

USAID/Honduras

Annual Report

FY 2005

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Please Note:

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Honduras

Performance:

During 2004, Honduras achieved significant results in spite of the nationwide challenges faced by the Government of Honduras (GOH) in the health and education sectors. According to a report presented by President Maduro, Honduras met all of the targets set by the IMF. He reported that in 2004, exports increased by 17.4%, overall economic growth is an estimated 4.3% and inflation is at 8.8%. 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.

The World Bank (WB) currently estimates that Honduras' per capita gross national income in 2003 was around \$948 and its external debt is expected to be around \$4.8 billion (approximately 76% of GDP) at the end of this year. In February 2004, the GOH signed a new three-year Poverty Reduction and Growth Facility (PRGF) program with the IMF. The continuation of this program is conditioned primarily on the GOH's ability to restrain government expenditures (primarily public wage increases), increase tax revenues, improve the solvency of the financial system, and prosecute corrupt government officials and private sector financial managers. With the signing of the IMF program, some \$250 million were obligated to the GOH by the IMF, the WB, IDB, and a number of bilateral donors. In addition, the GOH was able to receive debt relief on its debt-service payment arrears from the Paris Club countries (including the United States). Assuming that the GOH stays on track with the PRGF program for one year, Honduras is expected to reach the Heavily Indebted Poor Country (HIPC) completion point in February 2005, which would provide additional debt relief from the international donor community of around \$564 million in net present value terms.

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, limited foreign and domestic investment, corruption, high population growth, and low human capacity levels, among other factors.

One of the GOH's most significant efforts to address its development challenge is 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 to avoid being left behind and to fully benefit from participation in the global economy, 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.

USAID continues to have a vital role in helping Honduras make the most of the opportunities this context presents. Building on the momentum of the successful completion of CAFTA negotiations in December 2003, USAID expanded its critical trade capacity building support, enabling the GOH to increase awareness and support for CAFTA among business groups and civil society. Environmental policy analysis and dialog was also supported by USAID in preparation for the ratification and implementation of the CAFTA-Environmental Cooperation Agreement. This strategic focus combined with activities for farmers, micro entrepreneurs, and local communities, will improve Honduras' ability to attract and sustain the trade and investment needed for enduring economic growth, and ensure the availability of its natural

resource base for future generations.

USAID support to criminal justice reform gained significant momentum during the second year of implementation of the new Criminal Procedure Code (CPC) allowing for increased effectiveness and transparency, speedier trials, and increased protections for individual rights. While the GOH has given some signs of commitment to an improved judicial performance by conducting a competitive selection process for judges and replacing several judges charged with corruption, serious challenges to the justice system are posed by lack of government transparency and commitment to combating corruption. This became evident in high profile Supreme Court decisions that indicated a high level of politicization in favor of political cronies, and by institutional crises at the Public Ministry (PM) and the DEI (which includes customs and tax office.) In addition, original expectations that the GOH would take decisive steps to push forward key reforms to enhance municipal government capacity have changed over the past year as political interests become focused on the upcoming electoral year. Given this complex political environment, USAID will continue to strengthen the key components which underpin an independent, nonpartisan and professional PM, and will work with professional associations and NGOs in reforming non-transparent government institutions and practices, to guarantee the full participation of citizens in transparent and democratic processes.

The health and education sectors were characterized by strikes during 2004. The most notable was the teacher's strike in June that lasted for 33 days, during which more than 1.6 million students in the public education system did not receive classes. However, the GOH, with USAID support, made important gains particularly in relation to the quality and accessibility of its education and health care services.

U.S. interests and goals in Honduras: These include: (i) U.S. exports of goods and services to Honduras to increase economic prosperity and more jobs in the U.S.; (ii) greater investment and economic growth in Honduras to increase the number of potential customers for U.S. businesses, reduce the flow of illegal immigrants into the U.S., decrease the pressure for greater law enforcement resources, and provide for broader citizen support for democracy; (iii) consolidation of GOH civilian-controlled military, police, and legal institutions to help protect U.S. investments, and reduce the impact of international crime, terrorism, and illicit narcotics activities on the U.S.; and (iv) limiting spread of infectious diseases, especially tuberculosis and AIDS.

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 particularly important as CAFTA and other free trade initiatives link us even closer, both economically and politically. The USG's Mission Performance Plan (MPP) for Honduras outlines a number of US foreign policy objectives, including 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 USAID strategy for Honduras supports the MPP objectives of free trade and increased U.S. exports as well as the commitment to 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, supported by open and transparent democratic processes, 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.

