

A second set of conditions supported in the multiyear Structural Adjustment Program will address reforms related to trade, investment, and finance. These also will facilitate Honduran participation in the EAI.

Technical assistance and other support necessary to implement those reforms is included in the amendment to the ongoing Policy Analysis and Implementation Project. An amendment for the public sector portion of the project was approved for FY 1991 in last year's Action Plan review. To adequately support the technical assistance needed for developing and implementing the sectoral policy reforms in agriculture, trade and investment and finance, we decided to expand the scope of the amendment and defer it to FY 1992.

The only new start proposed for FY 1993 is the Strengthening of Accountability Systems Project to further strengthen the review and auditing capacity of the GOH. It will continue an already ongoing effort with the Controller General's Office which is a dependency of the National Congress.

It should be noted that USAID/Honduras already has one of the most ambitious Democratic Initiatives Programs in the LAC Bureau. We will continue to concentrate this Program mainly in those areas related to strengthening the National Elections Tribunal (TNE), the Judiciary, National Congress, municipal governments and democratic training. The proposed amendment to the ongoing Strengthening Democratic Institutions Project will provide support for the 1993 elections and fill in funding and programmatic gaps within the original four components.

The reason for this DI approach is threefold. First, USAID already has a substantial ongoing DI program that addresses some of the fundamental areas in LAC's Central America Strategy. Second, USAID needs to establish more of a track record and gain more experience in this highly sensitive area before expanding the scope of its DI activities. And third, other U.S. agencies have resources and personnel available to address those areas not now covered by our ongoing program or those areas can be addressed through regional or centrally-funded A.I.D. projects.

SECTION IV: RESOURCE REQUIREMENTS

A. Program Funds

Approved planning levels for USAID Honduras for both FY 1992 and FY 1993 are: ESF: \$50 million ESF and; \$41 million DA; and PL-480 Food Aid will continue at about \$20 million per year.

These program levels are justified by U.S. foreign policy interests and objectives in Central America, by Honduras' status as an IDA-eligible country, by the country's heavy IFI debt burden, and by progress being made in implementing macroeconomic reforms and other performance indicators.

In response to declining program levels compared to the 1985-90 period, and the program consolidation strategy outlined in our CDSS, USAID cut back the number of new starts. We have focused resources on a limited number of objectives as described in our CDSS and summarized on page 9. Using the controls for FY 1992 and FY 1993, the project mortgage at the end of FY 1993 will be only 1.3 years as shown in the Mortgage Projection Table on the next page. We are implementing a staff reduction plan outlined in our CDSS and will continue to seek less staff-intensive means for implementing and monitoring the USAID program.

TABLE V.a.
BUDGET CONTROL LEVELS
(\$ Millions)

	FY 1991	FY 1992	FY 1993
DA	40.66 *	41.0	41.0
ESF:			
Projectized	2.00	7.0	6.0
Cash Transfer	48.00	43.0	44.0
SUBTOTAL:	90.66	91.0	91.0
Food Aid:			
PL 480 Title III	14.0	12.0	12.0
PL 480 Title II	7.3	8.0	8.0
SUBTOTAL:	21.3	20.0	20.0
GRAND TOTAL:	111.96	111.0	111.0

* = Includes \$7.03 million in deob/reobs.

MORTGAGE PROJECTIONS

(Amounts in \$ Thousands)

1993	FY 1991		FY 1992		FY
DA Account: YEARS*	AMOUNT	YEARS*	AMOUNT	YEARS*	AMOUNT
FN 1.73	64,822	2.98	53,602	2.94	33,964
PN 1.42	7,380	2.84	4,870	1.94	2,860
HE 0.96	12,462	5.44	7,649	1.59	3,742
CS 1.15	15,110	3.47	11,610	3.32	6,210
EH 0.18	3,052	1.97	1,402	0.85	360
PSEE 1.08	26,912	3.31	16,602	1.61	8,602
SUBTOTAL DA: 1.36	129,737	3.19	95,737	2.34	55,737
PROJECTIZED ESF: 1.30	20,783	10.39	13,783	1.97	7,783
TOTAL: 1.35	150,021	3.52	109,521	2.28	63,521

* Years to pay off mortgage assuming the indicated obligations.

At last year's Action Plan Review, USAID/Honduras was recognized as one of the most cost-effective Missions in Latin America and we will continue to maintain this effort. Per our FY 1992 - 1996 CDSS we are reducing the size of the USAID Mission as part of the overall USG effort to reduce the number of official American citizens in Honduras. Such reductions will be commensurate with accountability requirements, program objectives, and with USAID's responsibilities for policy dialogue, program implementation support, project monitoring, and maintaining adequate supervision systems. In this context between FY 1990 and FY 1991 we reduced USAID's presence by 11 positions (1 USDH, 5 USDH IDI trainees, 3 FSNDHs, 2 USPSCs). We implemented this reduction by scaling back USAID Honduras' role as a training Mission for International Development Interns (IDIs) and by reducing two direct-hire positions. USAID has proposed in its FY 1992-1996 CDSS's comprehensive plan for reducing both staffing and operating expenses. It will be implemented during this Action Plan period.

B. Operating Expense Funds (OE Dollars and OE Trust Funds).

The continuing consolidation of our program will allow us to operate with further reduced levels of staffing and Operating Expenses (OE) funds. As outlined in Annex 7 of our 1992-1996 CDSS, we plan an overall reduction of 25% (60 positions) of our staff levels and 34% of our combined OE (dollars and trust funds) levels over the CDSS period. The Mission calculated the OE levels with the assumption that overall inflation will not exceed more than 5% per year. The personnel reductions are in addition to previous cuts of 11 positions between FY 1990 and FY 1991. Based on our present FY 1991 approved level, the Mission has had an overall 10% reduction in combined OE, including FAAS costs, since FY 1987.

As accountability is a hallmark of our program implementation, we believe further cuts in our Mission management resources to be inadvisable. The GOH has inadequate management and accountability systems as does the fledgling NGO community. They require our constant attention to all facets of management, accountability and reporting. Also the GOH implementing agencies require a high degree of advice and "hand-holding" to assure appropriate forward movement with our programs.

As outlined in Annex 7 of the 1992-1996 CDSS, our program consolidation effort will continue throughout the 1992-1996 period. Program funding will decline from average of \$158 million per fiscal year in the 1985-1990 period to an annual average of \$126 million in the 1992-1996 period. There is also a large pipeline of ongoing projects which will be gradually reduced. As such, sufficient OE resources need to be programmed to allow the Mission to manage these programs and implement the Agency strategies while not adversely affecting the Mission's ability to meet its accountability responsibilities.

In the 1992 ABS the Mission requested Operating Expense levels, including Trust Funds (OETF), of \$4,695,300 for FY 1991 and \$5,292,900 for FY 1992. Assuming the Mission receives the level of OE funds requested in the 1992 ABS for FY 1991, we believe we can support the rate of project implementation and carry out the program described in this action plan without adversely affecting the USAID's ability to meet accountability

responsibilities. However, to date the Mission has not received its total FY 1991 requested OE level. Receiving this level is essential if the Mission is to reduce its overall OE requirement in future years and become less dependent on OE Trust Funds. The present approved level of \$4,043,000 is \$652,300 less than the requested level for FY 1991.

This 14% reduction far exceeds the savings which resulted from the 4% staff reduction from FY 1991 to FY 1992. Additionally, inflation (35 percent in 1990) and the major salary increase (overall average of 26%) received in FY 1991 by our FSN employees argues for a level higher than the present approved level and more in line with our original FY 1991 request.

This abrupt and unplanned 14% cut in our FY 1991 requested OE level will hamper the Mission's ability to support the present rate of project implementation. It will also adversely affect USAID's ability to meet accountability responsibilities. Most serious will be the Mission's inability to implement the recommendations in the IRM Automation Assessment, a basic requirement for us to prepare for the phased reductions in overall operating expenses. This assessment proposes an upgrade of computer equipment throughout the Mission. Our present equipment is insufficient to install the new management software Programs (CIMS, MIDAS, MMIS) which will allow Mission managers to better control their resources with less vulnerability.

If similar cuts occur in FY 1992-1994, the Mission will be placed in a very critical situation. We would not be able to meet our accountability responsibilities. For our program to be successfully carried out we must continue to have a well-staffed Mission that can exercise strong policy and programmatic leadership.

Our FY 1992 request in this Action Plan shows a reduction of \$792,900 from our previous ABS request for that year. The following charts indicate total levels required and the appropriated dollar and trust funds split. The split proposed is dependent on the success of the recently announced AID/W plan to provide dollar appropriated funds by 80% of the reductions in trust funds.

The USAID is in complete agreement with the AID/W initiative to reduce our dependence on operating expense trust funds. Our current percentage of trust fund to total operating expense requirement is approximately 80%. If AID/W is successful in obtaining dollar funds to replace trust funds, we plan to reduce our dependence on trust funds to about 50% of total operating expenses by FY 1993 (and to 25% by FY 1996). The 20 cents per dollar short-fall will be offset by reducing our total operating expense requirements, mainly by reducing personnel. We would also be able to significantly reduce our use of reverse accommodation exchange. The USAID expects to reverse accommodate about \$1.5 million in FY 1991. We now use reverse accommodation to pay for post education allowance, residential and office rents, international communications costs and NXP.

The Mission has programmed sufficient operating expense trust funds to carry us into the first quarter of FY 1993, which is more than the 18 month minimum requirement. The Mission will program additional operating expense

trust funds as local currency is generated from ESF deposits. The Mission expects the operating expense trust fund balances on hand at the end of FY 1991 and FY 1992 to be \$750,000 and \$830,000 respectively. The Trust Fund balance on hand at the end of FY 1990 was \$540,000. The USAID also has trust funds for special development activities (Peace Corps), technical support (similar to PD&S), training, and financial studies and reviews. There are sufficient funds programmed to carry these programs through the first quarter of FY 1993.

	<u>OPERATING EXPENSES (\$ MILLIONS)</u>			
	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>
Dollar OE	1.0	1.0	2.2	3.0
Trust Funds	<u>3.7</u>	<u>3.5</u>	<u>2.1</u>	<u>1.1</u>
T O T A L	4.7*	4.5	4.3	4.1

* The current approved level is 4.0 for FY 1991.

If the Agency is not successful in obtaining dollar appropriated OE funds to help reduce our dependence on trust funds, we will need to continue to rely heavily on trust funds. Our "worst case" scenario in such a circumstance is as follows:

	<u>OPERATING EXPENSES (\$ MILLIONS)</u>			
	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>	<u>FY94</u>
Dollar OE	1.0	1.0	1.0	1.0
Trust Funds	<u>3.7</u>	<u>3.5</u>	<u>3.3</u>	<u>3.1</u>
T O T A L	4.7	4.5	4.3	4.1

The reductions represented in the tables assume we will absorb inflation to the extent that it does not exceed 5% per year.

The USAID has been able to control costs primarily through our major initiatives to reduce costs, and in part by a devaluation of Honduran currency. However, since the Honduran economy is largely a dollar based economy, most savings realized through devaluation have been overtaken by inflation. USAID cost-reduction initiatives include:

1. The USAID reduced staffing levels between FY 1990 and 1991 by eleven positions (one USDH, five USDH IDI trainee's, three FSNDHs, two USPSCs). USAID conducts regular staffing reviews to seek ways to

reduce positions. The Mission projects a reduction of 60 positions over the next five years as outlined in our CDSS.

2. The Mission has established a standardization program for residential and office furniture and equipment which has been approved by MS/MS/OS. This program will provide USAID with equipment more suitable to local conditions, insure a maximum degree of interchangeability of parts, and reduce the types of equipment used in USAID.
3. USAID reduced FAAS costs by establishing its own government leased housing program, a Personnel Office, and a One-Stop Office for administrative services. USAID also plans to establish a travel section this year to further reduce its FAAS costs. The USAID assumed these additional responsibilities with no staff increase.
4. The Mission will charge individual projects that use USAID office space and will discontinue providing Operating Expense funded warehouse space and services to projects.
5. USAID is refurbishing furniture and equipment whenever possible, rather than replacing them. The USAID is also placing greater emphasis on preventive maintenance to reduce repair and replacement costs.

C. Food Aid

Annex F provides a complete description of food aid resource requirements from both Title II and Title II of PL 480. USAID plans to request additional food to support a targeted food coupon program as part of the government's social safety net program to ameliorate the impact of economic reforms on the poorest strata of Honduran society. The GOH, with the advice of World Bank and A.I.D. technical assistance, decided to use food coupons, directed at specific groups, rather than subsidies of basic foods to reach the most vulnerable groups. The GOH's first food coupon program, directed at single heads of household with children attending primary school, has been functioning for several months in its pilot stages. The World Food Program has agreed to finance an expansion of this program through monetization of commodities. USAID is proposing to support two additional food coupon programs which target the same two beneficiary groups that Title II feeding programs target. The coupons will be distributed through Ministry of Health health centers to pregnant and lactating mothers and malnourished children under five and through the Ministry of Education to primary schools in low income areas. When fully functioning, the program should reach approximately 300,000 beneficiaries.

PL 480 Title III. The Title III programs' policy conditionality and balance of payment support contributes substantially to USAID's goal of achieving broad-based, sustainable economic growth, especially in improving agricultural sector policies and the stimulation of private sector trade and investment. The Title III Self-Help Measures, the Structural Adjustment Program, and the Policy Analysis and Implementation Project's agricultural component will continue to be closely linked and mutually reinforcing.

The following table shows the Title III requirements during the Action Plan Period:

PL-480 Title III Requirements

(Dollars in Millions, Metric Tons in Thousands)

COMMODITIES	Estimated FY 1991		Estimated FY 1992		Estimated FY 1993	
	\$	MT	\$	MT	\$	MT
Wheat	14.0	94.5	12.0	78.0	12.0	78.0

PL 480 Title II. The FY 1991 Title II program supports Maternal Child Health and School Feeding programs managed by CARE. In addition, assistance is provided for CARE's Food-for-Work Program, which combines monetized food and food rations to support community infrastructure activities. The GOH will use funds from monetized food to support the school feeding and MCH programs as well as to provide support for community child care centers and women's cooperative enterprises. USAID expects to maintain the authorized dollar level of \$7.3 million for these programs.

Below is a summary of our requirements:

Title II Requirements

(Dollars in Millions, Metric Tons in Thousands)

PROGRAMS	FY 1991		FY 1992		FY 1993	
	\$	MT	\$	MT	\$	MT
MCH	4.1	6.7	4.6	6.7	4.6	6.7
SF	1.2	2.8	1.2	2.8	1.2	2.8
FFW	0.3	0.5	0.3	0.5	0.3	0.5
MONETIZATION-CARE FFW	0.2	1.2	0.2	1.2	0.2	1.2
MONETIZATION-SF & MCH	1.5	7.3	1.7	7.3	1.7	7.3
TOTAL	7.3	18.5	8.0	26.5	8.0	26.5

D. Local Currency Programming

Host Country Owned Local Currency (HCOLC) generated through the Economic Support Fund (ESF) Program is used to finance public and private sector development activities that directly support or complement Honduran and USAID objectives. PL-480 HCOLC generations are used to finance agricultural and rural development activities which support or complement the Self-Help Measures included in the PL-480 bilateral agreement. Section 416 Program HCOLC generations support rural development and greater accessibility of the poor to the benefits of development. The system for programming local currency and its uses are detailed in Table IV contained in Annex B.

