

*Regional Strategy for
Central America and Mexico
FY 2003-2008*



Volume 2:

Annex B: Honduras Country Plan

August 27, 2003

Honduras Country Plan



In Support of the Regional Strategy for Central America and Mexico FY 2003-2008

The Country Plan for USAID/Honduras was approved by the Agency on August 27, 2003. It sets forth the Agency's policy and strategic direction for assistance to Honduras. Budget data contained in the Country Plan are estimates and do not represent a U.S. government commitment to provide a specific level of funding.

Release Date: September 30, 2003

CONTENTS

Page

I. Rationale for Assistance and Summary Analysis of the Assistance Environment.....	1
A. Proposed Country Plan and Relationship to Regional Strategy	2
B. Foreign Policy Interests and Goals in Honduras and Links to MPP	3
C. Overview of Country Needs and Development Challenges	4
D. Role of Other Donors in Honduras	5
II. Strategic Objectives	5
A. SO 1 Just and Democratic Governance: More Responsive, Transparent Governance	5
B. SO 2 Economic Freedom: Open, Diversified, Expanding Economies	10
C. SO 3 Investing in People: Healthier, Better Educated People	15
III. Program Resources.....	22
IV. Program and Operational Management	22
Annex: Summary of Technical Analyses.....	24
Gender Action Plan Summary.....	24
Honduras Democracy and Governance Assessment	26
Summary of Conflict Vulnerability Assessment.....	27
Anti-corruption Assessment.....	29
Commercial and Administrative Law Reform	29
Municipal Development Project Evaluation and Municipal Assessment.....	30
Summary of Biodiversity and Tropical Forestry Assessment.....	32
Land and Property Rights Assessment.....	33
Trade and Investment Concept Paper Synopsis	34
Rural Economic Development and Agricultural Diversification Study Summary	35
Micro-Finance Assessment.....	37
National Action Plan for Trade Capacity Building Honduras	37
Food Security Update for the USAID Mission in Honduras	38
Action Plan to Accelerate the Reduction of Anemia in Women and Children.....	38
Honduras HIV/AIDS Strategic Plan.....	39
Management Letter.....	40

Honduras Country Plan In Support of the Central America and Mexico Regional Strategy

“We meet at a time when there are some who question the path to prosperity and stability. Some wonder whether free market reforms are too painful to continue. Some question the fairness of free and open trade, while holding out the false comfort of protectionism. And there is even greater danger - that some may come to doubt democracy itself.”

President George W. Bush

Speech to the World Affairs Council
January 16, 2002

These doubts typify the choices confronting Honduras, which, like many Latin American countries, stands at a crossroad between building on a foundation of democracy and free trade, or sliding toward unsustainable populist measures that might provide short-term relief from the global economic slow-down, but at the expense of long-term growth and prosperity.

I. RATIONALE FOR ASSISTANCE AND SUMMARY ANALYSIS OF THE ASSISTANCE ENVIRONMENT

This is a critical transition period for Honduras, which is moving from hurricane reconstruction to a fundamental transformation of its economic and political policies and institutions. This transformation is essential for Honduras to fully participate in the global economy and improve its chances to attract the trade and international investment it needs for sustained economic growth.

Over the past four decades, USAID has helped Honduras achieve significant development:

- In 1960, 13% of all babies born died within their first year of life; today that figure is 3%.
- In 1960, less than 30% of the population had access to potable water; today, over 75% do.
- Between 1960 and today, the illiteracy rate dropped from 50% to 24%.
- Honduras has remained politically stable since its return to a democratic government in 1980.
- Municipal governments in Honduras are an independent political force.
- Honduras' judiciary is more independent and has better tools to protect basic human rights.
- Protected areas did not exist 25 years ago; today, over 1.5 million hectares are under improved management as national parks or wildlife refuges.
- Credit is now available to tens of thousands of small farmers, small businesses, and microenterprises.
- Non-traditional exports have soared and are providing employment to tens of thousands of Hondurans.

Despite these successes, much remains to be done. As President Ricardo Maduro's administration reaches its mid-term, the leadership is confronting significant internal and

external challenges that are hampering their efforts to deliver on campaign promises to improve Honduras' economic and social development.

A. Proposed Country Plan and Relationship to Regional Strategy

The Central America and Mexico (CAM) Regional Strategy, FY 2003-2008, provides the framework for regional and country-specific programs leading to achievement of the overarching regional goal of **a more democratic and prosperous Mexico and Central America, sharing the benefits of trade-led growth broadly among their citizens**. The new regional strategy narrows the focus of USAID investment to a limited number of results within the three performance "arenas" established in the Millennium Challenge Account: Just Governance, Economic Freedom, and Investing in People. Results selected reflect an explicit prioritization of investments that will have national and regional level impact in these three arenas, thus assisting countries to move along the trajectory toward meeting MCA criteria and putting the region on a "fast track" towards broad-based prosperity.

This country plan builds upon USAID's comparative advantages to address Honduras' critical development needs while directly supporting the objectives of the regional strategy. It is designed to achieve significant results with activities that complement and reinforce the programs of other donors and the Government of Honduras – particularly the Poverty Reduction Strategy (PRS) which USAID was instrumental in helping the GOH develop.

The primary goal of the USAID/Honduras program is to Increase Economic Growth to Reduce Poverty. To achieve this goal, we will concentrate our resources – and leverage others – on three principal objectives:

We will support the regional Objective of **More Responsive, Transparent Governance**, by concentrating our efforts and resources on strengthening key democratic institutions. We will focus on critical areas in the transformation process: expanding the role of civil society to promote greater participation in decision making; increasing the responsiveness and accountability of governmental institutions, building on our successes with municipal development for better models for governance, transparency and participation; and addressing critical aspects of justice reform.

We will place maximum emphasis on our program to improve competitive market-led growth in targeted areas and our integrated resource management program to directly support the regional objective of **Open, Diversified, Expanding Economies**. We will focus on trade policy and preparations for Honduras' participation in the Central American Free Trade Agreement (CAFTA), the Free Trade Area of the Americas (FTAA), and the World Trade Organization (WTO). We will emphasize the need for Honduras to become sufficiently competitive to gain the benefits of freer and more open trade and diversification. We will seek to increase productivity and create linkages between agricultural production in rural areas to relatively higher value processing and marketing enterprises in urban centers. At the same time, our integrated resource management program will emphasize sustainable land- and water-use, conservation of biodiversity and reduced vulnerability to extreme events while stressing that conservation of the natural resource base will not be sustainable unless the tangible benefits of conservation are recognized and valued in the market economy, i.e. income generation from farms, forests, fisheries, ecotourism, and other enterprises are mobilized as effective incentives to conserve resources.

To support the regional objective of **Healthier, Better Educated People**, our programs will focus on achieving improvements in key components of family health and a better-educated Honduran workforce to address major unmet needs and emerging problems. The health program will focus on reproductive health and family planning, child survival, HIV/AIDS and other infectious diseases, and household food security. Our education program will contribute to a better-educated Honduran workforce including supporting expanded access at the pre-school, middle school, and upper secondary levels (grades 10-11) using alternative delivery systems. We will also assist the GOH's efforts to develop quality education standards, testing and evaluation and to decentralize education management to the local level. The program will focus on children, youth and young adults from low-income families in rural and marginal urban areas.

