

USAID/Honduras

Annual Report

FY 2004

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Honduras

Performance:

Background: To avoid being left behind, Honduras must undertake a far-reaching and comprehensive transformation to improve its chances to attract the trade and international investment it needs for sustained economic growth and to fully benefit from participation in the global economy. At the same time, recent events, such as the CAFTA negotiation rounds, the IMF PRGF assessment team visit, repeated strikes by teachers and medical workers, as well as an escalating crime rate and increasingly gloomy socio-economic indicators are forcing the country to confront critical issues regarding equitable distribution of both the benefits and costs of this transformation squared against the need for improving the quality of life of its citizens.

USAID continues to have a vital role in helping Honduras make the most of the opportunities this transition period presents. USAID's strategic focus will improve Honduras' ability to attract and sustain the trade and investment needed for enduring economic growth, guarantee the full participation of its citizens in transparent and democratic processes, continue the gains made in the quality and accessibility of its education and health care services, and ensure the availability of its natural resource base for future generations.

While USAID has helped Honduras make significant strides in improving health and education indicators, improving agricultural production and incomes, and addressing shortcomings in judicial and governance structures and processes, much remains to be done. Progress has been hampered by a narrow economic base, concentrated ownership of assets, limited foreign and domestic investment, corruption, high population growth, and low human capacity levels. A weak judiciary has limited ability to protect civil and property rights, or cope with high crime rates and human rights violations. Honduras' social indicators are among the worst in the hemisphere with poverty rates of 72 percent (4.8 million people) of the total population, an annual population growth rate of 2.6 percent, an infant mortality rate of 34 per 1,000, a high prevalence of HIV/AIDS (1.9 percent of the HIV infected adult population and 50 percent of the reported AIDS cases in Central America), chronic malnutrition (33 percent of children under 5 years), average education levels of adults of 5.3 years, and a rapid deterioration of freshwater, coastal, and forest resources. Honduras' development progress is frequently disrupted by severe droughts and floods, which often result in severe economic setbacks and require years of recovery.

The World Bank estimates Honduras' per capita national income in 2003 was \$923 and its external debt is expected to be \$4.6 billion (approximately 76% of GDP) at the end of 2003. For the past year, the Government of Honduras (GOH) has failed to meet conditions to support a new three-year Poverty Reduction and Growth Facility (PRGF) Program with the IMF. Negotiations are currently ongoing with the IMF and will require the GOH to show greater restraint in government expenditures (primarily, public wage increases), increasing tax revenues, obtaining greater financial solvency, and the prosecution of corrupt financial managers and government officials. The lack of an IMF program has also resulted in the loss of some \$250 million in disbursements this year from donors who tie their balance of payments programs to having an IMF program.

The GOH is making a significant effort to open its borders to free trade, as shown by its active participation in the negotiations of the U.S.-Central American Free Trade Agreement (CAFTA), the Free Trade Agreement for the Americas (FTAA), and the Free Trade Agreement with Canada. Honduras has also signed free trade agreements with Mexico, Chile, and the Dominican Republic. The GOH realizes that Honduras must increase its exports and attract new investments to continue to grow and generate revenue to provide quality public social services, such as schools, hospitals, health clinics, water systems, electricity, roads, security, and a fair judicial system. The GOH has supported a number of programs this

year to encourage greater private investment, competitiveness, and exports in the areas of agro-industry, forestry and wood products, tourism, light manufacturing, telecommunications, and energy. However, as the Maduro government moves into the final third of its term, it is already finding it increasingly difficult to deliver on promised improvements to Honduras' social and economic development

U.S. national interests in Honduras: As noted in last year's Annual Report, by underestimating or neglecting the importance of Honduras and the other Central American countries, the U.S. risks social and economic reversals that could undermine our interests. This is even more the case now, as CAFTA and other free trade initiatives link us even closer, both economically and politically. Collapsing democracies, economic deterioration, reduced trade, increased human misery and poverty, loss of key biodiversity and important commercial natural resources, and burgeoning illegal immigration across the borders are threats that are all too real. The USG's Mission Performance Plan (MPP) for Honduras outlines a number of US foreign policy objectives. These include: economic development; environmental concerns; improved health of the Honduran population, especially HIV/AIDS; increased rule of law, transparency and anti-corruption efforts; and reduced illegal immigration into the U.S. The MPP emphasizes the objectives of free trade and increased U.S. exports. Also, as recent events such as the CAFTA negotiations highlight, the USG has made a strong commitment to supporting a more open, transparent, and competitive market economy that is less dependent on foreign aid and more able to generate diversified private sector investment and employment to reduce poverty. A growing Honduran economy that is open to investment and economic diversification would increase the number of potential customers for U.S. business as well as reduce the flow of illegal immigrants, decrease the pressure for greater law enforcement resources, and provide for broader citizen support for democracy.