SECTION V: ISSUES

1. GDP Declines: The Central Bank estimates that GDP declined by about 1 percent in 1990 -- the first such decline since 1983. Earlier in 1990, GDP growth was projected at zero percent as the country adjusted to new economic reforms. However, petroleum price shocks, a protracted banana strike and flood damage have clearly worsened overall 1990 economic performance. The outlook for 1991 is dampened by flood damage to the banana plantations and continued difficulties in adjusting to deep economic reforms. All of these factors -- exacerbated by negative net IFI flows of over 3% of GDP and uncertainty about IFI/USG funding -- are making it increasingly difficult for the GOH to convince Hondurans to continue economic reforms. Without increased IFI and other donor concessionary financing in 1991 and beyond, it is unlikely that the GOH can sustain its economic reform momentum and increase its growth rate to 3.8 percent by 1993.

2. Donor Resource Flows and IFI Debt Service: In accordance with the "Economic Assistance Strategy for Central America 1991-2000", this Action Plan anticipates that the IFIs will expand their programs in Honduras in the 1990s and that the GOH will be more successful mobilizing additional assistance from countries such as Japan, Germany, Mexico, Venezuela and other bilateral donors. In addition, it is expected that a growing proportion of donor flows during this Action Plan period will be provided in the form of fast disbursing balance of payments and sector assistance rather than slower disbursing project assistance that often requires high levels of GOH counterpart contributions.

In 1990-91 the IFIs have attempted to respond more favorably than in the 1980s. The IMF has agreed to Stand-by arrangements in both 1990 and 1991. It supported GOH efforts to reschedule bilateral debts in the Paris Club. The World Bank has taken the lead in developing a large SAL II program with complementary cofinancing from IDB and bilateral donors. The World Bank and IDB also are finalizing large new fast-disbursing Energy Sector and Agricultural Sector loans. They have under consideration a new Social Sector Reform Program and various new project loans. The IDB President recently announced in Tegucigalpa that Honduras could receive \$1.0 billion in new IDB assistance over the next three years. In December 1990 the World Bank organized a Honduras Consultative Group (CG) meeting to urge expansion of donor assistance to Honduras. The Bank indicated that the country's highest priority need was for policy-based fast-disbursing balance of payments and sector assistance.

Nevertheless, the GOH has been critical of both the World Bank and IDB. During 1990, a year of historic Honduran economic reforms, the World Bank received in GOH loan repayments more than 3 percent of GDP over what it provided in new disbursements. These GOH repayments virtually neutralized all of our 1990 ESF disbursements. In 1991, the Bank may not be able to deliver on its commitment to the GOH of providing Honduras with positive net flows.

In addition, the World Bank has been unable to define to the GOH or the USG what its overall flows to Honduras might be during this Action Plan period.

It continues to project an ambivalent attitude of whether its primary objective is reducing the Bank's Honduran credit exposure or helping Honduras implement major economic reforms. Rightly or wrongly many Hondurans believe that the World Bank's principal objective is to attract ESF, Japanese and other donor disbursements so as to help the GOH reduce its World Bank debt rather than to promote higher levels of economic growth.

In addition, the GOH has been critical of the slow IDB response. Since the IDB's fast-disbursing sector loans cofinance World Bank programs, IDB disbursements are subject to the same delays characterizing World Bank programs. The IDB also has been slow in developing new project loans. Furthermore, disbursements from ongoing IDB projects have been delayed because the GOH could not keep current on its IDB debt payments.

Moreover, there have also been unexpected problems with some bilateral donors. While the Japanese were forthcoming in providing cofinancing to the World Bank SAL I program in 1990, they have proven reluctant to follow through with similar assistance in 1991 for SAL II. The German government has offered to cofinance a part of the SAL II, but this assistance has not as yet been finalized. At the December 1990 Consultative Group meeting many bilateral donors appeared more comfortable providing traditional project assistance rather than fast-disbursing balance of payments and sector assistance. Nevertheless, some donors such as Spain, Venezuela and Mexico are following through with long-term commercial credits with a balance of payments impact.

What this means is that high level GOH and USG officials will have to continue lobbying other donors aggressively to increase their flows to Honduras. Otherwise the proposed CDSS growth targets cannot be achieved. High level USG officials have already been involved in such an effort throughout 1990-91. This must continue throughout this Action Plan period. High level talks are needed with the IFIs and other donors such as the Japanese. Aggressive USG use of PDD and Consultative Group meetings is also important.

The USG dialogue with the donors must emphasize: (1) the urgent need of supporting GOH macroeconomic and sector policy improvements that can produce higher levels of economic growth, (2) the critical GOH need for fast-disbursing balance of payments and sector assistance rather than a proliferation of new projects that require large GOH counterpart contributions, (3) the serious GOH debt problem and the need for debt reduction and relief and (4) the need to help Honduras obtain large flows of foreign private investment. It is these types of donor actions that can help the GOH achieve the economic growth targets specified in this Action Plan and in the "Economic Assistance Strategy for Central America, 1991-2000".

3. U.S. Debt Relief: Honduras almost qualifies as an RLDC and it is one of the few IDA-eligible countries in Latin America. Given declining ESF levels, EAI and other debt reduction provisions, and the importance of finding innovative ways of supporting Honduras' balance of payments position and making the country creditworthy in the international financial community, A.I.D. should explore avenues for forgiving USG loans as has

been done for other RLDCs. Based on the FY 1990 Food Aid legislation, we understand that consideration already is underway for forgiving previous PL-480 Title I loans, which for Honduras total \$105 million. Similar consideration should be given to forgiving A.I.D. Development Assistance Loans which total \$339 million. As provided for in the EAI and in other legislation, debt relief should be used as an additional instrument for supporting GOH efforts to implement its macroeconomic and sector policy reforms.

4. Investment Promotion and Export Performance: Improving Honduras' investment climate and export performance remain two of the critical issues for increasing the country's growth rate in the 1990s. Over the past five years some important progress was made with USAID support. For example, Honduras cautiously adopted a series of new policies and laws that are gradually shifting the country to an export-led private sector development strategy. Private institutions were made operational to promote investment and exports such as the Foundation for Investment and Export Development (FIDE) and the Federation of Agricultural Exporters (FPX). With USAID support, Honduras' leading private sector organizations, such as the Confederation of Private Organizations (COHEP) and the San Pedro Sula Chamber of Commerce and Industry (CCIC), are now much more engaged in lobbying the GOH and the private sector itself for new policies, laws and attitudes that can better encourage investment and exports.

In addition, the Honduran Congress has passed export incentive legislation and a law authorizing the development of privately financed Export Processing Zones. In the past four years twelve state-owned enterprises were privatized generating \$15 million in new private investment. GOH macroeconomic reforms in 1990, especially the exchange rate adjustment and agricultural price liberalization, provided important policy stimulus to exporters and to investors. In 1990 the Honduran Congress also passed a new law that allows foreign investors to own land within 40 kilometers of the Honduran coast which removes one of the key legal constraints to the development of the country's tourist industry and to foreign investment in tourism. Furthermore, preliminary figures indicate that nontraditional agricultural exports increased twenty-seven percent in 1990 in response to a more favorable exchange rate regime.

However, while significant progress was made, much more needs to be done. Constant IFI debt service crises in 1990 and political difficulties in managing stabilization and price liberalization have not allowed the Economic Cabinet to focus sufficient time on modifying Honduras' inadequate investment code and laws, accelerate privatization, or promote more investment in key areas like bananas and petroleum exploration. This is particularly troublesome because expanding banana production and exports may be the single most important action that could be taken in the short-run to raise Honduras' growth rate to at least 3.8 percent by 1993. In addition, fundamental legal changes are still needed in Honduras' investment law to stimulate significantly higher flows of foreign investment. We plan to intensify even further our policy dialogue on these issues and we expect that they will continue to require high level support within both the USG and GOH throughout this Action Plan period.

5. Improved Coordination with Regionally Supported DI Projects: The political sensitivity of the Democratic Initiative area and need for close cooperation with various members of the Country Team make complete coordination of regional as well as bilateral activities in this area essential. For example, USIS finds it difficult to do the necessary planning for their grant and contract programs without an indication of media and academic interchanges being sponsored by regionally supported A.I.D. projects. Two offers of information from the Florida International University (FIU) project director of the Central American Journalism Program failed to produce the materials needed to plan grants. FIU coordination with USAID and USIS in Honduras has been inadequate. What mechanisms are used in Washington to assure inter-agency coordination and how are field posts kept informed?

ANNEX A

TABLE I: USAID HONDURAS
IMPLEMENTATION WORK PLAN

<u>LAC OBJECTIVES</u>	<u>USAID STRATEGIC OBJECTIVE</u>	<u>USAID IMPLEMENTATION WORK PLAN</u>
A.	SUPPORT THE ACHIEVEMENT OF BROAD-BASED, SUSTAINABLE ECONOMIC GROWTH:	
A1. Encourage the adoption of and continued adherence to, economic policies that promote investments, productive employment, and export-led economic diversification.	1. Improve Sector Policies in Agriculture, Trade and Investment, and Finance.	<ul style="list-style-type: none">* Obtain AID/W commitment to urge the Departments of Treasury, State and Agriculture and the Office of Management and Budget (OMB) to use the authority of Section 124 of the Foreign Assistance Act, the FY 1990 Farm Act, and the provisions of the Enterprise for the Americas Initiative to reduce Honduras' official debt to the USG. This will help improve Honduras' debt situation, compensate for a projected reduction in new U.S. funding, reduce part of the annual financing gaps during the 1992-1996 period, and encourage private investment. (July, 1991)a. Reform fiscal systems, improve efficiency of public sector service delivery.<ul style="list-style-type: none">* Provide local currency support to GOH efforts to reduce the size and improve the efficiency of the public sector. (ongoing)* Assist the Ministry of Finance and Public Credit (MFPC) to acquire resources from the U.S. Customs Service, the IRS, etc. to improve the effectiveness, transparency and equitableness of tariff and revenue collection regimes. (December, 1991)* Develop cadastres in key agricultural municipalities. (December, 1993)

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LAC OBJECTIVES

USAID STRATEGIC OBJECTIVE

USAID IMPLEMENTATION WORK PLAN

1. Improve Sector Policies in Agriculture, Trade and Investment, and Finance.
(CONTINUED)

- b. Stimulate agricultural production and trade.

* Coordinate with other donors to present a consolidated approach in agricultural policy reform negotiations.
(June, 1991)

* Passage of land use and transfer legislation.
(September, 1991)

* Assist the Ministry of Natural Resources (MNR) develop an administrative/management restructuring plan which reduces personnel and eliminates public sector competition in commercial markets.
(June, 1991)

* Negotiate a FY 1991 PL 480 Title III program which will continue support of market liberalization and public sector administrative reforms in coordination with the Economic Stabilization and Recovery Program.
(June, 1991)

- c. Further liberalize trade.

* Continue lowering of maximum import tariff and progress toward a uniform tariff rate.
(January, 1991-94)

* Phase out temporary export tariffs.
(December, 1991)

* In collaboration with the U.S. Commercial Service, develop a joint strategy for increasing two way trade between the United States and Honduras.
(December 1991)

* Assist the GOH to become a member of the GATT.
(June, 1992)

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LAC OBJECTIVES

USAID STRATEGIC OBJECTIVE

USAID IMPLEMENTATION WORK PLAN

- | | | | | | |
|-----|---|----|--|----|---|
| 1. | Improve Sector Policies in Agriculture, Trade and Investment, and Finance.
(CONTINUED) | d. | Reform of financial sector.

* Complete a comprehensive financial sector assessment and share the results with the GOH and the international financing institutions (IFIs) such as the IBRD.
(July, 1991) | | |
| | | e. | Increase investment in infrastructure, market information, education/training, and technology development and transfer.

* Privatization of 80% of the Ministry of Public Works' rural road maintenance operations will result in 1,200 km. of rural roads being regularly maintained and provide market access for additional agricultural production through the construction and improvement of 350 km. of rural access roads by private contractors.
(December, 1993) | | |
| | | | * Collaborate with the GOH to find a solution for the long-term financial self-sufficiency of the Honduran Foundation for Agricultural Research (FHIA).
(July, 1991) | | |
| A2. | Encourage vigorous response by the private sector to a favorable policy environment. | 2. | Increase Private Investment and Trade. | a. | Increase private investment.

* Improve the functioning of free trade zones (FTZs) and Export Processing Zones (EPZs) by better defining the role and responsibilities of the Customs Service.
(September, 1991) |
| | | | | | * Development and passage of new investment code.
(December, 1991) |
| | | | | b. | Support private sector organizations with a proven track record in achieving specific investment, export, and policy reform objectives and cooperate with other USG efforts.

* Continue strengthening FIDE and FPX under the new Investment and Export Development Project and begin working with the Ministry of Economy (MOE) as the Honduran counterpart to the U.S. Trade Representative.
(ongoing) |

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LAC OBJECTIVES

USAID STRATEGIC OBJECTIVE

USAID IMPLEMENTATION WORK PLAN

2. Increase Private Investment and Trade.
(CONTINUED)
- A3. Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.
3. Facilitate Implementation of Social Sector Policies.
- a. Expand income generating opportunities for marginal populations.
- * Organize meetings between LAC/TI, the Latin American/Caribbean Business Development Center and FIDE and FPX to establish mechanisms for ensuring coordination and communication on trade and investment efforts regionally and bilaterally between the U.S. and Honduras.
(ongoing)
- * Define informal housing sector pilot projects which when tested will lead to the development of a policy agenda for reform of the informal housing sector.
(March, 1991)
- * Further assist agricultural reform sector cooperatives to improve member access to the benefits of land tenancy reforms.
(ongoing)
- * Assist the GOH to mitigate the negative short-term impact of its economic reform program through the implementation of employment generation programs in the infrastructure and social sectors.
(ongoing)
- * Carry out Women in Development (WID) training to increase awareness, understanding and ability to address WID issues by Mission personnel.
(April, 1991)
- b. Basic Education.
- * Carry out a midterm project evaluation.
(March, 1991)
- * Expand Honduran efforts to develop innovative curriculum based on collaboration with the "New School" in Colombia.
(February, 1992)

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LAC OBJECTIVES

USAID STRATEGIC OBJECTIVE

USAID IMPLEMENTATION WORK PLAN

3. Facilitate Implementation
of Social Sector Policies.
(CONTINUED)

* Begin the process of incorporating "Interactive Radio Math" activities into the Ministry of Education.
(March, 1991)

* Improve the sustainability of the MOE school construction program by implementing a program of utilizing community made and locally available materials instead of imported items.
(March, 1991)

* Increase the percentage of the education budget going to primary education to 50%.
(December, 1993)

c. Basic Primary Health Care, Family Planning, Nutrition Services.