Having expended considerable resources to both rebuild Honduras after Hurricane Mitch and implement programs to mitigate against future natural disasters, we are keenly aware of the need to safeguard our investment through continued disaster mitigation efforts; however, we will not create an entirely separate program to support the regional objective of **Timely Humanitarian Assistance**. Instead, building on the lessons learned through the reconstruction program, we will integrate disaster preparedness activities and mitigation throughout our entire program. For example, our integrated resource management program will contribute significantly to the **Disaster/Crisis Prevention and Preparedness** intermediate result under the regional objective by including interventions such as the watershed management and the development of integrated environmental information systems to provide an informed and coordinated approach to natural disasters. Our efforts to decentralize governance and strengthen municipalities under our **More Responsive, Transparent Governance** program will better prepare municipalities to manage the services and systems needed to respond to crises. We will integrate cross-cutting themes into our education programs to introduce young Hondurans to important concepts such as the interrelatedness between environmental protection, natural resource management and disaster mitigation. Our Title II food program will link with the regional early warning system to help reduce the impact of chronic droughts leading to crop failure and malnutrition, while our program to train community environmental health technicians will help correct the conditions that foster susceptibility to crises.

Pursuant to ADS 201.3.4.4, USAID/Honduras is incorporating the **Crisis Modifier** approach into its Country Plan. In the event of a major humanitarian crisis, the Mission will invoke the Crisis Modifier and seek Bureau approval, where necessary, to modify its activities to account for the crisis. In order to use the Crisis Modifier, the Mission will submit to the Bureau a time-phased plan in accordance with the guidelines set forth in the current CAM Regional Management Agreement. The Crisis Modifier applies to all of the Mission's Strategic Objectives and appropriate crisis modifier language will be included, to the extent possible, in all grants, contracts, and agreements under these objectives. The Mission acknowledges that a Congressional Notification may be required and that account and earmark restrictions will remain in force.

B. Foreign Policy Interests and Goals in Honduras and Links to MPP

If the United States underestimates or neglects the importance of Honduras and the other Central American countries, we risk social and economic reversals that would undermine our interests. Collapsing democracies, economic deterioration, lost U.S. jobs and 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 emigration to the U.S. The MPP emphasizes the objectives of free trade and increased U.S. exports. Also, as reflected in the framework of the Opportunity Alliance, the USG has a strong interest in 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.

C. Overview of Country Needs and Development Challenges

Despite the tremendous gains made in post-Mitch recovery, Honduras continues to face daunting long-term development challenges that will continue to stress its limited resources.

Over two-thirds of the Honduran population lives on less than \$2 a day; nearly 50% live on less than \$1 a day. While most of the country's poverty is still concentrated in rural areas, urbanization is accelerating and urban poverty is becoming a larger problem with each passing day.

Respect for rule of law and a well functioning justice system, which are essential for good democratic governance and economic development, are still far from the reach of the average Honduran. 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 workforce 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.

D. Role of Other Donors in Honduras

Because of the magnitude of the development challenge in Honduras, it is extremely important that international donor assistance be efficiently used and effectively coordinated. As a result of our involvement with the Donor Coordination Group (G-15), we are well informed about the objectives and programs of other bi- and multi-lateral donors, particularly those who are involved in the same sectors in which we are proposing to engage. The United States, Japan, and Sweden are the largest bilateral donors, while Spain provides a large amount of their bilateral assistance in loans. Non-U.S. 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 the Swiss (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 funding from bilateral donors, the United Nations Development Program (UNDP) has developed the Forum to Strengthen Democracy in Honduras that works 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, will continue to further strengthen donor coordination efforts in Honduras at the macroeconomic and sector levels.

II. STRATEGIC OBJECTIVES (SOs)

A. SO 1 Just and Democratic Governance: More Responsive, Transparent Governance

Development Challenge: In Honduras, democratic institutions are not mature enough to prevent abuses of power, which are often significant. Political and economic power is concentrated in a small elite that does not countenance the emergence of economic challengers or accept that a rising tide would lift all ships. In a very real sense, Honduras is a captured state. Elite manipulation of the public sector, particularly the weak legal system, has turned it into a tool to protect the powerful. Other citizens are left defenseless on a wide range of governance issues, and dramatic social inequities are maintained and reinforced, impacting the most vulnerable populations. The widespread distortions of democratic processes in Honduras create formidable barriers to sustainable economic development and poverty reduction. Although elections themselves are considered free and fair, voters choose mainly between two political parties, both beholden to the interests of individuals from the same economic elite. The political system is focused more on party loyalty and interests than on the government's responsiveness to citizens. Corruption and cronyism reinforce a general lack of democratic legitimacy and a widespread perception of inequities in governance, allowing widespread crime and violence to flourish and threaten public security. Frustration, cynicism and apathy have mounted among citizens, particularly in rural areas, as people see little positive impact on their lives from continued political promises and pronouncements on reform.

Honduran civil society is not yet strong enough to significantly influence the political process, although it has developed substantially as a result of the role that it played in the aftermath of Hurricane Mitch. While democratic practices are slowly extending their influence, NGOs are being pressured and threatened by governing political elites. Although Honduras' impressive municipal movement has played a prominent role in bringing decentralization and local governance to the forefront of the reform agenda, the independence of the non-partisan national municipal association, AMHON, has been threatened by political interests. NGOs and citizen groups are not being welcomed as genuine partners. This demonstrates the still fragile and nascent fabric of civil society and identifies the need for reformers to engage and involve a broader variety of civil society stakeholders.

Significant change has occurred in the criminal justice system with the Implementation of the new Criminal Procedure Code (CPC), which introduced oral adversarial trials, more effective and more transparent procedures, and greater protections for individual rights. Numerous problems impede the effective functioning of the country's legal system. The judiciary is not independent of the Legislative or the Executive branch and is susceptible to improper political and economic influence. The Supreme Court is now selected through a less-politicized procedure, but reforms are being threatened by amendments pending in Congress that would significantly limit the Court's authority. The absence of adequate rule of law is exacerbated by slow and frequently dysfunctional court procedures, overburdened and often ineffective police, and court judgments that lack transparency. A pervasive system of immunities conferred on public officials promotes corruption, reduces the credibility of the legal system and undermines the rule of law.

Development Hypothesis and Proposed Program: More legitimate democratic institutions are a prerequisite to more rapid growth and poverty reduction in Honduras. Building a sustainable, democratic foundation requires mechanisms that give people the means to influence public policy, push for transparency and accountability in government, and reinforce the operation of checks and balances. Traditional, top-down reform, induced by donors alone, will not be effective in addressing underlying problems of political manipulation, corruption and lack of transparency. Partnerships developed with local government and broad stakeholder-based civil society efforts, including efforts within institutions by professional associations, will be critical in promoting, achieving, and sustaining responsive and accountable governance.

At the end of the strategy period, USAID expects that there will be major reforms in the justice, civil, and political systems that will reduce corruption and ensure greater transparency and security, thus creating an environment more conducive to increased investment and economic growth leading to poverty reduction. The GOH will increasingly devolve authority to municipalities, who in turn will be better equipped to manage urban growth and generate and manage resources (including long-term financing from the private sector for capital investments) in a transparent and democratic manner, providing increased public services to their constituents.