Donor Relations: Development assistance to Honduras totaled \$386 million in 2003 (\$201 in donations and \$185 in loans). The United States, Japan, and Sweden are the largest bilateral donors, while Spain provides a large amount of their bilateral assistance in loans. Other bilateral donors and their principal areas of focus include Japan (public infrastructure and agriculture), Sweden (statistics, justice and human rights, and social programs); Spain (judicial reform and decentralization), Germany (agriculture and education); Canada (forestry and rural development), United Kingdom (rural development), Italy (irrigation), Holland (rural development and housing), and Switzerland (rural water projects). Multilateral donors include the Interamerican Development Bank with a very diversified portfolio of projects valued at \$460 million (2002-2005), the World Bank (education, land tenancy, and health), the IMF, the European Union (rural water infrastructure and food security), and the United Nations agencies (UNDP, FAO, WFP, UNICEF, IFAD). With bilateral funding, the United Nations Development Program (UNDP) has developed the nascent Forum to Strengthen Democracy in Honduras, whose goal, though still not fully realized, is to work closely with civil society, political party leaders, and donors, and supports coordination of the national HIV/AIDS program. USAID/Honduras, as a key player in the G-15 Donor Group, will continue to further strengthen donor coordination efforts in Honduras at the macroeconomic and sector levels.

Challenges: With the Hurricane Mitch recovery almost completed, Honduras, and the donor community, are now returning its attention to these more systematic development issues. USAID has and will continue to play a key role in many of these critical development responses.

The pace of reform within the Honduran justice system continues to be stymied by political in-fighting and the protection of vested interests. This, in turn, is impeding the development of a democratic governance structure and the transparency on which sustainable economic development relies. Hondurans do not have a justice system that resolves conflicts in accordance with clearly established and respected legal norms. The influence of special interests represents a direct challenge to the application of the rule of law and is eroding the public's confidence in the democratic system and equal protection under the law. The property rights system, for example, fails to provide security for investors who may find that their land titles are easily and fraudulently disputed or invalidated. Citizens and investors cannot count on receiving a fair hearing in court and are subject to a legal system that often does not respect its own laws.

Honduras is suffering from a growing economic crisis, especially in its rural sector. Many farmers have been negatively impacted by the droughts, floods, and low commodity prices that cyclically occur in Honduras. These factors have accelerated migration to urban areas within Honduras, adding more

pressure on limited municipal resources. The failure of the country to attract the levels and quality of private investment that could provide employment to the burgeoning urban poor exacerbates the country's social problems and pressure to migrate to the United States. Efforts to attract sizable new investment in agriculture, manufacturing, and tourism are undermined by the high costs of security, telecommunications, electricity, bureaucratic obstacles, a weak legal system, low skill and productivity levels of the work force, and the lack of laws and enforcement to protect investor rights.

Conflicts over uses of natural resources, ineffective environmental management and controls, a lack of economic alternatives, and rapid population growth threaten the natural resource base upon which Honduras' economy is largely dependent. To slow and reverse environmental degradation, Honduras needs the political will and strong involvement and commitment at the community level to implement effective change.

The provision of social services in Honduras remains weak, with centralized decision making and ineffective administration incapable of dealing with serious challenges that include rapid population growth, urbanization, limited access to quality education, malnutrition, significant maternal, neonatal, and child mortality, and high rates of HIV/AIDS, malaria, dengue, and tuberculosis infections. Rapid population growth makes delivery of essential public services through centralized administration much more difficult and keeps the growth in per capita income low, if not negative.

Hondurans appear increasingly pessimistic about the future. At best they are taking a wait and see attitude regarding the benefits brought by high profile reforms such as opening trade through CAFTA and reduction in crime as a result of the new Criminal Procedure Code (CPC). At worst they rely on extra-legal means, such as corruption, tax evasion, and fraud to make ends meet and satisfy basic needs. Or they have simply disengaged, believing that democracy has failed to deliver on promised economic and social improvements.