* Carry out a midterm external evaluation of the Health Sector II Project.
(July, 1991)

* Decentralize Ministry of Health (MOH) primary health care delivery systems and improve regional and area level management of primary health care programs and their financing.
(ongoing)

* Assist MOH to put in place a plan for sustaining primary health care, including the institutionalization of the recently approved local fee recovery system.
(September, 1991)

* Expand the private voluntary sector's participation in child survival, rural water and sanitation and family planning as a way to secure sustainability and expand coverage into remote and marginal areas.
(June, 1993)

* Increase the percentage of the health budget going to primary health care to 23%.
(December, 1993)

LAC OBJECTIVES

USAID STRATEGIC OBJECTIVE

USAID IMPLEMENTATION WORK PLAN

A4. Encourage preservation and sustainable use of the natural resource base.

4. Improve Environmental Policies and Natural Resource Conservation Programs.

* Assist Honduras to manage an additional 30,000 has. of pine forest in a sustained manner, plant 1,400,000 more trees and get an additional 30,000 people to use ecologically sound and sustainable farming techniques during 1992 and 1993.

(December, 1993)

B. STABLE, PARTICIPATORY DEMOCRACY

B1. Encourage the strengthening of competent civilian government institutions that will merit the confidence of political and military leaders, citizens, and investors.

5a. Strengthen Democratic Institutions.

a. Administration of Justice.

* Assist Supreme Court to develop and implement a detailed work plan for streamline administrative operations and increase efficiency in the operations of the judiciary.

(January, 1991)

* Enhance capability of judicial personnel, including judges, justices of the peace, prosecutors, public defenders and court administration through in-service training and continuing education programs.

(ongoing)

* Complete personnel procedures and manuals to institutionalize the career Judicial Law.

(June, 1991)

* Automate administrative and jurisprudence records.

(December, 1991)

* Institutionalize information collection and analysis in support of planning and budgeting.

(June, 1992)

* With ICITAP develop crime scene and evidence management systems and manuals.

(June, 1992)

LAC OBJECTIVES

USAID STRATEGIC OBJECTIVE

USAID IMPLEMENTATION WORK PLAN

- 5a. Strengthen Democratic
Institutions.
(CONTINUED)

- b. Civil and Human Rights.

* Assist the judiciary complete the structuring and organization of the Public Defenders Office to make it a permanent sustainable institution.

(June, 1992)

* Assist the GOH to develop and implement a civic/human rights educational curriculum in schools.

(February 1992)

- c. Electoral Process and Institutions.

* Assist the TNE update the National Registry of Persons which will provide reliable data for the preparation of a dependable electoral registry for 1993 elections.

(ongoing)

* Assist the TNE develop an administrative/logistical plan for the effective management/administration of the elections.

(June, 1992)

- d. Legislative Process and Institutions.

* Assist the National Congress establish and operate a Legislative Research Center which provides appropriate legal, economic, and technical expertise to the legislative process.

(November, 1991)

* Strengthen the institutional capabilities to draft legislation through implementation of a legislative tracking system.

(November, 1991)

* Professionalize key committee staff functions.

(January, 1993)

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LAC OBJECTIVES

USAID STRATEGIC OBJECTIVE

USAID IMPLEMENTATION WORK PLAN

5a. Strengthen Democratic Institutions.

(CONTINUED)

e. Local and Municipal Governments.

* Structure relationship with the Association of Municipalities (AHMON) and key municipalities of the north coast and initiate technical assistance and training under the Municipal Development Project.

(December, 1991)

* Assist AHMON, selected municipalities and pertinent central government institutions to conduct assessment on the procedures and regulations to transfer central government resources and devolve water services to local governments.

(December, 1991)

* Assist in the dissemination of the Municipal Law.

(July, 1991)

f. Transparent decision-making and heightened accountability.

* Assist the GOH in organizing an economic analysis unit for its economic cabinet.

(ongoing)

B2. Encourage pluralism, tolerance of opposing views, and support for democratic values on the part of nongovernmental bodies including the press, community organizations, labor unions, and business associations.

5b. Promote a More Pluralistic Honduran Society.

* Continue regular meetings of the U. S. Mission to Honduras' Committee on Democratic Initiatives (CDI) which is comprised of all Country Team members to strengthen democracy in Honduras.

(ongoing)

* Promote and strengthen pluralism and civic participation through nongovernmental organizations and leadership training.

(ongoing)

* Assist AHMON to conduct seminars and workshops for municipalities on the relationships between communities and local governments, and the functioning of cabildos abiertos (town meetings) required by the new municipal legislation.

(December, 1991)

LAC OBJECTIVES

USAID STRATEGIC OBJECTIVE

USAID IMPLEMENTATION WORK PLAN

- 5b. Promote a More Pluralistic Honduran Society.
(CONTINUED)

* Strengthen agricultural cooperatives to enfranchise their members with the economic power to effectively participate in democratic activities in Honduras.
(ongoing)

C. EFFECTIVE REGIONAL COOPERATION

Honduran Regional Cooperation.

6. Promote More Effective Honduran Regional and International Cooperation.

a. Trade Liberalization.

* Design an activity to assist Honduras cooperate with other countries in lowering barriers that impede free trade.
(August, 1991)

* Assist the GOH elaborate a strategy for free trade and economic integration with other Central American countries.
(October, 1991)

* Lower the maximum customs duty to 20%.
(January, 1992)

b. Support Honduran Regional Cooperation.

1. Trade Infrastructure.

* Support establishment of Central American working groups to promote common economic policies and expansion of trade.

* Coordinate the establishment of regular meeting between Central American Central Bank Presidents and Ministers of Finance and AID economists to further economic and trade coordination among the Central American countries.
(September, 1991)

2. Energy.

* In coordination with ROCAP's C. A. Energy Conservation Project assist the GOH to elaborate a strategy for expansion of rural electrification, privatization, and increased reliance on renewable energy resources such as small hydroelectric and geothermal generation.
(December, 1991)

LAC OBJECTIVES

Honduran Regional
Cooperation.

USAID STRATEGIC OBJECTIVE

6. Promote More Effective
Honduran Regional and
International Cooperation.
(CONTINUED)

USAID IMPLEMENTATION WORK PLAN

3. Social Sectors.

* Participate with LAC SDI, RAJO, ILANUD and ICITAP staff and Central America counterparts in regional coordination meetings on implementation of the democracy initiative.
(ongoing)

4. Environment and Natural Resources.

* In coordination with ROCAP's RENARM Project develop a strategy for implementing policy actions based on the recently completed Environmental Policy Inventory for Honduras.

(December, 1991)

* In conjunction with ROCAP develop a program to rationalize the use of agricultural chemicals.

(December, 1991)

ANNEX B

LOCAL CURRENCY PROGRAMMING AND UTILIZATION

Host Country Owned Local Currency (HCOLC) generated through the Economic Support Fund (ESF) Program is used to finance public and private sector development activities that directly support or complement Honduran and USAID objectives. PL-480 HCOLC generations are used to finance agricultural and rural development activities which support or complement the Self-Help Measures included in the PL-480 bilateral agreement. Section 416 Program HCOLC generations support rural development and greater accessibility of the poor to the benefits of development.

USAID is working with the GOH to rationalize the programming of PL-480 HCOLC. Programming priorities include support to improve the efficiency of public sector delivery systems and support rural development investments which complement USAID and other donor supported programs. USAID also will continue to discuss with the GOH our concerns regarding the degree to which some of its programs are dependent on these resources to cover recurring operating costs.

Local currency is converted at the highest rate which is not unlawful currently at L.5.3:\$1 (Lempiras:US Dollars). The sale of PL-480 commodities takes place at market prices and under commercial terms so that no subsidy occurs to the private commodity buyers. Through its continuing policy dialogue with the government, USAID will press for a local currency conversion rate which reflects the prevailing value of the Lempira and the market value of similar commodities. Local currency programming will be carried out within the context of a sound monetary program.

A recent analysis of the Local Currency (LC) Mortgage of existing and planned activities through FY 1993 was made in order to compare LC requirements against projected availability of LC generations under the ESF and PL-480 Programs.

In FY 1990, the GOH and CARE initiated a Title II monetization program with A.I.D.'s approval. The purpose of the monetization program is to help support on-going Maternal Child Health and School Feeding Programs which are jointly managed by the GOH and CARE. Currencies generated for this purpose will help pay for the operating expenses incurred by CARE and three government agencies (the National Welfare Board and the Ministries of Health and Education) charged with running the two programs. Starting in FY 1991, the Mission proposes to establish an additional monetization program which will address needs outside of the regular Title II activities. The new program entails importing Title II commodities in support of the GOH's new food coupon program. Commodities will be sold and generated currencies will be used to finance food coupons. These coupons will be distributed to needy groups most effected by the short-term effects of the GOH economic reform program. All of the monetized programs are planned and executed on annual basis. As such, none of them generate multiyear local currency requirements.

Under the ESF Program, funds available each year are expected to be greater than programming requirements. At the end of FY 1993 there will be L162.4 million available. Assuming that USAID fully funds the remaining mortgage of L78.5 million (excluding Trust Funds and other ongoing nonproject activities) there still would be an unallocated balance of L83.9 million. USAID foresees using this balance to cover USAID Trust Fund and other requirements.

Although the analysis showed no mortgage problem through FY 1993, it indicated that beginning in FY 1991, the GOH and the Mission will need to break the 50/50 split between public and private sector allocations used for previous ESF programming. The Mission proposed to do away with this split in the ESF PAAD and continues to program local currency within the context of a sound economic program.

Under the PL-480 Program, there will be a balance of L170.4 million at the end of FY 1993. Assuming that the remaining mortgage of L94.0 million is fully funded there will be an unallocated balance of L76.4 million available for programming thereafter.

As a way to support Honduran development initiatives while limiting the amount of monetized HCOLC, the GOH is seeking to establish three endowment funds with development oriented private institutions. The largest endowment will be for the Honduran Agriculture Research Foundation (FHIA). The FHIA endowment will establish an assured source of income to enable FHIA to continue its core program of agricultural research which focuses on products for the export market (banana, plantain, cocoa, palm hearts, mangos, ornamental plants, and other nontraditional agricultural exports). It is modeled after similar endowments supported with A.I.D.-generated local currency in the Dominican Republic and Ecuador.

The GOH plans to approve (with USAID concurrence) two other, smaller endowments (less than \$350,000 each) with the AHE (Honduras Ecological Association) and the Association of COPAN pre-Columbian Studies. The GOH will manage these two endowments, using the local currency procedures agreed to with USAID for the programming, implementation and monitoring of GOH-financed local currency activities. The AHE endowment will be used to finance watershed and biosphere protection, and other conservation activities in watersheds which directly affect high priority areas of agricultural or silvicultural production. The Association of COPAN pre-Columbian Institute will use its endowment to generate employment and foreign exchange through the maintenance, research, and restoration of the Mayan Ruins of Copan. The GOH has begun discussions with USAID on the endowments for the above-mentioned institutions.

TABLE IV
LOCAL CURRENCY UTILIZATION
(\$ 000)

FY 1991

Sources

A. USES	<u>ESF</u>	<u>PL 480 I</u>	<u>PL 480 II</u>	<u>PL 480 III</u>	<u>SEC. 416</u>	<u>OTHER</u>	<u>TOTAL</u>
HG BUDGET GEN	45,412						45,412
HG BUDGET SECTOR	3,137	6,045	1,410				10,592
HG CONTRIBUTION TO A.I.D. PROJECTS	24,904	5,371					30,275
HG CONTRIBUTION TO OTHER DONOR PROJECTS			290				290
HG MANAGED L/C PROJECT (GOVT. OR PRIVATE)	9,747		3,100				12,847
A.I.D. PROGRAM TRUST FUND	N/A						
A.I.D. OE TRUST FUND	3,600						3,600
SECTION 108	N/A						
OTHER	N/A						
TOTAL	86,900	11,416	4,800				103,116
B. CHANNEL FOR ASSISTANCE *							
PUBLIC SECTOR	43,450	11,416	4,800				59,666
PRIVATE SECTOR	43,450						43,450
TOTAL	86,900	11,416	4,800				103,116

*Determined by organization primarily responsible for managing local currency.

TABLE IV
LOCAL CURRENCY UTILIZATION

FY 1992

(\$ 000)

Sources

A. USES	<u>ESF</u>	<u>PL 480 I</u>	<u>PL 480 II</u>	<u>PL 480 III</u>	<u>SEC. 416</u>	<u>OTHER</u>	<u>TOTAL</u>
HG BUDGET GEN							
HG BUDGET SECTOR	7,381	6,035	1,410	7,294			22,120
HG CONTRIBUTION TO A.I.D. PROJECTS	32,603			6,706			39,309
HG CONTRIBUTION TO OTHER DONOR PROJECTS			290				290
HG MANAGED L/C PROJECT (GOVT. OR PRIVATE)	5,675		3,100				8,775
A.I.D. PROGRAM TRUST FUND	N/A						
A.I.D. OE TRUST FUND	3,400						3,400
SECTION 108	N/A						
OTHER	N/A						
TOTAL	49,159	6,035	4,800	14,000			73,994
B. CHANNEL FOR ASSISTANCE *							
PUBLIC SECTOR	24,578	6,035	4,800	14,000			49,413
PRIVATE SECTOR	24,578						24,578
TOTAL	49,159	6,035	4,800	14,000			73,994

*Determined by organization primarily responsible for managing local currency.

TABLE IV
LOCAL CURRENCY UTILIZATION
(\$ 000)

FY 1993

Sources

A. USES	<u>ESF</u>	<u>PL 480 I</u>	<u>PL 480 II</u>	<u>PL 480 III</u>	<u>SEC 416</u>	<u>OTHER</u>	<u>TOTAL</u>
HG BUDGET GEN							
HG BUDGET SECTOR	6,000		1,410	7,385			14,795
HG CONTRIBUTION TO A.I.D. PROJECTS	26,962			4,615			31,577
HG CONTRIBUTION TO OTHER DONOR PROJECTS			290				290
HG MANAGED L/C PROJECT (GOVT. OR PRIVATE)	115		3,100				3,215
A.I.D. PROGRAM TRUST FUND	N/A						
A.I.D. OE TRUST FUND	2,000						2,000
SECTION 108	N/A						
OTHER	N/A						
TOTAL	35,177		4,800	12,000			51,977
B. CHANNEL FOR ASSISTANCE *							
PUBLIC SECTOR	17,588		4,800	12,000			34,388
PRIVATE SECTOR	17,588						17,588
TOTAL	35,177		4,800	12,000			51,947

*Determined by organization primarily responsible for managing local currency.