Results Framework: To support the regional strategic objective of More Responsive, Transparent Governance, USAID/Honduras will focus on critical areas constraining the transformation process, i.e. expanding the role of civil society, increasing responsiveness and accountability of governmental institutions by building on successes with municipal development that can provide better models for governance, transparency and participation, and addressing critical elements in justice reform. Our strategy is to stimulate "demand driven," bottom-up reform. The following Intermediate Results (IRs) and illustrative activities will produce these results:

Intermediate Result 1.1 Strengthened Rule of Law

The Mission will continue working to ensure the successful implementation of the Criminal Procedures Code, promote and encourage judicial independence, ensure access to justice, develop meaningful enforcement of codes of ethics and judicial conduct, and promote civil society involvement to counter the manipulation of a non-independent judicial branch by the political elite. We will continue efforts to resolve residual problems from the former criminal law system, especially the backlog of cases and the evidence warehouses that are in complete disarray. Weaknesses in these areas compromise the effectiveness of the new criminal procedures.

We will link activities promoting electoral law reforms and increased checks and balances in a democratic system with other activities, such as assistance to political party development, in order to get active stakeholder participation and achieve meaningful results. Party youth are a logical starting point. This would help transform Honduras' political parties into organizations that eventually compete more on the basis of their platforms, their performance and their responsiveness to citizen issues and concerns, and less on the lure of patronage. Given that the next national elections will be held in late 2005, these activities ideally would commence in 2004.

We will focus a major part of our effort on activities at the local level. For example, we will use selected criminal courts to develop model court administration procedures that can be replicated to other parts of the country. Activities under other Strategic Objectives that improve the body of law (such as laws affecting the private sector) also support this IR, as do activities that the U.S. Embassy is undertaking to have more effective community policing in Honduras. The Mission's Regional Legal Advisor will carefully screen all proposed activities under this IR for compliance with Section 660 of the Foreign Assistance Act of 1961 (regarding assistance to police and other law enforcement forces) and any relevant exceptions.

Illustrative Activities

- Technical assistance and training to support public prosecution and increase the capacity of the Public Defender's Office;
- Support replication of case management and other administrative systems in criminal and civil courts to improve implementation of justice on a national scale;
- Training for legal professionals on the new Criminal Procedures Code;
- Assist advocacy groups, including professional associations, in their efforts to press for legal reforms;
- Support the development and implementation of a new Civil Procedures Code and, along with other donors, introduce oral trials into civil proceedings;
- Support development of judicial associations to foment a cadre of professionals who can drive the implementation of reforms from within and push for creating an enabling environment for strengthening the justice sector; and,

Intermediate Result 1.2 Greater Transparency and Accountability of Government

Our efforts to achieve more responsive and accountable governance will focus at the local level. USAID seeks to provide local citizens with a legitimate role in the development process, a stake in its success, the capacity to act, and a clear sense of shared responsibility for the results. Communities' understanding of local conditions and their ability to mobilize local residents are vital to sustainable development in this and other SOs. At the local level, economic requirements translate into expanding the small business sector to stimulate entrepreneurship, employment, and a spirit of independence and self-help. Local economic development efforts will emphasize a participatory approach, highlighting the importance of involving a broad range of stakeholders. The local level is a particularly appropriate target as local factors can condition investor decisions on the location of investment.

We will continue to support transparency and anti-corruption activities that improve the financial management, accountability, and auditability of public funds. This includes strengthening the Supreme Audit Institution and its ability to audit the use of donor and municipal funds; supporting independent anti-corruption authorities and public awareness; and implementing an on-going multi-donor program to improve government procurement systems.

The Mission will support the phased transition of our direct assistance to 46 key municipalities by transforming their role into regional or sub-regional centers to replicate best practices. In this manner, the 46 larger municipalities, most of which have consolidated their core functions (financial administration, basic municipal services, cadastre, and citizen participation), will serve as multipliers of best practices for the smaller municipalities around them which may be clustered into groups or mancomunidades. Through the continued support of the national municipal association it is envisioned that national policy will be influenced, resulting in the devolution of political power to municipalities, more transparent dealings with the central government, and greater municipal control over local investment. As democratic practices such as greater transparency and citizen participation in the policy-making process become the norm at the local level, the mayors' associations will be well positioned to draw on this positive experience to pressure or persuade the central government to follow suit.

USAID will continue to invest in expanding the role of civil society in justice reform, anti-corruption, electoral reform, municipal development and decentralization. The development of a vibrant, professionally managed, democratically run and financially sustainable NGO sector is vital to the further development of democracy in Honduras. Strong NGOs help ensure that citizens have the means to voice their needs and see their interests represented, are able to demand more transparency and accountability from public officials, and are able to work together for a better future.

We will also help civil society organizations to form Intermediate Support Organizations (ISO) that can serve to aggregate sectoral interests and that have the potential to lobby national decision makers. Such organizations will be a crucial link between the state and civil society and a principal vehicle for pushing reforms in their sectors. Local organizations could do much more to defend human rights, support community services, regulate community use of natural resources, structure public policy debate, and facilitate access by the poor to technology, markets and credits. Associations of small business entrepreneurs can lobby national and local decision-makers for policy reforms needed to create a legal, regulatory and policy framework to improve the business climate and support small and medium enterprises, the most dynamic economic force in Honduras.

Illustrative Activities

- Support for citizen participation to perform watchdog functions, advocacy, and public awareness;
- Encourage municipal officials to conduct government operations with greater transparency, to make information available to the public that it needs for effective involvement, and to be proactive in soliciting citizen input;
- Support development of municipal associations at the national and regional levels to ensure their sustainability, advocacy for decentralization and democratic practices at the local level, and their role in supporting replication of best practices;
- Provide technical assistance to local governments and ISOs to bring together neighboring rural municipalities, citizen groups and the public sector to make resource allocation and use more transparent and efficient; foster public/private participation in local economic development; improve services and infrastructure management; and enable the government to meet more needs in even the most poverty-stricken areas;
- Strengthen public and private institutions in ethics and accountability; and,
- Train ISOs in social auditing.

Strategic Choices: We will no longer fund construction of municipal water and sanitation systems (previously financed with hurricane reconstruction and child survival funds) through our regular DA program. We will also no longer fund the maintenance of rural and urban water and sanitation systems which will now be maintained by the municipalities through the collection of user fees. These user fee systems will serve as models for improving water and sanitation systems in other municipalities. Other areas we will no longer fund include:

- Civil society programs with development of civil society as an objective (civil society involvement will be limited to contributions to the above Intermediate Results);
- Broad or generalized civic education programs;
- Support to universities without specific linkages to one or more Intermediate Results.

Measuring Achievement: A final Performance Management Plan will be prepared pending agreement on shared regional indicators as well as in consultation with USAID/Honduras' partners during the first year of the strategy so that partners' monitoring and evaluation plans consistently contribute to the measurement of agreed-upon indicators of results and targets. These indicators will support and be consistent with regional indicators. Preliminary country-level indicators for illustrative purposes include:

SO Level Preliminary Performance Indicators

- Percentage of Honduran citizens who have confidence in key democratic institutions -- courts, political parties, police, civil society organizations (CSOs), Congress, etc.
- Percentage of key stakeholders who believe that their input to government decision-making is effective

IR Level Preliminary Performance Indicators

- Percentage of Honduran households receiving basic services
- Percentage of total local revenue generated by targeted local governments
- Average time for case disposition in new criminal/civil cases (in # of months)
- Score on Judicial Reform Index

Estimate of Required Resources: The estimated life-of-plan resources for this SO are \$29.5 million.