Donors Relations: Development assistance disbursements to Honduras in 2004 totaled approximately \$308 million (\$65 million in grants and \$243 million in loans). The U.S., Japan, and Sweden provided the largest amounts of grant funding, while Spain provided a large amount of their assistance in loans. Other (non-U.S.) bilateral donors and their principal areas of focus include: Japan (public infrastructure, agriculture, education, health, housing); Sweden (statistics, justice and human rights, social programs); Spain (education, judicial reform, municipality strengthening, tourism); Germany (microenterprise, housing, education); Canada (forestry, rural development, education); United Kingdom (poverty reduction); Italy (irrigation, food security); Holland (rural development, housing); and Switzerland (rural water, agricultural diversification). Multilateral donors include the IDB with a very diversified portfolio of projects valued at \$460 million (2002-2005); the WB (education, road construction, land tenancy, health);

the IMF (currently in the first year of a three-year PRGF); the European Union (rural water infrastructure, decentralization, food security); and the United Nations agencies (UNDP, FAO, WFP, UNICEF, WHO, UNFPA, IFAD). The primary focus of the United Nations Development Fund (UNDP) has been in the areas of poverty reduction, anti-corruption, and the national HIV/AIDS program. The Donors' Support Group, now the G-17 with the addition of France and Switzerland, continues to monitor the implementation of the Stockholm Principles adopted in May 1999 and the GOH's Poverty Reduction Strategy Plan (PRSP) approved in 2001. USAID participated actively with the G-17 at the levels of the Ambassadors and Representatives Group, the Technical Follow-up Group, and the Sector Groups throughout 2004.

Challenges: The development challenge in Honduras is to reduce poverty and corruption, strengthen democracy and decentralization, improve education and health, lower crime rates, and promote broad-based sustainable economic growth and investment. These challenges are difficult to overcome because of the narrow economic base, concentrated ownership of assets, limited foreign and domestic investment, corruption, high population growth, low levels of education, and high levels of HIV/AIDS and other infectious diseases. In addition, a weak judiciary has demonstrated limited ability to protect civil and commercial rights or to cope with high crime rates and human rights violations. Honduras' social indicators are among the worst in the Western Hemisphere, with 4.5 million people (64% of the population) living in poverty, an annual population growth rate of 2.6%, an infant mortality rate of 34 per thousand, a high prevalence of HIV/AIDS (1.8% of the population and 50% of the reported AIDS cases in Central America), chronic undernourishment (one third of children under five years), an average educational level of 5.3 years, and a continuous deterioration of water and forestry resources.

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. Hondurans experienced significant improvements in education indicators, consolidation of important health and judicial reforms, and increased capacity of local government to address their own and constituents' needs. Furthermore, economies of scale are being obtained by promoting program synergies across SOs, e.g., coordinated support of our health, municipal development, and food security programs to small municipalities associated regionally in "mancomunidades," which has helped to strengthen local capacities including improved delivery of health services, at the local level.

The successful GDA Alliance in the educational sector will be completed in December 2004, while a new one in the handicrafts sector is starting to provide technical assistance and loans to a network of poor rural handicraft producers. The Mission has three current DCA Loan Portfolio Guarantee Agreements (LPGAs), one for municipal development, and two in the agriculture and industrial sectors. The Mission is examining the possibility of transferring the guarantee for the municipal sector to another bank due to its low performance. In contrast, we are noting significant results in the industrial sector where more than 60 loans, to poor farmers producing nontraditional agricultural products, are already in place.

Transparency and Good Governance

During the second year of implementation of the Criminal Procedure Code (CPC), significant progress has been achieved. For example, 3,275 oral trials were held nationwide resulting in 995 convictions and 397 acquittals. The Supreme Court "purging unit", created to clear backlogged cases from the old inquisitorial system, closed an additional 27,885 cases, bringing the total to 104,317; almost reaching the final target of 125,498 nearly a year ahead of schedule. USAID assistance to the Public Ministry (PM) in transitioning to the new strategy allowed it to further replicate improved case management and evidence control systems in rural areas. In addition, with USAID assistance, the PM's Forensic Medicine Directorate continued to successfully process DNA analyses with a considerable increase (143 cases as compared to 34 in 2003.) The civil society umbrella NGO continued promoting broader and more effective civil society participation in significant justice sector reforms such as a Congressional amendment to the Constitution to eliminate immunities from all public officials, reforms to the Judicial Career and the Supreme Court Organic Laws, and the new Electoral Law.

Municipal Development

Local governments, through their national municipal association, and with USAID support, continued to push for decentralization of responsibilities and resources in spite of diminished political will from the central government. These efforts contributed to maintaining the 5% transfer debate in the public eye and a public signing event by President Maduro to comply with this 5% transfer by the end of 2005. To prepare for the new strategy, USAID tested new approaches for the replication of local governance models. Results showed that municipal revenues were increased by an average of 18% over the past year in target municipalities, suggesting not only a more effective financial administration, but also a willingness on the part of taxpayers to fulfill their obligations. Four major water and sanitation projects were completed, benefiting a total population of 70,000 inhabitants.