ANNEX C

TABLE V

SUMMARY PROGRAM FUNDING TABLE

Dollar Program by Functional Account

Project Number and Title	L/G	FY91	FY92	FY93
Development Assistance				
Agriculture, Rural Development & Nutrition				
522-0246 Forestry Development	G	3,000	3,000	3,828
522-0249 Agriculture Research Foundation	G	1,616	-	-
522-0252 Small Farmer Organ. Strengthening	G	1,125	-	-
522-0268 Irrigation Development	G	2,500	1,500	1,910
522-0292 Land Use Productivity Enhancement	G	4,600	3,000	3,300
522-0312 Investment and Export Promotion	G	1,500	1,500	2,000
522-0325 Policy Analysis & Implementation	G	1,350	4,000	3,000
522-0334 Rural Roads Maintenance	G	4,924	2,000	2,000
522-0340 Municipal Development	G	1,000	1,000	2,000
522-0383 Small Farmer Organ. Strengthening II	G	-	2,100	1,500
522-0000 Program Development and Support	G	134	120	100
	Subtotal FN:	21,749	18,220	19,638
Population				
522-0369 Private Sector Population Program II	G	2,599	2,500	2,000
522-0000 Program Development and Support	G	-	10	10
	Subtotal PN:	2,599	2,510	2,010
Health				
522-0216 Health Sector II	G	2,291	4,800	3,900
522-0000 Program Development and Support	G	-	10	10
	Subtotal HE:	2,291	4,810	3,910
Child Survival				
522-0216 Health Sector II	G	4,352	3,500	5,400
	Subtotal CS:	4,352	3,500	5,400
Education				
522-0273 Primary Education Efficiency	G	1,549	1,600	1,032
522-0381 Strengthening Accountability Systems	G	-	-	1,000
522-0000 Program Development and Support	G	-	50	10
	Subtotal EH:	1,549	1,650	2,042

TABLE V (continued)

SUMMARY PROGRAM FUNDING TABLE

Dollar Program by Functional Account

Project Number and Title	L/G	FY91	FY92	FY93	
Private Sector, Environment & Energy					
522-0241 Small Business Development II	G	1,500	3,210	-	
522-0296 Strengthening Democratic Inst.	G	500	-	-	
522-0312 Investment and Export Promotion	G	1,000	2,500	3,700	
522-0324 Shelter Sector Programs	G	200	500	500	
522-0325 Policy Analysis & Implementation	G	-	2,000	1,700	
522-0340 Municipal Development	G	4,207	-	-	
522-0361 Intern'l Executive Serv. Corp (OPG)	G	-	500	-	
522-0367 Privatization Phase II	G	600	1,500	2,000	
522-0000 Program Development and Support	G	115	100	100	
		Subtotal PSEE:	8,122	10,310	8,000
		Subtotal DA:	40,662	41,000	41,000
Economic Support Funds					
522-0296 Strengthening Democratic Institutions	G	-	3,000	2,000	
522-0325 Policy Analysis & Implementation	G	-	2,000	2,000	
522-0364 Honduras Peace Scholarships II	G	2,000	2,000	2,000	
522-0365 Structural Adjustment Program	G	-	43,000	44,000	
522-0375 Economic Stabilization & Recovery IV	G	48,000	-	-	
		Subtotal ESF:	50,000	50,000	50,000
		TOTAL DA + ESF	90,662	91,000	91,000
P.L. 480					
Title I	L	-	-	-	
Title II	G	7,300	8,000	8,000	
Title III	G	14,000	12,000	12,000	
		Subtotal P.L. 480:	21,300	20,000	20,000
		GRANT	21,300	20,000	20,000
Housing Guarantee	L	10,000	-	-	
PROGRAM TOTAL:		121,962	111,000	111,000	
GRANT		111,962	111,000	111,000	
LOAN		10,000	-	-	

ANNEX D

TABLE VI: USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, AND PROJECTS

GOALS and SUBGOALS	STRATEGIC OBJECTIVES	Projects Directly Supporting Strategic Objective	Projects Indirectly Supporting Strategic Objective	
I. BROAD-BASED, SUSTAINABLE ECONOMIC GROWTH				
A. Policy Reforms for Economic Growth. (Encourage the adoption of, and continued adherence to, economic policies that promote investments, productive employment, and export-led economic diversification.)	1. Improve Sector Policies in Agriculture, Trade and Investment, and Finance.	Small Farmer Organization Strengthening	522-0252 Forestry Development	522-0246
		Strategic Planning and Technical Support	522-0269 Land Use and Productivity Enhancement	522-0292
		Privatization of State-Owned Enterprises	522-0289 Strengthening Democratic Institutions	522-0296
		Shelter Sector Program	522-0324 Chamber of Commerce - Cortes	522-0363
		Policy Analysis and Implementation	522-0325 Housing Guarantee 008	
		Economic Support Program	522-0331	
		Rural Roads Maintenance	522-0334	
		Economic Stabilization and Recovery III	522-0358	
		Structural Adjustment Program	522-0365	
		Privatization of State-Owned Enterprises II	522-0367	
		Economic Stabilization and Recovery IV	522-0375	
		Small Farmer Organization Strengthening II	522-0383	
		PL 480 Title I		
PL 480 Title III				
Housing Guarantee 009				
B. Private Sector Response. (Encourage vigorous response by the private sector to a favorable policy environment.)	2. Increase Private Investment and Trade.	Small Farmer Coffee Improvement	522-0176 Small Business Development II	522-0241
		Export Development and Services	522-0207 Small Farmer Organization Strengthening	522-0252
		Small Farmer Livestock	522-0209 Privatization of State-Owned Enterprises	522-0289
		Rural Trails and Access Roads II	522-0214 Strengthening Democratic Institutions	522-0296
		Human Resources Development Council (CADERH)	522-0257 Policy Analysis and Implementation	522-0325
		Irrigation Development	522-0268 International Executive Services Corps (IESC)	522-0361
		Investment and Export Development	522-0312 Chamber of Commerce - Cortes	522-0363
			Structural Adjustment Program	522-0365
			Privatization of State-Owned Enterprises II	522-0367
			Small Farmer Organization Strengthening II	522-0383
			Housing Guarantee 008	
			Housing Guarantee 009	

ANNEX D

TABLE VI: USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, AND PROJECTS

GOALS and SUBGOALS	STRATEGIC OBJECTIVES	Projects Directly Supporting Strategic Objective	Projects Indirectly Supporting Strategic Objective
I. BROAD-BASED, SUSTAINABLE ECONOMIC GROWTH (continued)			
C. Increased Well-Being of the Disadvantaged. (Encourage accelerated opportunities for increased participation in the economy by the historically disadvantaged.)	3. Facilitate Implementation of Social Sector Policies.	Health Sector II 522-0216 Small Business Development II 522-0241 Primary Education Efficiency 522-0273 International Executive Services Corps (IESC) 522-0361 Private Sector Population Program II 522-0369 Housing Guarantee 008 PL 480 Title II	Small Farmer Coffee Improvement 522-0176 Rural Trails and Access Roads II 522-0214 Small Farmer Organization Strengthening 522-0252 Human Resources Development Council (CADERH) 522-0257 Land Use and Productivity Enhancement 522-0292 Strengthening Democratic Institutions 522-0296 Shelter Sector Program 522-0324 Rural Roads Maintenance 522-0334 Municipal Development 522-0340 Small Farmer Organization Strengthening II 522-0383 Housing Guarantee 009
D. Preservation and Sustainable Use of Natural Resources. (Encourage preservation and sustainable use of the natural resource base.)	4. Improve Environmental Policies and Natural Resource Conservation Programs.	Forestry Development 522-0246 Land Use and Productivity Enhancement 522-0292 Integrated Pest Management 522-0362 Central America Energy Conservation 522-0998	Health Sector II 522-0216 Agricultural Research Foundation 522-0249 Policy Analysis and Implementation 522-0325 Municipal Development 522-0340 Structural Adjustment Program 522-0365 Housing Guarantee 008 Housing Guarantee 009

ANNEX D

TABLE VI: USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, AND PROJECTS				
GOALS and SUBGOALS	STRATEGIC OBJECTIVES	Projects Directly Supporting Strategic Objective		Projects Indirectly Supporting Strategic Objective
II. STABLE, PARTICIPATORY DEMOCRACY				
A. Responsive Government Institutions. (Encourage the strengthening of competent, civilian government institutions that will merit the confidence of political and military leaders, citizens, and investors.)	5a. Strengthen Democratic Institutions.	Strengthening Democratic Institutions	522-0296	Health Sector II
		Controller General	522-0338	Primary Education Efficiency
		Municipal Development	522-0340	Investment and Export Development
		Strengthening Accountability Systems	522-0381	Policy Analysis and Implementation
				Structural Adjustment Program
				522-0216
				522-0273
				522-0312
				522-0325
				522-0365
B. Democratic Pluralism and Values. (Encourage pluralism, tolerance of opposing views, and support for democratic values on the part of nongovernment bodies, including the press, community organizations, labor unions, and business associations.)	5b. Promote a More Pluralistic Honduran Society.	Small Farmer Titling and Services	522-0173	Export Development and Services
		Agricultural Research Foundation	522-0249	Small Farmer Organization Strengthening
		FOPRIDEH Institutional Strengthening	522-0266	Strengthening Democratic Institutions
		Honduras Peace Scholarships	522-0329	Investment and Export Development
		Chamber of Commerce - Cortes	522-0363	Municipal Development
		Honduras Peace Scholarships II	522-0364	Small Farmer Organization Strengthening II
				522-0207
				522-0252
				522-0296
				522-0312
				522-0340
				522-0383

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ANNEX D

TABLE VI-	USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, AND PROJECTS		
GOALS and SUBGOALS	STRATEGIC OBJECTIVES	Projects Directly Supporting Strategic Objective	Projects Indirectly Supporting Strategic Objective
III. EFFECTIVE REGIONAL COOPERATION			
Honduran Regional Cooperation.	6. Promote More Effective Honduran Regional and International Cooperation.		<ul style="list-style-type: none"> Export Development and Services 522-0207 Rural Trails and Access Roads II 522-0214 Forestry Development 522-0246 Agricultural Research Foundation 522-0249 Small Farmer Organization Strengthening 522-0252 Irrigation Development 522-0268 Strategic Planning and Technical Support 522-0269 Privatization of State-Owned Enterprises 522-0289 Land Use and Productivity Enhancement 522-0292 Strengthening Democratic Institutions 522-0296 Investment and Export Development 522-0312 Policy Analysis and Implementation 522-0325 Rural Roads Maintenance 522-0334 Municipal Development 522-0340 Chamber of Commerce - Cortes 522-0363 Structural Adjustment Program 522-0365 Privatization of State-Owned Enterprises II 522-0367 Economic Stabilization and Recovery IV 522-0375 Small Farmer Organization Strengthening II 522-0383 Central America Energy Conservation 522-0998
IV. OTHER			
None.	None.		

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TABLE IIIa: USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, and PERFORMANCE AND PROGRAM INDICATORS

GOALS and STRATEGIC OBJECTIVES	STRATEGIC OBJECTIVE PERFORMANCE INDICATORS	Estimated Target				PROGRAM INDICATORS	Estimated Target			
		1990	1991	1992	1993		1990	1991	1992	1993
I. BROAD-BASED, SUSTAINABLE ECONOMIC GROWTH										
1. Improve Sector Policies in Agriculture, Trade and Investment, and Finance.	Agricultural GDP Growth:	0.2%	1.2%	5.4%	4.9%	Fiscal Reforms:				
	Nontraditional Export Growth, volume:	-7.8%	10.1%	8.5%	8.5%	fiscal deficit as a percent of GDP	8.9%	6.0%	5.0%	4.0%
	Gross Domestic Savings/GDP:	5.9%	9.7%	12.7%	13.8%	domestic bank finance of public sector deficit:	5.5%	0.0%	0.0%	0.0%
	Private Investment Growth:	-11.2%	14.4%	14.7%	14.2%	inflation	35.2%	23.0%	10.0%	8.0%
						Low Public Consumption Growth:	-6.0%	0.0%	0.8%	1.5%
						Market-determined exchange rate:				X
						Gross International Reserves, months of imports:	1.0	0.5	0.8	1.0
						Structural Changes in:				
						Agriculture:				
						Improved land markets:				
						land mortgage system established,		X		
						land rental system established,		X		
						land sale system established;				X
						improve pricing and trade policies:				
						elimination of price controls on ag. products;		X		
						elimination of price controls on ag. inputs;			X	
						end quantitative restrictions on ag.:				
					exports,		X			
					imports;					
					privatize seed production and marketing		X			
					Finance:					
					liberalize credit markets				X	
					removal of interest rate ceilings				X	
					high real rediscount rates				X	
					effective regulation of banking system					
					phase-out directed lines of credit				X	
					reduced reserve requirements				X	
					long-term lending instruments created					
					strengthened Honduran Bankers' Association (AHIBA)					
					low-income shelter credit (percent of households					
					below median income with access to credit):	19.1%	20.6%	22.1%	23.5%	

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TABLE IIIa:

USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, and PERFORMANCE AND PROGRAM INDICATORS

GOALS and STRATEGIC OBJECTIVES	STRATEGIC OBJECTIVE PERFORMANCE INDICATORS	Estimated Target Target Target				PROGRAM INDICATORS	Estimated Target Target Target							
		1990	1991	1992	1993		1990	1991	1992	1993				
1. Improve Sector Policies in Agriculture, Trade and Investment, and Finance. (continued)						Trade:								
						maximum nominal import tariff:	40.0%	35.0%	20.0%	20.0%				
						eliminate quantitative restrictions							X	
						eliminate licensing							X	
						eliminate trade monopolies							X	
						simplify regulatory procedures			X					
						simplify customs procedures			X					
						value added by EPZs, \$ millions	31	38	45	53				
						Investment:								
						eliminate barriers to entry of foreign investment								X
						improve legal, regulatory, and judicial systems								
						enforcement of contracts								X
						privatizations:								
						reduced capital flight								X
						return of flight capital								
						Narrowed USAID Policy Agenda:								
						Value of coffee exports, \$ millions	170	168	181	185				
						Value of banana exports, \$ millions	194	214	236	248				
						Increased value nontraditional agricultural exports:	19.5%	12.8%	10.6%	11.2%				
						pineapples	79.2%	4.3%	4.4%	4.4%				
						cultivated shrimp	7.8%	72.7%	35.5%	32.5%				
						melons	23.0%	27.1%	23.4%	20.6%				
						ornamental plants	22.0%	41.0%	29.1%	22.5%				
					Value Added to Ag. by AID-Supported Programs,									
					\$ millions	46.1	33.7	45.9	62.5					
					Growth in basic grains production, percent	11.3%	4.6%	4.5%	4.5%					

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TABLE IIIa: USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, and PERFORMANCE AND PROGRAM INDICATORS