SO Start and End Dates: FY 2003 - FY 2008

B. SO 2 Economic Freedom: Open, Diversified Expanding Economies

Development Challenge: Along with the rest of Central America, Honduras is suffering from a long-term agricultural crisis caused by cyclical low commodity prices (particularly coffee), and periodic droughts, floods, and insect infestations. This crisis has accelerated rural to urban migration, adding more pressure on limited municipal resources and U.S. border patrols. This crisis also causes retail sales in rural Honduran communities to fall and bank loan default rates to increase, resulting in costly government bailout programs and higher fiscal deficits. The slowdown in the growth of the U.S. economy, especially after 9/11, contributed to the further weakening of the Honduran economy in 2002. However, the Honduran manufacturing sector showed some signs of reactivation in 2002, especially with some new private investment in its light manufacturing industry in the later part of the year; however, some dark clouds linger on the horizon for this industry with the scheduled removal of world textile quotas in 2005. Efforts to attract sizable new private investment in Honduran manufacturing and assembly are currently undermined by the high transactions cost of credit, security, telecommunications, electricity, bureaucratic obstacles, and a weak judicial system. Moreover, the quality (i.e., value added) of investment is low because of the low skill and productivity of the workforce. This same low labor productivity impedes income growth among the poorest sectors of the population.

Honduras' low labor productivity and relatively high transaction costs (including high interest rates) put Honduran firms at a disadvantage to compete internationally. Honduras has lagged behind its Central American neighbors in implementing reform measures needed to increase productive private investment and become competitive in regional and world markets. Most Honduran firms, particularly those in the agricultural sector, are not sufficiently prepared to compete in open international markets and, therefore, oppose full participation in the free trade agreements with the United States and Canada. Trade policy analysis, negotiating capacity, and implementation in both the public and private sectors are extremely weak.

Water is critical to sustainable economic growth in Honduras, yet water resources – and the watersheds they depend on – are in crisis. While there is significant rainfall, surface water, and groundwater, the management and infrastructure of water distribution is so poor that current household needs are not being met. Projections on the future indicate further degradation exacerbated by endemic flooding, landslides, severe shortage of drinking water and contamination by sewage in the most populated areas. Agricultural production is also severely constrained by erratic rainfall, inadequate storage and poor distribution systems. If this trend is not altered, economic growth will be offset by water problems.

Development Hypothesis and Proposed Program: Increased trade and investment, especially in diversified exports, are necessary for greater economic growth, income, employment and poverty reduction in Honduras. With an open economy that is expected with the free trade agreements with the United States and Canada, scheduled to be signed by the end of 2003, Honduran firms will have the opportunity to trade freely with two of the largest economies in the world. However, in order to be successful and survive in these markets, Honduran firms must become much more competitive than they are now and find new export market opportunities.

As shown by the devastating effects of low world coffee prices over the past few years, Honduras must find ways to diversify its exports and to invest in higher valued manufactured products in order to grow and avoid the economic and social crises that they currently face. With greater competitiveness and private investment in export diversification into profitable markets, Honduran employment and incomes will expand. This expansion in employment and incomes will contribute to reduced poverty directly through its employment effects, as well as indirectly by increasing government tax revenues to be spent on necessary public services such as education, health, water, roads, security, justice, and natural resource and environmental protection and conservation. The key to poverty reduction is making sure that this economic growth is sufficiently broad-based and that public funds are spent judiciously in a transparent manner.

Unsustainable use of natural resources is depleting and degrading Honduras' land and water resources including regionally significant diversity of flora and fauna. As natural resources degrade, Honduras (and neighboring countries) will forego important advances in economic growth that could be made with an intact, healthy natural resource base. This risk must be addressed through Integrated Natural Resource Management (INRM), linking water, land-use, and environmental policy with good-governance and sustainable enterprise. INRM takes into account the factors which bear on decision making and sustainability including: land-tenure, policy and administrative authority, income generation potential and capacity of land and water resources to sustain use of a particular kind and intensity. INRM may be made sustainable through decentralized governance mechanisms that empower local populations, and by allowing for income generation activities that do not permanently degrade the resource base. The key is to balance conflicting interests by working with stakeholders at all levels and supporting demand-driven, community level interventions that provide incentives for applying conservation practices.

By the end of the strategy period, USAID expects to see increased trade, greater diversity of private investment, and increased employment, all of which will contribute to poverty reduction. Honduras will be better able to manage its natural resources, particularly water, to sustain long-term growth while protecting the environment, and conserving Honduras' rich biological diversity.

Results Framework: Honduras must be able to compete globally in order to gain the full benefits of diversification and freer and more open trade. Our program to improve competitive market-led growth in targeted areas will increase productivity and establish backward and forward linkages between agricultural production in rural areas and relatively higher value processing and marketing enterprises in urban centers, thereby continuing our successful efforts to promote rural economic diversification. We will focus on trade policy and preparations for Honduras' participation in the Central American Free Trade Agreement (CAFTA), the Free Trade Area of the Americas (FTAA), and the World Trade Organization (WTO). Specific activities will be screened by the Mission's Regional Legal Advisor to ensure compliance with statutory and Agency requirements regarding potential impacts on U.S. jobs and internationally recognized workers' rights.

Our integrated resource management program emphasizes the lessons learned over the previous 20 years — conservation of the natural resource base will be sustainable only when the tangible benefits of conservation are recognized and valued in the market economy, i.e. income generation from farms, forests, fisheries, ecotourism, and other enterprises are mobilized as effective incentives to conserve resources. Interventions will be demand-driven, community-led, supported by good local governance, and strengthened by improved public

awareness. Our program will be linked to the critical needs for access to clean water and will focus on sustainable land- and water-use, conservation of biodiversity and reduced vulnerability to extreme events.

Intermediate Result 2.1: Laws, Policies, and Regulations that Promote Trade and Investment

In the trade and investment policy arena, USAID/Honduras will focus efforts only on those elements which would have a direct positive impact on overall economic growth. Policies that will be addressed by USAID will include simplified procedures for business startup, anti-monopoly measures, and various trade and financial policies. We will focus particularly on trade and competitiveness capacity building in conjunction with the CAFTA, FTAA, and WTO. We will also provide select demand-driven assistance in macro-economic and financial policy formulation, as requested by the GOH. The Government of Honduras will need to continue to increase its capacity to negotiate and implement free trade agreements. Resources to implement the agreements (for example, on market access, intellectual property rights, sanitary and phyto-sanitary inspections, dispute resolutions assistance) will have to be made available.

Greater resources also need to be made available for improved trade statistics and analysis. Assisting private firms to adjust to new free trade rules and regulations will be critical in the implementation stage. It is expected that as business firms become more familiar with what to expect in a free trade economy in the future, they will want to engage more with the government to eliminate policy constraints that reduce their competitiveness in a global economy. USAID can assist in helping to identify these constraints and in developing and implementing plans to eliminate them.