Summary of Key Achievements: USAID achieved considerable success during the past year in policy reform, expanding infrastructure to support economic diversification, and promoting an enabling environment conducive to increased international trade and investment. We saw significant improvements in health and education indicators, consolidation of important judicial reforms, and increased capacity of local government to address the needs of their constituents.

Transparency and Good Governance

Rule of law activities in FY 2003 demonstrated that justice institutions have embraced the new CPC and criminal trials and non-trial procedures are taking place in key parts of the country. USAID case-tracking and management systems, which improve the transparency and effectiveness of the judicial system, are being replicated to courts around the country. The Supreme Court has demonstrated leadership and independence in its decisions, and FOPRIDEH has successfully represented civil society in pushing forward legal reforms. Momentum for further legal reform is strong and growing, and successful criminal procedure models will serve as the basis for civil procedure reforms.

Municipal Development activities implemented during FY 2003 were successful in increasing effective decentralized municipal management of resources and responsibilities. Key legal reforms, such as the Water and Sanitation Law and the Land Use Planning Law, advanced over the past year. The achievements of the past year have been critical in creating citizen-driven demands on the political system to reform national level governance. Parallel to this momentum has been the Honduran Municipal Association's ability to preserve, at least for the time being, its independence, which was threatened this year.

Economic Growth and Environment

USAID quickly mobilized critical TCB support enabling the GOH to effectively participate in CAFTA negotiations while increasing awareness and support for CAFTA among business groups and civil society. Over 6,000 small farm families and micro entrepreneurs participating in USAID activities increased incomes by an average of 177% and in some cases by up to 400%. For example, major gains were achieved in increasing and improving the quality of milk production and in expanding participating

farmers' exports of high-value crops, such as cucumber, peppers, sweet potatoes, and melons. USAID-supported agricultural and rural diversification efforts led to an increase in sales and exports of more than \$23 million and employment increased by 2,200 jobs (50%) on participating farms. Accelerated expansion of this program will help some of Honduras' most vulnerable groups take better advantage of increased trade opportunities resulting from free trade agreements. USAID support contributed to a 10% rise in nontraditional exports and a greater percent of micro and small enterprises with access to financial and business services (87% of active clients are women). In 2003, over 44,000 hectares were brought under improved forest management, bringing the total area under improved management to over 300,000 hectares in 31 declared protected areas. In the process, 23 local NGOs were strengthened technically and administratively so that they can sustain efforts to manage vital Honduran natural resources.

Investing in People (Education and Health)

EDUCATODOS, which benefits children and adults outside the formal education system, achieved 98 percent of the 2003 target of 90,000 grade levels passed. The last of 30 vocational centers funded under the Hurricane Reconstruction Program came on-line in 2003, while graduates employed, predominantly from economically disadvantaged circumstances, exceeded the target by 23 percent. The Save the First Cycle pilot program, ending in 2003, should exceed the target for reducing failure rates in grades 1 - 3, but final data will not be available until the end of the school year. In 2004, the strategies used under this program will be replicated nationally, under EFA-FTI. The Let's Learn Math Program, ending in May 2004, has increased national student achievement in math by 10 percent.

Fourteen local non-governmental organizations began working with communities most affected by HIV. USAID's condom marketing program currently accounts for an estimated 40 percent of all condoms sold nationwide. In family planning, contraceptive protection (couple years of protection) distributed through USAID-supported programs has increased by 6.8 percent. The National Tuberculosis Program exceeded targets and maintained the cure rate and the treatment abandonment rate at 86 percent and under 5 percent, respectively. The percentage of rural water systems in category "A" (full compliance with standards) has increased from 7 percent to 33 percent since 1998, and the Ministry of Health trained 185 Environmental Health Technicians, raising the total trained to 481 out of a planned 700 by the year 2005.

One hundred percent of planned Title II indicators were achieved or exceeded in the three program components: agriculture extension, institutional strengthening, and community health. In recognition of these outcomes, FFP/W suggested that USAID/Honduras sponsor a Latin America Food for Peace Office trip to visit the Honduras program to observe and learn from this highly successful program.