GOALS and STRATEGIC OBJECTIVES	STRATEGIC OBJECTIVE PERFORMANCE INDICATORS	Estimated Target Target Target				PROGRAM INDICATORS	Estimated Target Target Target			
		1990	1991	1992	1993		1990	1991	1992	1993
2. Increase Private Investment and Trade.	Gross Private Investment/GDP:	7.0%	11.3%	12.5%	13.8%	Structural Changes in Investment:				
	Export Growth (volume):	0.7%	5.2%	7.3%	5.8%	new investment code		X		
	AID-Supported Export Sales, \$ millions:					streamline investment procedures				X
	Agriculture	20.0	38.0	55.0	76.0	Private Sector Gross Fixed Capital Formation/GDP	7.0%	11.3%	12.5%	13.8%
	Manufacturing	4.0	6.0	7.2	8.4	Additional Investment in Manufacturing, \$ millions	6.0	11.6	15.9	19.2
	AID-Supported EPZ/FTZs Transfers, \$ millions:	0.5	2.1	5.5	12.1					
3. Facilitate Implementation of Social Sector Policies.	Contraceptive Prevalence:	46.0%	47.0%	48.0%	49.0%	Number of NGOs providing family planning services	1	4	4	4
	Vaccination Coverage:	75.0%	76.0%	78.0%	80.0%	Share GOH Budget going to Health	12.3%	12.3%	13.0%	13.0%
						Share Health Budget going to Primary Health	21.8%	18.9%	21.0%	23.0%
						Share of Health Budget Collected at Health Centers and Hospitals	2.3%	2.5%	2.8%	3.0%
						Diarrhea Cases Treated with ORT	17.3%	20.0%	22.0%	24.0%
						Number of Municipalities Managing Water Systems	2	1	1	2
	Years to Complete Primary School:	9.6	9.4	9.3	9.2	Primary School Enrollment Ratio	102.0%	102.0%	101.0%	101.0%
						First graders Going to Second, thousands	59.6	60.3	61.0	62.0
						Share GOH Budget going to Education	18.3%	18.4%	18.6%	18.8%
						Share of Education Budget going to Primary Education	48.0%	48.5%	49.0%	49.5%
	AID-Supported Job Creation, 000s person-yr.:	14.1	16.3	18.3	22.9	Additional People Employed in Nontraditional				
						Agricultural Exports, thousands	14.6	18.2	21.9	25.6
						Additional People Employed in Manufacturing for Export, thousands	2.5	3.5	4.5	5.4
						Increased Employment due to AID support of micro & small enterprises, thousands	5.6	5.8	5.9	6.0

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TABLE IIIa:

USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, and PERFORMANCE AND PROGRAM INDICATORS

GOALS and STRATEGIC OBJECTIVES	STRATEGIC OBJECTIVE PERFORMANCE INDICATORS	Estimated Target				PROGRAM INDICATORS	Estimated Target					
		1990	1991	1992	1993		1990	1991	1992	1993		
4. Improve Environmental Policies and Natural Resource Conservation Programs.	Enactment of regulations to implement:											
	Environmental Laws				X	Pine Forest Managed for Sustainable Yield, cumulative thousands of hectares:	68	130	145	160		
	Water Quality Laws				X	Trees Planted in AID-Supported Activities, thousands per year:	429	571	700	700		
	Chemical and Waste Contamination Laws				X	Forests protected, thousands of hectares	90	100	150	200		
	Establishment of standards for cultivation in mangrove forests and coastal zones.				X	Reserves Protected, cumulative		1		1		
	Privatization of wood processing.				X	Standards for pesticide use and chemical contamination				X		
	Private ownership of natural forests on private land.				X							
	Honduran strategy for environmentally sound development.				X							
	Reorganization of government agencies managing natural resources.				X							
	Debt-for Nature Swaps				X							

TABLE IIIa: USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, and PERFORMANCE AND PROGRAM INDICATORS

GOALS and STRATEGIC OBJECTIVES	STRATEGIC OBJECTIVE PERFORMANCE INDICATORS	Estimated Target				PROGRAM INDICATORS	Estimated Target				
		1990	1991	1992	1993		1990	1991	1992	1993	
II. STABLE, PARTICIPATORY DEMOCRACY											
5a. Strengthen Democratic Institutions.	Improved Judicial System.	Qualitative target.				Career Justices of the Peace	25%	75.0%	75.0%	75%	
	Improved Local Government.	Qualitative target.				Merit Selection of New Judges	NA	50.0%	70.0%	100%	
	Improved Legislative System.	Qualitative target.				Career Judicial Administrative Staff	NA	50.0%	75.0%	100%	
	Improved Election System.	Qualitative target.				Strengthened Municipal Governments	NA	1	1	2	
	Strengthened Controller General.	Qualitative target.				Separate Municipal Elections					
	Judicial School			X		Deputies Receiving Training	71%	0.1	0.25	10%	
	Center for Legislative Research and Studies			X		Newly Elected Deputies Receiving Training	-	NA	NA	100%	
						Career CIEL Staff	NA	100%	100%	100%	
						Primary Elections	NA	NA	X	NA	
						National Election	X	NA	NA	X	
						Merit Selection of Registry Personnel	NA	50.0%	75.0%	100%	
						Poll Workers Trained, thousands	NA	NA	NA	64	
	5b. Promote a More Pluralistic Honduran Society.	Increased citizen understanding of democracy.	Qualitative target.				Also See Indicators Under I.1.				
		Stronger NGOs and community organizations.	Qualitative target.				Democratic Leadership Training Courses	12	24	12	15
						Peace Scholarship training in U.S.					
						Long-Term	64	100	72	58	
						Short-Term	159	100	190	90	
						Municipalities consulting community based groups	NA	1	1	2	
						Functioning, Financially Self-Sufficient:					
						Honduran Foundation for Agricultural Research				X	
						Foundation for Investment and Export Development					
						Federation of Agricultural Exporters and Producers					
					Confederation of Private Sector Organizations						
					Honduran Family Planning Association						
					Human Resources Development Council						

TABLE IIIa: USAID/HONDURAS GOALS, SUBGOALS, STRATEGIC OBJECTIVES, and PERFORMANCE AND PROGRAM INDICATORS

GOALS and STRATEGIC OBJECTIVES	STRATEGIC OBJECTIVE PERFORMANCE INDICATORS	Estimated Target				PROGRAM INDICATORS	Estimated Target			
		1990	1991	1992	1993		1990	1991	1992	1993
III. EFFECTIVE REGIONAL COOPERATION										
6. Promote More Effective Honduran Regional and International Cooperation.	Effective Honduran Participation in Regional Cooperation Mechanisms and Institutions: PDD, CGs, CAREI, CA Parliament, etc.					Secretariat for CA Summit				X
	Effective Honduran Participation in International Cooperation Mechanisms and Institutions, EAI, CBI, GATT, CGs, etc.					Participation in CA Summit Meeting	2	2	2	2
	Reduced PL 480 Debt:					Regional Consultative Group (IDB)				X
	principle, \$ millions	-12	0.6	0.7	0.8	Signature of EAI Trade and Investment Agreement	X			
	interest, \$ millions	-2	2.2	2.1	2.1	US debt Reduction/Rescheduling	X			X
	Reduced AID Debt:					Bilateral Consultative Group (World Bank)	X			X
	principle, \$ millions	-3.7	4.4	5.6	6.9	Paris Club Reschedulings	X			X
	interest, \$ millions	-7.7	7.8	8.0	8.2	Implementation of and IMF, World Bank and IDB Support for Strong Macroeconomic Stabilization				
						Measures:	X			X

ANNEX E

NEW PROJECT DESCRIPTIONS

OBJECTIVE: Promote Broad-Based, Sustainable Economic Growth

SUBOBJECTIVE: Encourage Economic Policies that Promote Trade, Investments, Productive Employment, Export-Led Economic Diversification and Response by the Private Sector to a Favorable Policy Environment.

PROGRAM TITLE: Structural Adjustment Program
(New Project)

PROJECT NUMBER: 522-0365

FUNDING (000s):	FY 1992	Planned LOP
	\$74,000	\$200,000

TYPE OF FUNDING: ESF

- A. Consistency of Project with Mission Strategy: By supporting major policy reforms in the agricultural, trade and investment, and financial sectors, the Structural Adjustment Program (SAP) will contribute to the Mission's strategy of promoting rapid and sustainable economic growth. In particular, the program will stress support to the agricultural and financial sectors in order to increase investment and trade levels. Policy reforms in these sectors are vital to achieve the projected GDP growth targets in the Mission's new CDSS.
- B. Relationship to A.I.D. and Other Donor Activities: The SAP will constitute the prime policy dialogue program during the Action Plan period. It will be complemented and supported by projects which provide assistance to the GOH to implement reforms leading to an improved investment climate which will increase productive activity in the agricultural and private sectors. The closely linked Policy Analysis and Implementation Project (522-0325) is the channel for delivering assistance to policy makers, for analysis and design of policy reform measures, and for implementing reforms. Other USAID supported initiatives such as the Investment and Export Development Project (522-0312) and Small Farmer Organization Strengthening II (522-0383) will focus efforts on increasing investment and production through project specific interventions. In addition, the policy reforms sought through the Self-Help Measures of the PL 480 Title III program will address constraints to improved performance of the agricultural sector.

The SAP will be closely coordinated with other donor activities to ensure a congruence of the USAID transition from stabilization to sectoral adjustment policies while the GOH maintains a strong stabilization program. Although the USAID will continue to monitor GOH

stabilization policies, the IMF is expected to continue to be the donor with primary responsibility in this area. The agricultural sector component of the SAP will be closely coordinated with World Bank and IDB agricultural programs. Our emphasis on land tenure issues will complement that support since this is an area they are reluctant to address. Likewise, the financial sector component will be coordinated with the World Bank to improve the performance of this sector. To date, collaboration has been excellent between the USAID and the IMF, World Bank, and IDB.

- C. Relationship of Project to Overall A.I.D. Policy Objectives: This program is the centerpiece of the USAID's policy dialogue agenda. It directly responds to the Central American Strategy objectives of adopting more market-oriented, market-directed policies which lead to rapid, sustainable growth. The strategy calls for stimulating private sector trade and investment through regional and bilateral policies and programs. The SAP will support this strategy through its focus on improving sectoral policies relating to: (1) trade liberalization, (2) investment promotion, (3) improved financial sector policies, and (4) improved land tenure. Deep sectoral reforms which address the policy, legal, regulatory and administrative barriers to private sector-led growth will be fundamental to achieve the program's objectives.
- D. Project Description: The program's goal is to promote broad-based and sustainable economic growth. The program's purpose is to (1) increase medium and long-term capital investment and lending; and (2) increase export earnings and overall trade levels, particularly in the agricultural sector. It also will facilitate the private sector's response to improved policies. The Program will be structured with a multiyear approach to policy reform and the planned three year period of implementation will facilitate an ongoing policy dialogue process with key GOH policy makers through the 1993 national elections and the 1994 transition to a new democratically elected government. The SAP will address policy constraints in the following areas:
1. Agriculture: This component will improve sector production and productivity levels through removal of relevant sectoral policy constraints as outlined in the USAID's approved Agricultural Strategy Document presented in AID/W last year. Key reform initiatives to be supported under this component will include: revisions of current land use regulations which will result in improved land tenure security for producers; continued liberalization and removal of price and trade controls for all agricultural inputs and products; and increased producer access to credit, agricultural inputs and technology.
 2. Trade and Investment: This component will increase overall trade and investment levels by addressing key sectoral policy changes. Examples of policy initiatives that will be pursued include: modifications of the investment code and regulations which will promote additional domestic and foreign investment in

Honduras; and continued progress towards a transparent, low and uniform customs duty system that contains no exonerations, surcharges or hidden import taxes.

3. Finance: Work in this component will be based on the results of the Financial Sector Assessment. It will support deep financial sector reforms which will improve the availability of medium- and long-term capital for viable investment projects. This will entail reforms which promote competitive determination of interest rates, increased competition among lenders, and improved supervision of the financial system.

The reforms promoted by the Program will be gender-neutral, benefiting men and women equally. During the design of the Program, the Mission will examine the gender-specific impacts of each of the policy initiatives or reforms proposed and assure that their positive impact on women is maximized.

E. Planned Implementation Arrangement: This Program will provide fast disbursing assistance in support of major policy improvements and sector specific structural reforms. Funds will be disbursed on a cash transfer basis in response to satisfactory performance against the policy reform schedule negotiated with the GOH.

F. Sustainability of Proposed Activities: The implementation of sound economic policies is expected to continue after this Program is completed. Once the short-term transitional difficulties associated with an adjustment program are overcome, the benefits of sound policies will provide a strong incentive for their continuation by the GOH with strong support from the private sector. The benefits include higher growth, investment, exports, and employment.

G. Mission Management Role: The SAP will be managed by the USAID's Office of Economic and Program Analysis (EPA). The EPA office will track performance made by Honduras against the Program's policy agenda with support and substantive input from the USAID's Offices of Rural Development and Private Sector Programs. The key counterpart entity for the program will be the GOH's Economic Cabinet (specifically the Ministries of Finance, Natural Resources, and Economy) and the Central Bank of Honduras.

H. Potential Issues and/or Innovative Program Approaches: With this Program the USAID will complete the transition to a sectoral policy reform strategy. The policy agenda for each sectoral initiative will need to be carefully defined and negotiated with the GOH and developed in close collaboration with the other major donors. The Program will be implemented over a three year period (FY 1992-94). The Program's multiyear funding mechanism and policy approach are innovative and represent a departure from a traditional one-year initiative.

OBJECTIVE: Promote of Broad-Based Sustainable Economic Growth

SUBOBJECTIVE: Encourage Economic Policies that Promote Trade, Investment, Productive Employment, and Export-led Economic Diversification and Response by the Private Sector to a Favorable Policy Environment

PROJECT TITLE: Policy Analysis and Implementation (Amendment No. 2)

PROJECT NUMBER: 522-0325

FUNDING (\$000):		FY 1992	Amendment	LOP
		\$4,300	\$20,000	\$36,350
TYPE OF FUNDING:	Authorized LOP	FY 1992	Amendment	LOP
	ESF \$7,000	\$3,000	\$ 4,000	\$11,000
	PSEE \$4,000	\$2,300	\$ 6,000	\$10,000
	FN \$5,350	\$4,000	\$ 10,000	\$15,350

A. Consistency of Project with Mission Strategy: This project provides the technical support needed to implement the policy reforms outlined in the SAP in the areas of structural adjustment and sectoral reform which will lead to broad-based sustainable economic growth. The project is key to implementing policy changes which will result in increased trade and investment, improved agricultural policies, and deep financial sector reforms. It responds to the approved Agricultural Sector Strategy.

B. Relationship to A.I.D. and Other Donor Activities: The Policy Analysis and Implementation Project (PAIP) is an integral part of the USAID's use of program and project resources to support and deepen GOH economic policy reforms. The Structural Adjustment Program (SAP) provides quick-disbursing assistance in support of sound sectoral policies. The PAIP is the implementation arm of the SAP and provides the technical assistance required to analyze policy options and to carry out the reform measures. The policy framework established by the SAP and PAIP will facilitate the successful implementation of other USAID projects such as the Investment Export Development Project (522-0312), which addresses specific nonpolicy constraints related to trade and agricultural investment. Furthermore, the changes sought by this project are fully supportive of and complementary to financial, agricultural, and macroeconomic programs proposed by the World Bank, the International Monetary Fund (IMF), and the Inter-American Development Bank (IDB).