Maintaining a low fiscal deficit of around 2% of GDP is critical to maintaining a stable macroeconomic environment. This implies the necessity to work either on ways to increase tax revenues or decrease public expenditures, or both. Substantial work in both areas needs to be undertaken. We will work with the financial sector to develop innovative approaches to portfolio and debt restructuring services as well as reducing interest rates and the transaction fees of remittances. USAID/H will also re-focus its micro-finance and banking support program to include a core component to assist the National Banking and Insurance Commission to effectively supervise regulated micro-finance institutions.

Illustrative Activities

- Provide technical assistance to the GOH to simplify procedures for business start-up and expansion.
- Work with GOH to secure property registration and protection of property rights.
- Conduct training to meet sanitary and phyto-sanitary standards.
- Streamline border crossing and customs procedures.
- Simplify and standardizing labeling requirements.
- Sensitize key personnel in the public and private sectors as well as civil society to what can be expected from the various trade agreements that Honduras will be signing.
- Provide technical assistance to strengthen audit systems and increase the solvency of the Honduran financial system to avoid bankruptcies and government bailouts.

Intermediate Result 2.2: More Competitive, Market-Oriented Private Enterprises

The country program will focus on economic diversification, especially in rural areas, by promoting structural changes in productivity and marketing in strategic industry sectors. Diversification from basic grains and low-quality coffee grown at lower altitudes to higher value-added, labor-intensive crops and products can provide substantial increases in net income to agricultural producers and processors. The program builds on USAID's experiences with initiatives that *promote non-traditional agriculture exports and improve small producers' access to regional and international markets*. USAID/Honduras activities will focus on product sectors that offer the opportunity for substantial expansion of production through modern, cost-saving technology and market channels. Accordingly, USAID/Honduras will target business development services to micro, small and medium entrepreneurs in specialty coffee, non-traditional agriculture and agro-industry, wood products, and light manufacturing.

Our focus is on providing market information, technology transfer, and information on sanitary and phytosanitary standards to small and medium-sized enterprises and small farmers, and linking them to larger firms and markets. We anticipate that there will be substantial replication from our technology transfer and market development efforts and that many producers will enter new product areas after direct USAID assistance has occurred, as effectively demonstrated through past USAID support for melon and shrimp production.

USAID/Honduras will facilitate increased access to lower-cost, productive credit by strengthening the network of credit institutions and use of the Development Credit Authority (DCA) funds for loan guarantees with emphasis on medium, small, and micro-enterprises (MSME). USAID, working together with select local commercial banks and a microfinance institution, will bring in investments to stimulate diversification and growth of rural enterprises.

In addition, we will collaborate with the health SO to improve household food security through support to increase crop diversity and production among subsistence farmers; training and advisory services to microfinance lenders to alleviate the most extreme cases of rural poverty; and support for the establishment of a Regional Food Security Early Warning and Vulnerability Network.

Illustrative Activities

- Provide technical assistance and training to improve business development services (including market research, advertising, and database development).
- Facilitate increased access to credit by strengthening the network of MSME credit institutions through technical assistance, training, and policy guidance.
- Facilitate development of business alliances with U.S. firms to promote non-traditional export production, transfer of more efficient technology/practices, and expand access to market information.

Intermediate Result 2.4: Improved Management and Conservation of Critical Watersheds

Activities in the Choluteca watershed will promote technologies for sustainable water control and utilization. Income generation, human health, and environmental stability will be emphasized. Improved land management, water harvesting and management of distribution systems will support economic growth as well as mitigate the negative affects of extreme weather events, while protecting fragile and threatened biodiversity in the Gulf of Fonseca.

In the north coast economic development corridor, environmental audits and environmental management systems (EMS) will be used to demonstrate economic incentives to decrease pollution and unsustainable use of natural resources. Alternative, more sustainable natural resource based enterprises such as ecotourism and sport fishing will be encouraged. The activity will support the GOH policy which targets increased tourism, decreasing conflicts over competing uses, conservation of biological diversity, including terrestrial and marine protected areas and the internationally significant Mesoamerican coral reef ecosystem.

Activities will link upper and lower watersheds to ensure complete management of the entire water-basin. Because management and conservation of the coastal zone is directly impacted by upstream activities throughout the watershed, the program will integrate activities in the upper reaches with conservation and socio-economic needs (water supply, energy requirements, fisheries, aquaculture, tourism, etc) in the lower reaches. The program will emphasize valuing natural resources in perpetuity – based on the assumption that if valued for their on-going contributions, they will be conserved. Charging fees for environmental services (i.e. water) will become increasingly important.

We recognize Honduras' continuing vulnerability to natural disasters, especially hurricanes, which clearly is closely linked to the Disaster/Crisis Prevention and Preparedness IR under the **Timely Humanitarian Assistance and Crisis Response** regional objective. However, rather than creating an entirely separate program to support this objective, USAID/Honduras will integrate disaster mitigation and preparedness activities into its Integrated Natural Resource Management program. Disaster mitigation activities will be based on USAID's past experience and will be implemented nationwide. Interventions will be demand-driven, community-based, will emphasize strengthened local governance, and will build environmental awareness at all levels of society.

Illustrative Activities

- Assistance to analyze and strengthen policies, laws and regulations that address water, land, protected area utilization;
- Assistance to create effective, community-based programs to provide incentives for compliance/enforcement with water and watershed control and utilization measures;
- Assistance in defining and capturing fees for environmental services;
- Development of equitable joint ventures and alliances to generate income from ecotourism and marketing of certified timber;
- Promotion of natural resource based enterprises to replace unsustainable practices.
- Development of municipal emergency and disaster mitigation plans to prepare for landslides, floods and other disasters.

Strategic Choices: We will rely on other donors to help Honduras address its critical infrastructure needs, including roads, energy, and telecommunications. We will not undertake the types of major infrastructure investments for disaster mitigation that were made under the hurricane reconstruction program nor will we intensively concentrate on hillside agriculture, which was the major focus of our environmental activities in the 1990's. Areas we will no longer fund include:

- Provision of loan funds to NGO lending organizations or small-scale village banking programs
- Expensive, central planning type, watershed management plan efforts

- Infrastructure construction supporting institutional partners.

Measuring Achievement: A final Performance Management Plan will be prepared pending agreement on shared regional indicators as well as in consultation with USAID/Honduras' partners during the first year of the strategy so that partners' monitoring and evaluation plans consistently contribute to the measurement of agreed-upon indicators of results and targets. These indicators will support and be consistent with regional indicators. Preliminary country-level indicators for illustrative purposes include:

SO Level Preliminary Performance Indicators:

- Growth of non-traditional export value
- Growth of private investment in key sectors
- Number of hectares under approved watershed management plans (Note: this supports the Agency wide indicator - # hectares under approved management plans. A standardized scorecard will be developed that identifies key watershed management criteria, and that allows progress to be tracked for each criteria over the life of the strategy)
- Number of hectares with improved water management activities

IR Level Preliminary Performance Indicators

- Milestone scale for trade policy reform
- Revenue per land unit
- Number of Honduran municipalities/communities with improved land use and water resources governance
- Number of watershed governance bodies established with multi-sectoral and multi-stakeholder decision making processes
- Increased use of less polluting technologies and implementation of environment management systems
- Number of Honduran municipalities/communities with operational emergency and disaster plans based on reliable environmental information

In addition we will support the following indicators for IR4 of the Health SO related to greater food security:

- Malnutrition rate among Honduran children 12-23 months
- Average annual yield of basic grains

Estimate of Required Resources: The estimated life-of-plan resources for this SO are \$72 million, including \$47.5 million for economic growth and agriculture and \$24.5 million for environment.