Economic Growth and Environment

USAID continued to provide timely analysis and information to stakeholders on CAFTA opportunities and challenges. In 2004 USAID support to farmers contributed to a 4% rise in nontraditional exports. New sales increased by 72%, which directly benefited more than 10,000 small growers and indirectly affected an additional 50,000 farmers. In addition, 4,770 full time positions were created. A total of \$18.14 million were generated through export crops (cucumber, squash, jalapeño, sweet potato, onion), processed products (jalapeño, plantain), and local market sales of fresh and semi-processed items. USAID efforts in milk production helped to increase small farmer income by more than \$6.7 million. USAID support to micro and small enterprises resulted in an increase to 47% in access to financial services from USAID assisted institutions. In 2004, major achievements in the natural resources sector included the development of management action plans for 12 sub-watersheds (approximately 40,000 hectares); protection of 250,000 hectares of critical pine forest against forest fires and severe pest outbreaks; incorporation of reliable real time data from 23 telemetric stream flow and rainfall stations; making available via internet near-real-time hydrologic data for an additional 37 network stations; and development of the first bulletin of hydrologic data in 35 years. In addition, at the community level, over 500 volunteers from 57 local emergency committees in high-risk areas were trained in disaster response and equipped with risk maps and contingency plans, and 35 early warning systems were installed, benefiting approximately 50,000 people. USAID also supported the design of a telecommunication system, which will link all emergency response centers in the country.

Investing in People (Education and Health)

While 2004 was plagued with teachers' strikes and other disruptions, projections indicate that the EDUCATODOS program will provide nearly 95,000 person-years of education, from grades one through nine, during this year, increasing the total person-years of education to nearly 450,000, with an estimated \$400 million in additional income for the marginal populations served. As a result of the "Let's Learn Math" interactive radio program, broadcast over 72 commercial stations that have donated the airtime, average scores on standardized math tests are about 15 percentage points higher among first graders who listen to the program than among those who do not. The innovative "Save the First Cycle" program (which promotes monthly progress tests, student progress charts, parental involvement in the education of their children, use of curriculum calendars, and trains teachers and supervisors), surpassed its goal of reducing grade repetition by 50%. Repetition went from 30% to 10% in the 1st grade, from 13% to 6% in the 2nd, and from 10% to 5% in the 3rd, with an average increase of 21% in performance on standardized Ministry of Education math and Spanish tests. Thirty-one NGO and municipal vocational-training centers enrolled over 5,000 people. It is projected that this will produce 2,750 employed graduates in a range of professions.

During 2004, the Centers for Excellence and Teacher Training (CETT) Initiative made significant progress. Eight master trainers and 110 teachers were trained in the program. These teachers have applied the new methodology for reading and writing instruction to first grade children in 71 schools in the country, showing very promising results after the first year. Children's comprehension and reading and writing skills in CETT pilot schools is significantly higher than those in other schools.

The Ministry of Health (MOH) is now using the Community-Based Integrated Child Care Program (AIN/C) as a basic element of its maternal-child health strategy. This is a major step forward for the work USAID/Honduras, with the help of the Bureau for Global Health, has been doing to standardize the implementation of this community based child-health program. A model of standards and procedures for

assuring the quality of obstetric services was tested in five hospitals showing a 60% decrease in mortality from infection. A major step forward was taken in family planning as the MOH integrated family planning in its strategy for reducing maternal and infant mortality. Furthermore, the Faculty of Medicine included modules for family planning in its medical and nursing curricula. ASHONPLAFA increased coverage in rural areas helped it exceed its target for contraceptive use by 6%, including 12,394 female and 227 male sterilizations. USAID support enabled continued expansion of the Directly Observed Treatment-Short Course (DOTS) approach for the control of tuberculosis, to all government health facilities nationwide. The cure rate for TB cases reached 86%. A 2004 Title II evaluation shows that malnutrition declined from 30% (in 2000) to 20% (in 2004) of children under age two in the program's target population.

Gender

In FY 2004 USAID interventions in the agricultural sector generated more than 2,000 jobs for women in rural areas, primarily in packing, planting, harvesting, and micro processing of nontraditional products. The USAID-supported regulation authorizing Honduran microfinance institutions to capture savings from the public will provide an opportunity to more than 90,000 women micro-borrowers to open new savings accounts for future investments. Under the health program, 165 women volunteers were trained to be their community leaders in implementing the AIN/C program. Furthermore, all of the new RFP/RFAs issued to implement our new Country Plan, contain gender requirements, including the development of monitoring procedures and indicators to track key gender relations and their relationship to program results, as well as changes in the status of men and women. We are looking forward to use the indicators on a consistent basis and make adjustments in implementation as necessary. Additionally, the Mission will be carrying out gender training for USAID staff.

For more information, please go to the following web address www.usaid.gov/hn (This page is currently being updated.)

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