C. Relationship of Project to Overall A.I.D. Policy Objectives: The policy measures to be implemented through the project are essential to achieving the broad-based, sustainable economic growth objective of the Central American Strategy. The aim of this project is to provide the technical support for sound policy interventions at the macroeconomic and sectoral levels which promote economic growth through increased private investment, trade, production and exports. These are areas specifically targeted in the new regional strategy. The emphasis on free markets and broad-based economic growth is reiterated in the Agency's Statement of

Mission. In addition, the project is fully consistent with the Agency's policy of Financial Market Development PAIP support of the financial sector calls for the stabilization and rapid development of the Honduran financial sector toward an efficient, deep and integrated system. The amendment will support the implementation of reforms to increase tenure security and increase market information in the agricultural sector.

D. Project Description: The goal of the project is to promote broad-based sustained economic growth. The purpose of the project is to strengthen Honduran capacity to formulate and implement economic policies and related reforms. During the amended ten year life of project, the PAIP will back up the policy dialogue by providing the GOH and the private sector with the technical expertise needed to advance in the policy dialogue areas identified in this Action Plan -- sound economic policy, increased trade and investment policies, improved agricultural policies, and deep financial sector reforms. The project will do this through expansion of the three components of the project: the public sector, agricultural, and private sector components.

The public sector component will continue to encourage sectoral and structural reforms. It will provide support for improved decision making at the highest levels of the GOH, including the Economic Cabinet and the Central Bank. A major effort of the amended project will be to establish a policy analysis group for the Economic Cabinet to assist in the design and implementation of economic policy. Its activities will span monetary, fiscal, trade, investment and financial policies. It also will advise the economic authorities on the administrative reforms needed to efficiently carry out improved economic policies. The policy areas of emphasis will be identical to the reforms pursued under the SAP. Initially the policy analysis group is expected to consist of Honduran and expatriate advisors. As the group proves its usefulness and as new postgraduate economic trainees financed by the PAIP return to Honduras, the group is expected to become a permanent advisory unit to the Economic Cabinet.

The private sector component will continue to support quality research contracted and managed by private sector entities. In addition, the private sector component of the PAIP will support the liberalization and deepening of financial markets by providing private sector groups with the technical assistance required to analyze and recommend macroeconomic, trade, investment, and financial sector policy options, carry out priority reform measures, and improve the efficiency of financial and regulatory institutions to enable them to mobilize and efficiently allocate the domestic resources needed to finance private sector led economic growth. The above objectives will be accomplished through project efforts focussed on the identification, adoption and implementation of policy reform objectives, the development of a comprehensive legal code for the financial system that enforces contracts and promotes efficiency and competition and advocates more transparent lending practices. This will be accomplished through collaboration with the Honduran Council for Private Enterprises (COHEP), financial institutions and the Superintendency of Banks. The project also will provide assistance to the Superintendency of Banks to improve its regulatory and supervisory capabilities. Assistance will be

provided to the Central Bank to improve its procedures related to the operations of financial institutions and markets, including the evolving capital market.

The agricultural sector component of the PAIP provides the technical expertise needed to carry out broad-based policy reforms in accordance with USAID's approved Agricultural Sector Strategy. This component will be crucial in supporting one of the most far-reaching policy reforms sought by the SAP — improvements in land tenure security to permit fee-simple titling, land rentals and land transfers. In addition, this component of the PAIP will continue to build on progress in improving price and trade policies, land and natural resource use, and administrative reforms. Resources provided under this amendment will enable agricultural institutions to respond favorably to policy reforms prompted by the SAP, including privatization, improved rural finance mechanisms, and administrative reforms.

The role of women and the effects of policy reform on this group will be taken into account in the implementation of the project. Agricultural surveys undertaken by the project will assess the extent of female participation in the agricultural sector and determine gender-specific impact of policy change. Women will continue to benefit from the training opportunities provided under the project for both long-term training and specific technical training.

	Amount (\$000s)		
	<u>A. I. D.</u>	<u>GOH</u>	<u>TOTAL</u>
Technical Assistance	10,350	0	10,350
Training	4,420	0	4,420
Commodities	1,630	0	1,630
Institutional Support	3,300	19,500	22,800
Evaluation	300	0	300
Total	20,000	19,500	39,500

E. Planned Implementation Arrangements: The project will be implemented by GOH agencies and private sector groups. Key counterparts will be Ministries of Finance and Natural Resources, the Economic Cabinet, and the Central Bank. In addition, the Ministry of Economy, the National Agrarian Institute, the National Cadastre Office will also be implementing institutions. The Honduran Council for Private Enterprise and the Honduran Bankers Association will implement private sector activities. An amendment to the existing bilateral Project Agreement will be used to obligate funds for these activities. A.I.D. will manage the procurement of technical assistance, training, and commodities for the project.

F. Sustainability of Proposed Activities: To the extent possible, project activities such as cadastre systems, land titling, and land registry will be financed by user fees. It is anticipated that initial in-country financial training will be funded by the project, but may become user financed after the execution of the first phase. Other project interventions such as the establishment of a policy advisory group and

assistance to the Superintendency of Banks will permanently improve the efficiency of government operations.

G. Mission Management Role: The Project will continue to be managed by three offices - Rural Development, Private Sector Programs, and Economic and Program Analysis - each with responsibility for a separate component. Each office will assume overall responsibility for implementation of its respective component.

H. Potential Issues: The sizable local currency requirements of sectoral adjustment in Honduras raise concerns over adequate budgets being provided in support of GOH agencies charged with implementing the reforms. Effective achievement of the financial sector reforms will require modification in practice and beliefs of lenders in addition to the central level policy changes which the project may be find difficult to obtain.

OBJECTIVE: Promote Broad-Based Sustainable Economic Growth

SUBOBJECTIVE: Accelerate Opportunities for increased participation in the economy by the disadvantaged.

PROJECT TITLE: Small Farmer Organization Strengthening II (SFOS II)

PROJECT NUMBER: 522-0383

FUNDING (\$000): FY 1992 \$2,100 LOP \$7,000

TYPE OF FUNDING: FN \$7,000

A. Consistency of Project with Mission Strategy: The Small Farmer Organization Strengthening II (SFOS II) Project conforms to USAID's objectives stated in the CDSS of increasing participation in the economy by disadvantaged groups. Its strengthening of small farmer financial markets also advances the broadly-based, sustainable economic growth and promoting a stable democratic society strategic objectives. The approved Agricultural Strategy identifies both access to financing technologies and markets as major constraints to improved agricultural performance in the Honduran agricultural sector. The Project addresses this development impediment through strengthening the rural agricultural cooperatives and credit unions to deliver, at market prices, improved input supply, marketing, processing and financial services to their members. This is essential to capitalize on the anticipated macro and sectoral policy reforms and achieve the USAID's objectives in the agricultural sector. The result will be greater sharing of benefits by those population segments which currently have limited access to the economic system.

B. Relationship with other A.I.D. and Other Donor Policies: The SFOS II Project continues and expands upon efforts begun under the original Small Farmer Organization Strengthening Project. The new project seeks to continue the development of private sector, farmer cooperative alternatives to governmental agricultural input supply, agricultural credit, coffee processing, technical assistance and training services. Furthermore, the SFOS II Project will have strong linkages to other USAID activities aimed at strengthening the Honduran agribusiness and financial systems. Many of the Project's beneficiaries receive specific support under the USAID-financed Irrigation Project and the Investment and Export Development Project. The SFOS II Project also supports the policy reforms sought under the Structural Adjustment Program and the agricultural and private sector components of the Policy Analysis and Implementation Project. It will improve farmer access to services and financing from market driven cooperative businesses which will enable farmers to take advantage of anticipated changes in GOH pricing and land access policies which discourage agricultural production and investments in productive agricultural infrastructure, impede the development of rural land markets and the deepening of rural financial markets. The SFOS II Project also complements a project funded by the European Economic Community (EEC) which

is working with cooperatives as well as the World Bank and the Inter-American Development Bank (IDB) multilateral programs in the financial and agricultural sectors.

C. Relationship of Project to Overall A.I.D. Policy Objectives: The Project is fully consonant with the Central American Strategy it will emphasize the broad-based, sustainable economic growth by encouraging greater opportunities for increased participation in the economy by the disadvantaged. It directly relates to the need expressed in the strategy to stimulate agricultural production and trade by promoting technology improvements, agribusiness development, increased agribusiness inputs and by supporting a more rational allocation of credit to farmers to acquire productive inputs. In addition, the Project is in accord with Agency policy on Local Organizations in Development which encourages the use of local groups such as cooperatives in private sector development and technology transfer.

D. Project Description: The goal of the Project is to promote broad-based sustainable economic growth, by increasing agricultural productivity and employment and to generate foreign exchange. The purpose of the Project is to increase participation in the economy by the disadvantaged by the efficient delivery of agricultural inputs, processing, marketing and financial services to farmers. During its five year period of implementation, the Project will achieve its purpose through strengthening agricultural cooperative businesses and rural credit unions and will focus primarily on the agrarian reform and coffee cooperatives in order to take advantage of anticipated GOH pricing and land access policy changes. Concentrating efforts on these groups will enable the achievement of the Mission's targets for growth in the agricultural sector, allow for the implementation of mechanisms to promote the development of rural land markets, and help make coffee quality and marketing improvements which will enable the country to generate increased foreign exchange.

The Project will enhance the capability of the Financial Development Fund (FDF), the implementing institution, to stabilize rural agricultural cooperative businesses and credit unions. Increased production, employment and foreign exchange earnings will be a result of improving the operations and financial positions of an estimated 35 additional agricultural cooperative businesses affiliated to the Union of Agricultural Service Cooperatives (UNIOCOOP), the Association of Honduran Coffee Producers (AHPROCAFE), the Federation of Agrarian Reform Cooperatives (FECORAH), the National Association of Campesinos of Honduras (ANACH), and the National Union of Campesinos (UNC). The Project also will support the deepening of rural financial markets by continuing to strengthen 40 rural credit unions.

Inputs required to achieve the objectives outlined above include technical assistance, training, commodities and complementary local currency resources to finance institutional support and financial stabilization activities. The technical assistance will focus on agribusiness cooperative development, rural financial services development and information management. Training activities will include techniques for improving financial administration and technologies related to production and marketing.

These activities will continue to promote an increased role for women in decision-making in credit unions and cooperatives. At present women constitute 30 percent of the managers and 38 percent of the membership of credit unions that will benefit from the Project. Strengthening the credit union system will provide women with increased access to resources and to influence the allocation of such resources.

	Amount (\$000s)		
	A. I. D.	GOH	TOTAL
Technical Assistance	4,150	0	4,150
Commodities	1,500	0	1,500
Training	1,150	0	1,150
Institutional Support	0	4,650	4,650
Financial Stabilization	0	4,875	4,875
Evaluation	200	0	200
TOTAL	7,000	9,525	16,525

E. Planned Implementation Arrangements: The Project will be executed through a bilateral project agreement with the GOH. A private sector institution, the FDF, will be the Project's primary implementing agency; however, the Project may provide some grants directly to Private Voluntary Organizations. USAID will continue to manage the technical assistance being provided under the Project, but the FDF will be responsible for commodity procurement and training using host country contracting regulations.

F. Sustainability of Proposed Activities: It is anticipated that the FDF will be financially self sufficient by 1994 from margins generated from its credit fund and from financial stabilization placements initiated under the SFOS Project. In selecting the participating cooperatives, priority will be given to those cooperatives which have a high likelihood of becoming viable businesses in the short term.

G. Mission Management Responsibilities: The Mission will monitor the FDF's activities and the general performance of the agricultural cooperative and rural credit union sectors. The Mission will assign one USDH to manage the Project who will be assisted by a USPSC and a FSNPSC Project Management Team.

H. Principal Issues: The primary issue revolves around the feasibility of working with reform sector cooperatives in the five year time frame of the Project. A secondary implementation issue is the method of implementation; the Project design will explore the option for making direct grants to PVOs and second level organizations for feasibility studies, pilot projects and training.

OBJECTIVE: Develop a Stable Democratic Society

- SUBOBJECTIVES:
1. Strengthen Competent civilian government institutions that merit the confidence of political and military leaders, citizens, and investors.
 2. Encourage Pluralism tolerance of opposing views and support for democratic values on the part of non governmental bodies including the press, community organizations, labor unions and business associations.

PROJECT TITLE: Strengthening Democratic Institutions (Amendment No. 2)

PROJECT NUMBER: 522-0296

FUNDING:(000s)		Amendment	Planned LOP
		\$5,000	\$21,000
TYPE OF FUNDING:	Authorized LOP	Amendment	Planned LOP
	ESF \$14,300	\$5,000	\$19,300
	PSEE \$ 2,200		\$ 2,200
	\$16,500	\$5,000	\$21,500

A. Consistency with Mission Strategy: The project is consistent with the Mission's strategy to continue to strengthen the judicial, the legislative and the national electoral systems and to provide democratic leadership training.

B. Relationship to A.I.D. and Other Donor Activities: This is a three-year amendment to an ongoing project which is scheduled to terminate in August of 1992. The amendment will provide financing to support the Honduran national elections set for November of 1993, cover shortfalls in funding under the current project, and permit expansion of activities within existing project components. Centrally funded A.I.D. projects address journalism, advanced legal training and a number of specific democratic training opportunities. Support from RAOJ complements the bilateral efforts with the Judicial School. Under the Judicial component, cooperation with ICITAP will be necessary as will coordination with agricultural land reform efforts supported under the Policy Analysis and Implementation Project Amendment. Mission projects in Municipal Development, CLASP and RTAC-II and the proposed FY 1993 Accountability Strengthening Project also support the overall Bureau objective.

C. Relationship to Overall A.I.D. Policy Objectives: The project and this amendment are fully consonant with A.I.D. and LAC Central American Strategy objectives. This amendment will support directly major objectives contained in the Bureau's Central American Strategy for the development of stable democratic societies. These include improving the administration of justice through increasing the independence, professionalism and effectiveness of the judiciary; strengthening electoral and legislative processes and institutions; and fostering pluralism and civic participation in general.

All Honduran citizens, men and women alike, are expected to benefit from the project. We have no indication that the deficiencies in the judicial, congressional, electoral or democratic leadership components are biased by sex. However, in developing the amendment, work on each component will include a detailed analysis to verify whether the apparent lack of bias and barriers is still true and whether specific improvements for women can be defined that can be achieved by the Project.

D. Project Description: The project's goal, to strengthen Honduran democracy, remains the same. The purpose also remains the same: To improve the capability of key national democratic institutions (the Judiciary, the Congress, and the National Elections Tribunal/National Registry of Persons); to improve local political leadership; and to increase the knowledge and participation of the Honduran populace in the democratic process.