SO Start and End Dates: FY 2003 - FY 2008

C. SO 3 Investing in People: Healthier, Better Educated People

Development Challenge: The health and education of Honduras' population directly impacts economic growth and rural poverty. The high population growth rate of 2.6% offsets the expansion of an economy growing at between 2% and 3% annually. At this rate Honduras' population will double in 30 years, increasing the demand for social services and putting enormous strains on both the education and health systems.

High population growth limits opportunities for education and employment. Population growth is driven by high fertility, especially in rural areas, where about 70% of all births occur. Maternal deaths related to pregnancy and childbirth are still very high at 108 per 100,000 live births. 70% of all maternal deaths occur in rural areas. Continued high levels of preventable infant and child illness, complicated by high rates of chronic malnutrition and anemia, undermine children's capacity to regularly attend school and learn effectively. Major problems of coverage and effectiveness of child health services persist. Lack of access to safe water and sanitation also has a strong effect on child mortality due to diarrhea. In the highest poverty areas chronic malnutrition among children is 40%-50%. Thirty percent of children under age five and 15% of mothers are anemic. The high level of chronic malnutrition underlies many of the proximate causes of infant and child mortality. High malnutrition levels are related to food insecurity.

HIV infections in Honduras are under-reported but are estimated at over 60,000, almost half the cases in Central America. Almost 2% of the adult population in Honduras is infected with HIV/AIDS. The epidemic has severe implications for future economic development as AIDS-related morbidity and mortality affect work productivity, labor force growth, and medical care costs. The magnitude of the HIV/AIDS epidemic is such that USAID has designated Honduras an intensive focus country for HIV/AIDS. Other infectious diseases—primarily tuberculosis, malaria and dengue—also sap the productivity of the labor force. Tuberculosis (TB) is a leading major communicable disease with 4500 new cases diagnosed annually (30%-35% of Central America's total). Malaria and dengue fever are also major public health problems, with 85,000 cases of malaria (38% of Central America's total) and over 15,000 cases of dengue reported annually.

Most Hondurans lack a sufficient level of education and technical skills. Increased levels of education will address critical needs in the key areas within this SO and throughout the strategy. Less than half of the current workforce (42%) has completed primary school. Over half of those in the workforce with less than a primary education are between 16 and 30 years of age. Less than 70% of youth complete primary school (55% in rural areas) and only 20% complete secondary school. Yet, international studies have shown that to achieve sustained economic growth and to compete in the global economy at least 90% of the emerging workforce should complete primary school (grades 1-6) and at least 50% should complete secondary education (grades 7-12). The lack of education and skills training is particularly serious in rural areas and among children from low-income families. As a consequence of Honduras' low average levels of schooling and pervasive shortages of trained professionals and technical personnel, productivity rates for many economic sectors are among the lowest in Latin America. The low educational level of the workforce hinders Honduras' ability to compete in the global economy and limits its ability to trade and to attract foreign investment.

Development Hypothesis and Proposed Program: Progress in improving family health must occur concurrently in a number of areas to be significant and sustainable. Our program interventions will improve service availability, quality, equity and effectiveness, through better training, management, information systems, and health policies. The result is increased use of services with proven impact that lead to improvements in family health. The health SO is focused on improving key components of family health that will result in increased economic productivity and enhanced poverty reduction in geographic areas of greatest need.

Poverty will not be reduced in Honduras without substantial improvement in the quality of its human resource base. In order to develop a better educated workforce, Honduras must make more effective investments to improve the quality, efficiency, and equity of education and

increase access to pre-school and post-primary education, especially in rural and marginal urban areas where poverty and the lack of access to quality education are most severe. With increased educational and skill levels, the current and future workforce will have opportunities for increased employment and higher incomes.

By the end of the strategy period, the Honduran basic and workforce development systems will be more capable of meeting the country's needs for a better educated and skilled workforce to meet evolving private-sector demands for qualified workers, making it more competitive and attractive to potential investors. Both traditional and alternative education programs as well as workforce development programs will be more efficient and financially sustainable, providing increased access to education and skills training. The Honduran health system will be more efficient, with a more capable and decentralized administration. This will contribute to reduced infant mortality, reduced maternal mortality, reduced total fertility, and stabilization of the HIV infection rate. Improved health, education, and governance will further increase the attractiveness of Honduras as a place to work, visit, and invest, thus creating a self-perpetuating cycle of success and economic growth.

Results Framework: Our program will focus on achieving improvements in key components of family health and a better-educated Honduran workforce. The country plan—built on past lessons learned—addresses major unmet needs and emerging problems.

The health program will focus on: 1) increased use of reproductive health and family planning services; 2) increased use of child survival interventions; 3) increased use of HIV/AIDS prevention, treatment, care and support practices; 4) improved household food security in Title II target areas; and 5) increased use of malaria, dengue and tuberculosis prevention and control services. Health reform is a cross-cutting theme critical to all of these activities.

The education program will contribute to a better-educated Honduran workforce. The program will support expanded access at the pre-school, middle school, and upper secondary levels (grades 10-11) using alternative delivery systems. We will also assist Ministry of Education (MOE) efforts to develop quality education standards, testing and evaluation and to decentralize education management to the local level. We will assist the GOH's efforts to reform vocational education through public-private partnerships and stronger private sector linkages to ensure appropriate training for meeting business demands. The program will focus on children, youth and young adults from low-income families in rural and marginal urban areas. Under the new program, USAID/Honduras will phase out service delivery and will focus on support for education policy reform.

Intermediate Result 3.1: Increased and Improved Social Sector Investments and Transparency

USAID/Honduras will focus its efforts on health and education reforms at the national level. The GOH focus on decentralization and planned empowerment of municipalities includes the devolution of management of social services, including health and education, and offers ample opportunities for collaboration among all of USAID/Honduras' strategic objectives. Our support will actively catalyze the process of decentralization, contributing to responsiveness, accountability and transparency. We will respond to new health and education reform initiatives and expand public/private partnerships, strengthening the government's commitment to reform. This will be done in close collaboration with other Mission teams, particularly the team working

on municipal development, which is deeply involved in decentralization, community participation and improved transparent governance.

The USAID/Honduras health and education teams will collaborate to build gender-sensitive population, family life, and HIV/AIDS themes into the curriculum and teaching materials developed for the alternative basic education program for out-of-school youth and young adults. Likewise, the other USAID/Honduras teams will integrate the HIV/AIDS theme into their activities as appropriate through information, policy tools and collaborative activities. We will work closely on policy reform issues in the water sector and for the passage of a new water law.