Country Close and Graduation:

Results Framework

522-001 Economic Reactivation Meeting the Needs of the Poor

- 1.1 Improved Policy Environment Conducive to Poverty Reduction through Economic Growth
 - 1.1.1 Consolidated and Improved Economic Policies to Reduce Poverty
 - 1.1.2 Expanded Culture of Open Markets and Entrepreneurship
- 1.2 Improved market access and competitiveness by the poor
 - 1.2.1 Expanded Business and Financial Services to Micro and Small Businesses
 - 1.2.2 Expanded Agricultural Extension and Financial Services to Agricultural Producers

522-002 Improved Management of Watersheds, Forests, and Protected Areas

- 2.1 Improved management of protected areas
- 2.2 Improved Execution of Proper Forest Management Practices

522-003 Sustainable Improvements in Family Health

- 3.1 Increased use of quality reproductive health services, including family planning
- 3.2 Sustained use of child survival services via health reform
- 3.3 Increased use of STI/AIDS Prevention Practices
- 3.4 Increased use of malaria, dengue, and TB prevention and control services
- 3.5 Improved household food security in Title II target areas

522-004 Strengthened Rule of Law and Respect for Human Rights

- 4.1 New Criminal Procedures Code (CPC) Effectively Implemented
- 4.2 Independent, Apolitical and Effective Judiciary
- 4.3 Independent, Apolitical and Effective Public Ministry
- 4.4 Broader, more effective civil society participation in justice sector reforms and monitoring
- 4.5 Change Mindset Regarding Rule of Law

522-005 Critical Hurricane Reconstruction Needs Met

522-006 Improved Opportunity to Obtain Basic Education and Vocational Skills

- 6.1 More Hondurans completing quality primary education
- 6.2 More Hondurans completing quality middle school programs
- 6.3 More Hondurans acquiring marketable skills for employment

522-007 More Responsive and Effective Municipal Government

- 7.1 Strengthened Municipal Government
 - 7.1.1 Improved Municipal Administration
 - 7.1.2 Restored Municipal Financial Health and Increased Income
 - 7.1.3 Sustainable Municipal Finance
- 7.2 Improved Citizen Participation in Local Government
- 7.3 Improved Coverage of Basic Services and Rehabilitation of Damaged Municipal Infrastructure

522-021 Ruling Justly: More Responsive, Transparent Governance

- 1. Strengthened Rule of Law
 - 1.1 Legal Framework for fair trials before independent and impartial courts implemented
 - 1.2 Increased fairness and efficiency of the administration of justice through more effective legal personnel and processes
 - 1.3 Access to justice expanded for marginalized groups, especially women and the poor
 - 1.4 Strengthened advocacy and participation in legal reform
- 2. Greater Transparency and Accountability of Governments
 - 2.1 More transparent systems for management of public resources by selected government entities
 - 2.2 Increased devolution of responsibilities and resources to the local level; resulting in greater responsiveness by local governments to citizen's needs
 - 2.3 More effective advocacy, oversight and participation in local government decision-making

2.4 Increased management capacity to deliver local government services

522-022 Economic Freedom: Open, Diversified, Expanding Economies

1. Laws, Policies and Regulations that Promote Trade and Investment

1.1 Improved capacity to negotiate and implement trade agreements

1.2 Reduced barriers to trade, investment, and market integration

1.3 Commercial laws and regulations more consistent with labor, intellectual property rights (IPR), international commitments and prevailing practice

2. More Competitive, Market-Oriented Private Enterprises

2.1 Increased access to market information and business management and technical skills training

2.2 More competitive business clusters and improved business linkages (includes use of cleaner production technologies)

2.3 Increased access to technology and support services

4. Improved Management and Conservation of Critical Watersheds

4.1 Improved end use management of critical watersheds

4.2 Increased market access for environmentally-friendly products and services

4.3 Increased harmonization and enforcement of environmental laws and regulations

4.4 Increased use of clean production technologies

522-023 Investing in People: Healthier, Better-Educated People

1. Increased and Improved Social Sector Investments and Transparency

1.1 Increased and more efficient expenditures (including procurement processes) by Ministries of Health and Education

1.2 Increased and more effective decentralized investments in health and education

1.3 Private sector alliances established

1.4 Greater community involvement in health and education

2. Increased and Improved Basic Education Opportunities

2.1 Improved access, quality and efficiency of basic education

2.2 Innovative approaches applied to increase and improve educational opportunities

3. Improved Integrated Management of Child and Reproductive Health

3.1 Improved and expanded family planning services and information/education

3.2 Improved and expanded maternal child health care and information/education

3.3 Better nutrition and dietary and hygienic practices

4. HIV/AIDS and Other Infectious Diseases Contained and Impact Mitigated

4.1 Increased use of quality prevention services

4.2 Increased use of quality treatment and care/support systems

4.3 Increased and improved institutional capacity to implement HIV/AIDS activities