The SDI Project has four components:

- 1) Legislative Enhancement - Project activities for this component have been concentrated on establishing a Center for Legislative Research and Studies (CIEL) and on automating the administrative systems of the Congress.
- 2) Administration of Justice - Experimental Justice of the Peace, Public Defender, and Public Prosecutor Programs have been initiated under this component. Work also has begun on implementing the Judicial Career System, reorganizing and strengthening the system's administrative functions, managing the new Judicial School, and establishing a compendium of legal decisions.
- 3) Electoral Support - The Project has been working with the National Electoral Tribunal/National Registry of Persons to automate and cleanse the Civil Registry. The Project also provided commodity support to the GOH during the last election.
- 4) Democratic Leadership Training - The Project has financed the activities of the American Institute for Free Labor Development (AIFLD) in providing leadership and economics training to trade union and agricultural cooperative members in Honduras.

This amendment will support activities which will be continued from the original Project. It also will fill in gaps under existing components as USAID further refines and sharpens its DI program. The following activities are envisioned for inclusion in the amendment:

The Congress: The committee system will be strengthened and the sale of computerized compendia of the law could establish a revenue source for the Congress. Additional activities in support of the CIEL will be included.

The Court: Support will be provided to automate a National Property Registry in conjunction with the National Cadastre. Property registry transactions are one of the highest volume activities of the court,

consuming excessive administrative time, and making transactions very difficult for individuals who cannot afford a lawyer to help them. The amendment also will work to help shorten case processing time by providing management studies showing how judicial personnel could be more efficiently organized. In the area of criminal prosecution, scene of crime manuals and evidence handling procedures will be developed to insure the integrity of the crime scene and the chain of evidence. The latter activity would be carried out in conjunction with ICITAP.

Case tracking and documenting systems will be introduced from the higher courts down through the Departmental Courts. Centralized case tracking will be introduced through an expanded automation system. In the area of programming and budgeting, funds will be provided to study fully needed improvements in the judicial system so that budget presentations reflect the Court's budgetary requirements for equipment, training, and personnel. The latter activity will be coordinated with the Latin American Institute of the United Nations for Crime Prevention and Treatment of Criminals (ILANUD).

The National Election Tribunal/National Registry of Persons: The TNE recently submitted, and USAID is considering, a detailed request for USAID financing of an intensive (1991-93) cleansing of the National Registry files. This cleansing will produce accurate data on all persons over 18 before the 1993 elections. It is possible that the system can also be adapted to indicate detention and military induction which would greatly reduce the number of "missing" people reported to the human rights' groups.

Democratic Leadership/Civic Participation: Activities under this component will be expanded to promote and strengthen pluralism. In addition to ongoing leadership training for labor leaders, the amendment will support PVOs working in other areas of democratic education and activities, such as legal aides. Civic education curricula and the introduction of classroom democracy (modeled after the New School in Colombia) will be developed for primary and secondary schools. Lecture series will be sponsored for both the University and public fora.

	<u>Input</u>	<u>Amount (\$000s)</u> <u>A. I. D.</u>	<u>GOH</u>
Technical Assistance	1,750	262.5	2,012.5
Training	750	112.5	862.5
Commodities	700	105	805
Institutional Support	1,300	195	1,495
Democratic Leadership	500	75	575
TOTAL	<u>5,000</u>	<u>750</u>	<u>5,750</u>

E. Planned Implementation Arrangements: The judiciary and legislative components will probably continue to be carried out by a contractor. Update of the registry will be managed directly by the Mission. Commodity support for the elections will be handled by the National Election Tribunal (TNE) with support of a PSA. Voter education in connection with the elections will be contracted locally. Democratic leadership training and

local civic education will be accomplished through PVOs and local institutions. Civic education in the schools will be managed through the Ministry of Education using local consultants.

F. Sustainability of Proposed Activities: Sustainability prospects vary by component. The biggest threat to sustainability of gains in the judicial system is budgetary resources. For this reason a strong budget planning system will be built into this component. In the Congress, the biggest threat to sustainability also is local budget resources to maintain the CIEL. Since Congress has the ability to allocate itself sufficient funds, education of the Congressional members and efforts to encourage regular use and reliance on the CIEL system will begin as soon as it is functioning (November 1991), so that by the 1993 elections it is an accepted part of Congressional activity. In the National Registry, once the historical records have been cleansed, there will need to be continued political consensus on the methodology for regular updating of the records. Planning for regular updating will begin in 1992.

G. Mission Management Role: This amendment will be managed by the Human Resources Development Office within existing USDH staffing levels. In the case of the Court and Congress components, the Mission is already giving more autonomy to the technical assistance contractor. In the case of the National Registry, the elections, and the political parties, the Mission will play a direct management role.

H. Potential Issues and/or Innovative Program Approaches: Civic education in the schools and the general public needs to be improved greatly. Innovative approaches such as classroom elections, games, local and national competitions and teacher awards will be investigated.

Better coordination between the judiciary and the police to improve both the quality and timeliness of judicial arraignment and prosecution may require attendance of the police at seminars/courses. While these courses will principally be directed at and implemented by the judiciary, inclusion of even a few police raises the question of how to finance their participation without violating Section 660 of the FAA.

OBJECTIVE: Develop a Stable Democratic Society

SUBOBJECTIVE: Strengthen Competent civilian government institutions that merit the confidence of political and military leaders, citizens, and investors.

PROJECT TITLE: Strengthening Accountability Systems

PROJECT NUMBER: 522-0381

FUNDING:(\$000s) FY 1993 LOP
 1,000 1,000

TYPE OF FUNDING: EHR

A. Relationship to A.I.D. Country Strategy Objectives: Based on the lessons learned from the successful Controller General of the Republic Project, the proposed project will contribute to improving the efficiency of GOH delivery systems and the more rational and efficient use, control and accountability of government financial resources. Improved accounting, auditing, and information systems which will result from this project will complement A.I.D.'s support to the GOH economic stabilization and structural reform program and will help ensure the sustainability of economic reforms.

B. Conformance with Agency and Bureau Policies: Since the advent of the LAC Regional Financial Management Improvement Project, the Bureau has emphasized the importance of strengthening financial management practices as a means to improve the accountability, efficiency, and responsiveness of government services. To this end, USAID/Honduras established a project with the Controller General of the Republic which is helping to put in place modern auditing systems and practices and to train personnel in how to apply them. This project will contribute to the evolution of Honduras as a more stable democratic society by strengthening the GOH's accountability for its programs. The strengthening of the Controller General and other GOH entities will promote honesty and efficiency in government by helping Honduras develop improved accountability systems. It also will help to make government decision making more transparent. The new Project is fully in line with the Bureau's Central America Strategy which calls for promoting honesty and efficiency in government through transparency of decision-making processes and heightened accountability of civil service structures.

C. Project Description: The purpose of the project is to improve public sector accountability. The project will continue the process of institutional strengthening of the Honduras Controller General initiated under the Assistance to the Controller General Project (522-0338). The Controller General has revised its administration procedures, trained its staff in government administration and finance, governmental accounting and financial auditing and has established basic audit standards and guidelines for performing financial audits. This project will provide technical assistance, training and commodities required to enable the Controller

General to improve and expand audit coverage, and audit follow-up as well as assist other GOH centralized and decentralized entities in improving their ability to perform internal financial and operational audits. The project's strategy will be to concentrate on building an audit supervision capability and on improving skills and systems by carrying out actual field audits under the guidance of the technical assistance team. The project will strengthen the GOH's standards for administration and financial control, which will improve government-wide accountability.

ANNEX F

Food Aid

PL 480 Title III. The PL 480 Title I Program represented a substantial contribution to the economic stabilization and structural adjustment efforts of the Mission in Honduras. With the revision to food aid made in the 1990 Farm Act, Title III grants are replacing Title I loans as a key element in achieving USAID objectives. Honduras qualifies fully for Title III resources. First, it has a per capita income of US\$483, placing it in the World Bank's Civil Works Preference Group (under US\$580). In addition, its average per capita daily calorie supply is less than 2,300 calories. Honduras cannot meet its food security requirements through domestic production or imports due to shortages of foreign exchange.

The Title III programs' policy conditionality and balance of payment support contributes substantially to USAID's goal of achieving broad-based, sustainable economic growth, especially in improving agricultural sector policies and the stimulation of private sector trade and investment. The Title III Self-Help Measures, the Structural Adjustment Program, and the Policy Analysis and Implementation Project's agricultural component will continue to be closely linked and mutually reinforcing.

The Title III program will be used to support a multiyear agricultural sector policy reform program. Self-Help Measures (SHMs) will be supported under the planned Title III programs. The added leverage of a Title III grant will allow strengthening SHMs aimed at: (1) liberalizing the agriculture price and trade structure; (2) improving efficiency of land use; and (3) providing farmers access to technology and markets through institutional reforms that make delivery systems more efficient. The FY 1991 Title III Program will concentrate on agriculture trade liberalization and institutional reform while the ESF program will deal with land use efficiency. Local currency generation will be used to support GOH efforts to restructure the agricultural sector and to facilitate GOH programs and private sector initiatives that support our Strategy Objectives. USAID recommends continuing to budget \$12 million annually for FY 1992 and FY 1993 based on current resources levels.

Food demand for Honduras has grown annually due to population growth. Agricultural production has not kept pace with that increased demand. Honduras will continue to import grains and other agricultural commodities for at least the next five years. A multimarket model developed for Honduras in December 1990, predicted that wheat demand in Honduras will grow by 4% for calendar year 1991, and that feed grain imports will continue to grow for the next five years -- even under the most favorable macroeconomic and sectoral policy conditions for domestic production.

Title III will remain a critical program in supporting USG development objectives for Honduras given that: Honduras must import substantial volumes of food and agricultural commodities; there is widespread malnutrition; severe balance of payment deficits continue; real income dropped drastically in 1990 due to structural reform measures; net international capital flows are negative; and that DA and ESF resources are under increased pressure.

The following table shows the Title III requirements during the Action Plan Period:

PL-480 Title III Requirements

(Dollars in Millions, Metric Tons in Thousands)

COMMODITIES	Estimated FY 1991		Estimated FY 1992		Estimated FY 1993	
	\$	MT	\$	MT	\$	MT
Wheat	14.0	92.5	12.0	78.6	12.0	78.6

PL 480 Title II. For the last decade, the Title II program in Honduras has consisted of maternal and child health and school feeding programs designed and managed almost completely by U.S.-based PVOs. In 1990, the new government formed an interinstitutional food committee composed of the MOH, JNBS, MOE, A.I.D. and MOF. This committee has been extremely active. The government is now playing a substantial role in planning, managing and evaluating this resource. CARE, the PVO managing the program, played a critical role in turning over increasing responsibility to government agencies. The committee asked for and received extra food in 1990 to monetize in support of improvements in the feeding programs and of innovative new projects such as the mother's cooperative/day care center activity based on the Colombia and Venezuela models.

For FY 1991, the authorized food level was 17,387 metric tons with an approximate value of \$7.3 million (including shipping costs), 72% of this will be used for the Maternal Child Health (MCH: 56%) and School Feeding (SF: 16%) programs managed by CARE. In addition, approximately 7% of this assistance will be used to support CARE's Food-for-Work Program, which combines monetized food and food rations to support community infrastructure activities. The GOH will use funds from monetized food (approximately 20% of programmed levels), to support the school feeding and MCH programs as well as to provide support for community child care centers and women's cooperative enterprises. USAID expects to maintain the authorized dollar level of \$7.3 million for these programs. Below is a summary of our requirements:

Title II Requirements

(Dollars in Millions, Metric Tons in Thousands)

PROGRAMS	FY 1991		FY 1992		FY 1993	
	\$	MT	\$	MT	\$	MT
MCH	4.1	6.7	4.6	6.7	4.6	6.7
SF	1.2	2.8	1.2	2.8	1.2	2.8
FFW	0.3	0.5	0.3	0.5	0.3	0.5
MONETIZATION-CARE FFW	0.2	1.2	0.2	1.2	0.2	1.2
MONETIZATION-SF & MCH	1.5	7.3	1.7	7.3	1.7	7.3
TOTAL	7.3	26.5	8.0	26.5	8.0	26.5

In addition, the USAID plans to request additional food to support a targeted food coupon program as part of the government's social safety net program to ameliorate the impact of economic reforms on the poorest strata of Honduran society. The GOH, with the advice of World Bank and A.I.D. technical assistance, decided to use food coupons, directed at specific groups, rather than subsidies of basic foods to reach the most vulnerable groups. The GOH's first food coupon program, directed at single heads of household with children attending primary school, has been functioning for several months in its pilot stages. The World Food Program has agreed to finance an expansion of this program through monetization of commodities. USAID is proposing to support two additional food coupon programs which target the same two beneficiary groups that Title II feeding programs target. The coupons will be distributed through Ministry of Health, health centers to pregnant and lactating mothers and malnourished children under five and through the Ministry of Education to primary schools in low income areas. When fully functioning, the program should reach approximately 300,000 beneficiaries.

ANNEX G

ENVIRONMENTAL MANAGEMENT

LAC Instructions: Scale indicator based upon an assessment of a country's environmental and natural resource policies and institutions. LAC/DR/E has provided preliminary overall scores for each country. As an annex to the Action Plan, Missions are requested to provide their own numerical evaluations to each question using the below scale. Concise information supporting the Mission's scoring should also be provided. LAC/DR/E will use the provided information to assessing final scores. The sum of the ten individual question scores divided by 4 yields the overall score, which has a maximum of 10.

Question scoring guide:

- 4= Comprehensive policies, programs and institutions are in place and effectively implemented.
- 3= Intermediate between 4 and 2.
- 2= Policies, programs and institutions exist, but coverage maybe incomplete and/or implementation is only moderately effective.
- 1= Intermediate between 2 and 0.
- 0= Policies, programs and institutions may exist, but coverage incomplete and/or implementation is ineffective.

Environmental Questionnaire:

USAID/H Score

- 1 (a). Has the government established effective coastal zone management laws and programs that promote the sustainable development of this environmentally sensitive and economically important area?

Comment: The GOH has several laws affecting coastal zone management, but the current situation is confusing, particularly with respect to use of coastal lands for shrimp production. A review of all laws and policies concerning natural resource management is underway.

- 2 (b). Are there forest management laws and programs that ensure sustainable use/production of forest resources and socioeconomic benefits for local communities (e.g., extractive reserves)?

Comment: With respect to pine forest, substantial progress towards sustainable management has been made (and continues) primarily due to USAID/GOH bilateral efforts. GOH and Canada are working on broadleaf areas. Social forestry activities are underway.

1.3 (c)*.

- c.1: 1 Does the government address agrochemical use problems?
- c.2: 1 Are pesticides subsidized?

- c.3: 2 Is there a government or private quality assurance program in place to ensure that pesticide-residue limits are not exceeded on agricultural exports?