USAID/Honduras will develop financial management systems, using private sector alliances, to manage GOH and USAID funds for the activities implemented under the health and education programs. It is anticipated that the financial management models developed by USAID will be emulated by the GOH for managing other major activities (i.e., the Education for All – Fast Track Initiative) to ensure more efficient and transparent procurements and financial management.

Illustrative Activities

- Support the GOH “Healthy Municipalities Program”, a major GOH decentralization initiative to strengthen local integrated, participatory planning and management of health services, especially in areas of highest poverty and health need;
- Provide technical assistance and studies to facilitate revamping of the Ministry of Health in establishing certification regulations and setting quality standards for services.
- Improve health data and management/financial information systems for policy formation and decision making;
- Provide assistance to support education policy reforms in the development of up-to-date K-11 education standards and curricula development;
- Provide technical assistance for reforms that improve the efficiency and cost-effectiveness of the education system; and,
- Support GOH efforts to decentralize its alternative education system by supporting the development of a foundation that will be directly responsible for program implementation, financial and technical management of the EDUCATODOS and Save the First Cycle programs. Other donors working in alternative education are voicing an interest in joining the foundation as well.

Intermediate Result 3.2: Increased and Improved Educational Opportunities for Youth

The activities proposed in the Country Plan will focus on providing: 1) expanded access to quality basic education for out-of-school youth; and 2) workforce development. Activities will be specifically targeted to meet critical gaps in access to and quality of the basic education system, to achieve Education for All – Fast Track Initiative (EFA-FTI) and the Poverty Reduction Strategy (PRS) goals, and to develop a more coherent workforce development strategy. We will target gaps not being addressed by other donors. USAID/Honduras will build on the successes that have been achieved under the current strategy, which include: development of the EDUCATODOS alternative education program through the 9th grade; expansion of the private-sector based vocational education program to 30 centers; development of pilot programs to improve the quality of early primary education and reduce student failure rates; and development of innovative, high quality, and lower cost pre-school education alternatives. Under the new strategy, service delivery activities will be improved by focusing on higher levels of

efficiency and quality, and introducing reforms using private sector strategies, incentives, and alliances to revitalize the public sector's human resource and workforce development efforts.

Illustrative Activities

- Provide technical assistance to develop a national alternative delivery system and curriculum development for grades 10 and 11 for the EDUCATODOS program;
- Support the MOE's 'Education for All – Fast Track' program through national expansion of the highly successful Save the First Cycle program;
- Support implementation of the Central American Center of Excellence for Teacher Training, proposed by President Bush, focused on improving the teaching of reading and writing in the early primary grades;
- Support the MOE's efforts to reform and restructure the education system to devolve greater control of and responsibility for school management to parents and local communities;
- Provide technical assistance to help create a coherent national workforce development system in which planning efforts will focus on meeting the demand for specific workforce skills and competencies; and
- Provide technical assistance to a national interactive radio instruction pre-school program and delivery system for community-based pre-school programs and MOE kindergartens.¹

Intermediate Result 3.3: Improved Integrated Management of Child and Reproductive Health

Reproductive healthcare, family planning and child survival services make up a basic integrated package of services that will be expanded under the new program in areas of highest malnutrition and health need; i.e., the Western Region. Improved and expanded family planning services and information/education will be achieved through strengthened national programs and an expanded network of private and public-sector facilities that deliver high-quality family planning information, services and products in high-need areas. All major modern contraceptive methods will continue to be offered by both public and private providers; however, USAID will negotiate a gradual shift in responsibility to the GOH for procurement of contraceptives to increase national self-reliance.

Reproductive health care and family planning services are complementary to improved and expanded maternal and child health care as part of an integrated basic health services package which is critical to address priority health needs. Our program will expand and improve a basic set of maternal and child health interventions, with priority on geographic regions of greatest poverty and health need. The PL 480 Title II Program will assist vulnerable populations in extremely poor municipalities of western Honduras through: a) increased food availability and access; b) increased utilization of food through improved maternal childcare and reproductive health care; and c) improved institutional capacity to manage interventions and resources devoted to food security at the departmental, municipal and community levels. This includes activities to use new food technologies and increase the capacity of local governments to

¹ The last planned year of funding for this activity (begun under the previous strategy) is FY 2004 and implementation will end in FY 2005.

improve the infrastructure to manage and support food production. Under the new program, we are proposing to increase the Title II food by 80% and expand a successful program to other areas of high need². The current Development Assistance Program with CARE runs from 2002 to 2006.

Illustrative Activities

- Provide technical assistance and commodities to enhance quality reproductive health care and family planning services to high-need clients in under-served, low income areas.
- Strengthen immunization, child growth monitoring and health promotion, primary care of diarrheal and respiratory diseases, emergency pediatric care for severely ill infants, prenatal, delivery and emergency obstetric care for mothers, and other primary health care services.
- Use technical assistance and field support to monitor and maintain rural water supplies at adequate quality levels, and use of local currency reflows for new systems.
- Implement a Title II food program to provide better health services to mothers and children, increase local agricultural diversity and production, and increase the ability of local rural municipal governments to act independently in designing and implementing local development activities.

Intermediate Result 3.4: Spread of AIDS and Other Infectious Diseases Controlled

Reduced incidence and prevalence of HIV/AIDS (measured among priority groups) will be achieved through the increased use of HIV/AIDS prevention, treatment and care practices. Although prevention remains the major focus of the IR, the expansion of the scope of our program reflects the changing environment and policies in confronting the epidemic and directing efforts toward behavior change in high prevalence populations in high-transmission geographic areas. USAID/Honduras efforts will concentrate on populations with high prevalence of HIV.

USAID/Honduras will also support activities that will strengthen Ministry of Health (MOH) capacity to prevent, control, monitor, and evaluate the impact of malaria, dengue, and tuberculosis. USAID/ Honduras will support the MOH's TB prevention and control program that focuses on early case finding, effective and complete treatment, and community education. USAID/Honduras will also support malaria and dengue prevention and control by: strengthening of the newly-established MOH office of Environmental Health; supporting Municipal Action Plans for Health (Healthy Municipalities); helping enhance diagnostic capability; and facilitating information, education, and communication efforts on measures that can be taken to reduce risk of infection.

Illustrative Activities

- Support a national self-sustaining condom social marketing program with a behavioral change component;
- Purchase and distribute low-cost rapid HIV tests, help increase general availability of HIV counseling and testing, and prevent mother-to-child HIV transmission;

² It is understood that there is a possibility that monetization levels may decrease and that other resources (i.e. DA/CSH) may have to compensate for administrative costs of food programs or levels of food assistance may need to be reduced.

- Develop a policy impact model to demonstrate the implications and impact of the AIDS epidemic as a basis for policy dialogue and generating leaders' commitment to action;
- Provide field support to the MOH for a HIV/AIDS surveillance program to measure changes in the epidemic and evaluate the effectiveness of interventions;
- Train health and community personnel in Directly Observed Treatment-Short Course (DOTS) strategy to ensure rapid and accurate TB diagnosis; and
- Train community environmental health technicians to establish a program of sustained, preventive interventions to foster rapid case finding, expeditious diagnosis and treatment, as well as correction of environmental conditions which foster disease proliferation.