Comment: There is very little GOH attention to pesticide management. USAID and ROCAP are involved in integrated pest management research and training, as are FHIA and FEPRO in the private sector.

1 (d).

- d.1: 2 Does the government have incentives for sustainable agricultural practices?
- d.2: 1 Is land use planning used as a tool to guide agricultural development?
- d.3: 0 Are there appropriate incentives (e.g., property taxes, water user fees, etc.) to promote intensive, rather than extensive use of prime agricultural land?

Comment: There has been slow movement toward improvements in land use planning, but interest is growing as demonstrated by more land titling and delineation activities.

.8(e).

- e.1: 0 Are environmental health issues being addressed by policies and programs that control water and air pollution, and that promote sanitation and sewerage systems?
- e.2: 1 Are environmental monitoring programs (eg. water quality monitoring) in place?
- e.3: 1 Are water and sanitation programs linked to health and hygiene education?
- e.4: 1 Is solid waste efficiently collected and disposed of in approved landfills?

Comment: Water and air pollution control issues have received little more than lip service to date. However, there is increasing interest on part of GOH and university/environmental communities. The city of Tegucigalpa, for example, is almost devoid of any waste treatment facilities, but has a fairly acceptable solid waste collection and disposal system. The MOH and SANAA are making renewed efforts to include health education activities in rural water and sanitation programs.

3.5(f).

f.1: 4 Are there programs/policies for watershed management, and are environmental assessments done to prevent watershed degradation?

f.2: 3 Are recommendations from such assessments effectively implemented?

Comment: There are numerous activities involving the GOH, NGOs, and various donor agencies, including USAID, which are directed at watershed management, natural resources conservation, etc.

3 (g). Are there environmental education (EE) programs, and are they provided for all education levels?

Comment: Several programs now include strong environmental education components, and EE is receiving attention in school textbooks issued by the Ministry of Education.

2 (h). Has the government established areas for parks and for the conservation of the country's biological diversity?

Comment: The GOH has delineated some thirty national parks and reserves. However, relatively few are receiving adequate budgetary and logistical support to date.

3 (i).

1.1 3 Is there a national environmental policy or conservation strategy?

1.2 3 Does the public, including both men and women, participate in environment and natural resource management and planning activities?

1.3 3 Are NGOs encouraged to be involved in environmental issues?

Comment: The current GOH administration has produced several acts and policies relating to conservation, and has established two organizations designed to further conservation objectives and promote public awareness and support for environmental concerns.

1 (j). Are there policies and programs to encourage efficient energy use (e.g., energy prices are not subsidized, private production is encouraged)?

Comment: Energy conservation initiatives are in a nascent stage in Honduras. However, adjustments have been made to the pricing system for fossil fuels, and there are activities underway to reduce demand for fuel wood, although scope and coverage are limited to date.

The GOH is negotiating a \$50.0 million project with the IDB for ENEE to improve the efficiency of the energy network and to reduce energy losses.

ENEE is also forming electrical cooperatives through the help of NRECA/CARES program. These cooperatives would be run by users and thus would reduce ENEE's involvement. In most cases ENEE would sell energy without being responsible for the overhead costs of maintenance.

1.0
2.0
1.3
1.0
.8
3.5
3.0
2.0
3.0
1.0
18.6

18.6/4 = 4.7

ANNEX H

BUSINESS REGULATORY ENVIRONMENT

Introduction: Scale indicator based on an assessment of business regulatory environment. Indicator has a maximum score of 5. Preliminary LAC/TI estimates, to be revised by LAC/TI once Missions respond to the following business regulatory environment questionnaire. Missions are requested to provide concise informative responses as an annex to the Action Plan.

- a. Q: Are private ventures permitted to compete on a fully equal footing with State Owned Enterprises or privileged groups? If not, what anti-competitive mechanisms are used?
- A: Competition between state-owned enterprises and private sector companies does exist in Honduras. Government-owned enterprises dedicated to basic services such as power, water, telecommunications, railroads and port facilities have little or no competition. The government also owns companies which produce products or services which compete equally with their private sector counterparts. These companies, which include hotels, manufacturers of tomato paste, and steel products, have begun to be privatized.
- b. Q: Does the country adhere to international standards for protection of intellectual property rights (e.g., patents, copyrights, processing and trade secrets)?
- A: Protection of intellectual property rights in Honduras is inadequate. There is no copyright law and the existing trademark law has serious deficiencies. Piracy of intellectual property is common.
- c. Q: Are foreign investors subject to any different treatment with respect to laws on ownership, employment, taxation, customs and judicial process than local businesses?
- A: Foreign investors are limited in their ownership rights for companies in several specific fields. In addition, there are specific legal limitations on employment of foreign workers and percentage of total wages paid to foreign as opposed to national employees.
- d. Q: How much time/effort/money does it take for new corporations to be formed and licensed?
- A: Establishing a new company in Honduras whether foreign or locally owned, requires about three months and the services of an attorney.

e Q: How much time/effort/money is involved in clearing customs for imports and exports (both inside and outside free trade zones)?

A: Customs clearance is very simple within the free zones and private industrial parks. Outside the parks the process is more cumbersome, but generally can be accomplished fairly rapidly.

f. Q: Is the country a signatory to a Trade and Investment Framework Agreement, Bilateral Investment Treaty and/or OPIC Agreement with the United States? How have these functioned?

A: Honduras is a signatory to a Trade and Investment Framework Agreement initiated under the Enterprise for the Americas Initiative, but this is so recent that there is no operating history as yet. The GOH also signed an Agreement for the Guarantee of Private Investment in 1955 and an Agreement on Investment Guarantees in 1966. OPIC is also active in Honduras. There has been one case of expropriation of a U.S. investment which was satisfactorily resolved in 1990 after more than seven years of discussions. OPIC has paid claims for nonconvertibility and no longer offers this insurance in Honduras.

g. Q: Does the country have laws and/or policies which inhibit the free flow of capital internationally, including restrictions on capital and profit repatriation?

A: Honduran law permits the repatriation of capital and profits after four years from the date on which the company was registered with the government. Central Bank policies and the chronic shortage of dollars often result in long delays for authorizing these remittances.

h. Q: Are labor unions significantly influenced/controlled/financed by political parties or other outside interest groups? Are labor disputes handled in a clear, predictable and transparent manner?

A: Honduras' three key labor organizations are a reflection of the traditional political parties, which have donated funds to various union organizations. Some international labor groups actively work with Honduran labor, but unions are not "controlled" by these organizations. The two democratic labor organizations meet frequently with President Callejas and receive some benefits (e.g., loans for housing) from the government. Labor disputes are not predictable but are handled in a fair manner and at times, involve the participation of the President.

i. Q: Are property rights of both men and women clearly and fairly protected? Are legal disputes handled in a clear, predictable and transparent manner?

A: The legal system in Honduras is imperfect. Legal disputes tend to be long drawn out affairs, and there are frequent allegations of outside influence on legal decisions. There do not seem to be any differences in the handling of disputes related to gender, however, the legal system is not especially transparent or predictable.

j. Q: Are there other regulatory issues not covered above that are important to doing business within the country?

A: The critical problem of Honduras at this time is a chronic shortage of dollars to pay for necessary imports and debt service. Therefore, the regulations regarding allocation of foreign exchange assume increased importance. These rules have been subject to frequent changes which reduce predictability, limit long term risk-taking and place a premium on insider knowledge and contacts.

Mission Comment: The overall score of two which Honduras received is probably accurate, relative to the few threes given to other LAC countries. It is unlikely that the Honduras' business environment is better than the many other countries which have received a two but, likewise, it certainly deserves no less than a two. With efforts being made in revising the investment law, reforming the judicial system, and reforming the financial sector, Honduras deserves credit for its willingness to take on these major impediments to a more dynamic business environment.

ANNEX I

A C R O N Y M S

ABS	Annual Budget Submission
AHE	Asociación Hondureña de Ecología (Honduras Ecological Association)
AHROCAFE	Asociación Hondureña de Productores de Café (Honduran Coffee Producers Association)
AIFLD	American Institute for Free Labor Development
ANACH	Asociación Nacional de Campesinos de Honduras (National Association of Campesinos of Honduras)
ANDI	Asociación Nacional de Industriales de Honduras (National Industry Association of Honduras)
ASAP	Agricultural Sector Adjustment Program
ASHONFLAFA	Asociación Hondureña de Planificación Familiar (Honduras Family Planning Association)
AVANCE	Asociación de Promoción y Desarrollo Socioeconómico (Association for Promotion of Socioeconomic Development)
CA	Central America
CABEI	Central American Bank for Economic Integration
CACM	Central American Common Market
CADERH	Centro Asesor para el Desarrollo de los Recursos Humanos de Honduras (Advisory Council for Human Resources Development)
CAI	Central American Initiative
CARE	Cooperative for American Relief Everywhere
CARES	Central American Rural Electrification Survey
CBI	Caribbean Basin Initiative
CCC	Commodity Credit Corporation
CCIC	Cámara de Comercio e Industrias de Cortés (Chamber of Commerce and Industries of Cortés)
CDSS	Country Development Strategy Statement

CG	Consultative Group
CIEL	Centro de Investigación de Estudios Legislativos (Congressional Reference Library)
COHDEFOR	Corporación Hondureña de Desarrollo Forestal (Forestry Development Cooperation)
COHEP	Corporación Hondureña de la Empresa Privada (Honduran Council for Private Enterprise)
CPR	Contraceptive Prevalence Rate
DA	Development Assistance
DH	Direct Hire
DI	Democratic Initiatives
DOD	Department of Defense
DOJ	Department of Justice
DPT	Diphtheria, Pertussis, Tetanus
EAI	The Enterprise for the Americas Initiative
EEC	European Economic Community
EHR	Educational Human Resources
EMMA	Programa de Empresas Maternales (Maternal Enterprises Program)
EPA	Environment Protection Agency
EPZ	Export Processing Zone
ESF	Economic Support Fund
ESNACIFOR	Escuela Nacional de Ciencias Forestales (Natural School of Forestry Sciences)
EXIM	Export-Import Bank
FAAS	Foreign Affairs Administration Support
FDF	Financial Development Fund
FECORAH	Federación Hondureña de Cooperativas de la Reforma Agraria (Federation of Agrarian Reform Cooperatives)
FFW	Food for Work

FHIA	Fundación Hondureña de Investigación Agrícola (Honduran Agricultural Research Foundation)
FHIS	Fondo Hondureño de Inversión Social (Honduran Social Investment Fund)
FIDE	Fundación para la Inversión y Desarrollo de Exportaciones (Foundation for Business Research and Development)
FIU	Florida International University
FN	Food and Nutrition Funds
FN	Foreign National
FOPRIDEH	Federación de Organizaciones Privadas de Honduras (Federation of Private Development Organizations of Honduras)
FPX	Federación de Productores y Exportadores Agrícolas de Honduras (Honduran Federation of Agricultural Producers and Exporters Associations)
FSNDH	Foreign Service National Direct Hire
FSNPSC	Foreign Service National Personal Services Contract
FUSEP	Fuerza de Seguridad Pública (Public Security Force)
FVA	Bureau for Food for Peace and Voluntary Assistance (AID)
FY	Fiscal Year
GATT	General Agreement of Tariff and Trade
GDP	Gross Domestic Product
GOH	Government of Honduras
HCOLC	Host Country Owned Local Currency
HG	Housing Guarantee
HIG	Housing Investment Guarantee
HOPS I & II	Honduran Peace Scholarship Programs
HSII	Health Sector II
IBRD	International Bank for Reconstruction and Development (World Bank)

ICITAP	International Criminal Investigation Training Assistance Program
IDA	International Development Association
IDB	Inter-American Development Bank
IDI	International Development Intern
IED	Investment and Export Development
IESC	International Executive Services Corps
IFI	International Financial Institution
IHDECOOP	Instituto Hondureño de Desarrollo de Cooperativas (Institute for Cooperative Development)
IHMA	Instituto Hondureño de Mercadeo Agrícola (Honduran Institute for Agricultural Marketing)
ILANUD	Instituto Latinoamericano de las Naciones Unidas para la Prevención del Delito y Tratamiento del Delincuente (Latin American Institute of the United Nations for Crime Prevention and Treatment of Criminals)
IMF	International Monetary Fund
INA	Instituto Nacional Agrario (National Agrarian Institute)
INVA	Instituto Nacional de la Vivienda (National Housing Institute)
IRM	Information Resources Management, Bureau for Management (AID)
JNBS	Junta Nacional de Bienestar Social (National Social Welfare Board)
LAC	Bureau for Latin America and the Caribbean (AID)
LUPE	Land Use and Productivity Enhancement Project
MCH	Maternal Child Health
MDP	Municipal Development Project
MNR	Ministerio de Recursos Naturales (Ministry of Natural Resources)
MO	Office of Management Operations (AID);

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MOE	Ministry of Education
MOH	Ministry of Health (Ministerio de Salud)
MT	Metric Tons
NRECA	National Rural Electrification Cooperative Association
NED	National Endowment for Democracy
NGO	Non-Governmental Organization
NPD	New Project Description
OE	Operating Expenses
OPIC	Overseas Private Investment Corporation
OETF	Operating Expense Trust Fund
PAAD	Project Assistance Approval Document
PACD	Project Assistance Completion Date
PAI	Policy Analysis and Implementation
PD	Policy Determination; Project Development
PDD	Partnership for Democracy and Development
PHC	Primary Health Care
PL	Public Law
PRAF	Programa de Asistencia Familiar (Family Assistance Program)
PSA	Purchasing Services Agency
PSC	Personal Services Contracts
PSEE	Private Sector, Energy and Environment Funds
PSP	Private Sector Programs
PVO	Private Voluntary Organization
RAOJ	Regional Administration of Justice
RENARM	Regional Natural Resources Management Project
RHUDO	Regional Housing and Urban Development Office

RLDC	Relatively Least Developed Country
RNP	Registro Nacional de las Personas (National Registry of Persons)
ROCAP	Regional Office for Central American Programs
RTAC-II	Regional Technical Aid Center
SAL	Structural Adjustment Loan
SANAA	Servicio Autónomo Nacional de Acueductos y Alcantarillados (National Autonomous Water and Sewerage Service)
SDI	Strengthening Democratic Institutions
SFOS	Small Farmer Organization Strengthening Project
SHMs	Self-Help Measures
TA	Technical Assistance
TAN/SAHSA	Transportes Aéreos Nacionales/Servicios Aéreos Hondureños, S. A. (National Air Transport and Honduran Air Services, Inc.)
TNE	Tribunal Nacional de Elecciones (National Elections Tribunal)
UNC	Unión Nacional de Campesinos (National Small Farmers Union)
UNICEF	United Nations Children Fund
UNIOCOOP	Unión de Cooperativas (Union of Agricultural Service Cooperatives)
USAID	United States Agency for International Development (Overseas Mission)
USDH	United States Direct Hire
USG	United States Government

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ACTION PLAN

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