Strategic Choices: Because of resource limitations USAID/Honduras will no longer use appropriated funds for investments in water and sanitation infrastructure. We will, however, remain engaged with local currency resources and will support water policy dialogue and reforms, including the passage of a new water law. We will also gradually transfer responsibility for contraceptive procurement to the GOH. In education, we will no longer fund academic participant training programs to upgrade and update the teaching staff of the National Pedagogical University in the teaching of reading and will rely on the Central American Center for Excellence in Teacher Training (CETT) program for this support. During the strategy period, we will phase out of providing direct funding to cover the recurrent and operational costs for delivery of educational programs such as EDUCATODOS (e.g., expanded field staff, training, printing and materials distribution, etc.) and will seek MOE commitment to use its own or other donor resources to expand the program nationwide to help achieve the PRS goals for grades 1-9. Areas we will no longer fund include:

- Additional health service infrastructure;
- Water and sanitation infrastructure construction (except in the case of disaster);
- School or vocational center construction or other infrastructure;
- Direct financial and institutional support to NGOs and other entities for education service delivery.

Measuring Achievement: A final Performance Management Plan will be prepared pending agreement on shared regional indicators as well as in consultation with USAID/Honduras' partners during the first year of the strategy so that partners' monitoring and evaluation plans consistently contribute to the measurement of agreed-upon indicators of results and targets. These indicators will support and be consistent with regional indicators. Preliminary country-level indicators for illustrative purposes include:

SO Level Preliminary Performance Indicator

- Percentage of GDP expended on health and education services

IR Level Preliminary Performance Indicators

- Total fertility rate
- Maternal and infant mortality rates
- Global malnutrition rates in children under age five
- HIV incidence/seroprevalence in specific groups
- Increased number of years of schooling achieved by out-of-school youth and adults through the EDUCATODOS alternative basic education delivery system
- Percent change in the completion rate compared to the standard school age population for these levels (disaggregated by 3rd grade, 6th grade, 9th grade, and secondary)

Estimate of Required Resources: The estimated life-of-plan resources for this SO are \$137 million, including approximately \$34 million for HIV/AIDS, \$34 million for other health, \$36 million from PL 480 Title II, and \$33 million for education.

SO Start and End Dates: FY 2003 - FY 2008

III. PROGRAM RESOURCES

The Honduras Country Plan timeframe and funding period is FY 2003 through FY 2008. The Mission plans to “jumpstart” the Country Plan by treating FY 2003 as a transition year, splitting its FY 2003 operating year budget between the current and new strategy in all sectors except health, which will begin in FY 2004.

This funding is distributed among the Strategic Objectives over the FY 2003-2008 Strategy period as follows³:

SO-1 Ruling Justly: More Responsive, Transparent Governance (522-021):

\$29,500,000 DA

SO-2 Economic Freedom: Open, Diversified, Expanding Economies (522-022):

\$68,500,000 DA

SO-3 Investing in People: Healthier, Better Educated People (522-023):

\$33,000,000 DA
\$68,000,000 CSH
36,000,000 PL 480

IV. PROGRAM AND OPERATIONAL MANAGEMENT

Program Management

The December 2002 USAID Honduras Mission Management Assessment report made the following conclusions about Mission Program Management:

- “The new management team is leading the Mission through a successful transition that is on track to culminate in a strong new strategy backed by a solid and well functioning staff. The challenges of this transition have been enormous given the programmatic shift out of hurricane reconstruction – which was anything but a normal program.”
- “Mission organization of its technical functions into three relatively large offices seems appropriate to the size and scope of the program, with economic growth (including agriculture and trade) and environment programs managed from one office, education and health programs managed from another, and a range of democracy programs (primarily) from a third. Each office has one or more strategic objective teams.”

³ Levels are estimated and subject to the availability of funds. Amounts are rounded to the nearest \$500,000.

- “FSNs are involved at all levels in the discussion and elaboration of Mission policies, programs and day to day administration.”
- “Mission management has made it clear to all teams that they must work together not only on matters of process but on matters of substance. Cross-team synergy has become a theme of daily operations. This has not only strengthened the program but has also helped build morale.”
- “The Mission Director has made it clear that he would like to see simplified management structure for portfolio implementation under the new strategy. The need to consolidate management units, to the extent possible, has been internalized among staff and accepted as a goal.”

These findings clearly reflect the key components of the Program Management structure that USAID/ Honduras will utilize to implement its Country Program. Significant progress has already been made in reorganizing the program management structure to be more efficient, more synergistic, and less bureaucratic.

Each Strategic Objective will be managed under one of three multi-sector technical offices and implemented by a Strategic Objective team with both core and extended members who contribute a wide variety of both technical and support skills to the management of the program. Our in-country staff are fully empowered and provide USAID with a deeper understanding of Honduran developmental problems and issues, and of effective ways to deal with them.

The Strategic Objective teams have worked closely in the design of this Country Plan to increase synergies between the strategic objectives and to fully incorporate cross-cutting themes into their results frameworks. On-going coordination throughout the implementation of the programs will help ensure a maximum return on the investment of resources.

Staffing

In 2002 the Mission undertook a 30 percent staff reduction from 157, when the Hurricane reconstruction activities were at their peak, to a current staffing level of 109. Following the December 2002 Mission Management Assessment, and as part of a transition to the new strategy in FY04, the Mission submitted a rightsizing plan which made additional staff rationalizations which will further reduce the staff levels below 100 as we transition to the new strategy in FY04 (a 35% total reduction). However, in light of the new Agency-wide template for U.S. direct-hire staff, the Mission must now prepare and submit a revised rightsizing plan which will be in accordance with the template allocations recently provided to the Mission.

Management Units

USAID/Honduras has undertaken an extensive review of the management units under our current portfolio and is aggressively working to reduce the number of units by 50 percent under the new program, thus streamlining and greatly simplifying the Mission’s management burden. The Mission will also effectively utilize both regional G-CAP programs and Global Bureau programs primarily for the provision of technical assistance for key areas such as health, the environment and trade capacity building; thus not only reducing the burden on the technical offices but also the related transaction costs, thereby reducing the contracting, vouchering, and disbursement workload.

V. ANNEX: SUMMARIES OF ASSESSMENTS AND STUDIES

Within the past eight months, we have conducted numerous evaluations and a wide variety of assessments and analyses to guide and validate the process, including: Gender/WID; Conflict Vulnerability, Biodiversity/Tropical Forestry, Land and Property Rights, Trade and Investment, Rural Economic Development and Rural Diversification, Microfinance, Anti-corruption, Democracy and Governance, Municipal Development, Commercial and Administrative Law, Food Security, HIV/AIDS, Anemia, Trade Capacity Building - 15 assessments in all. (See Annex: Summary of Technical Analyses).

ANNEX: SUMMARY OF TECHNICAL ANALYSES

Summary of Gender Action Plan

Prepared by DevTech Systems Inc., November 2002

The Gender Action Plan highlights specific points within each strategic area where gender relations may have a significant impact on program implementation and results or where the program may affect the status of women. These considerations have been incorporated into each strategic objective. The approach focuses on gender mainstreaming within strategic objectives. It contributes to national goals contained in the Plan de Gobierno, 2002-2006 and the "Política Nacional de la Mujer." The action plan makes recommendations for each of the Mission's strategic areas as follows:

Competitive Market-led Growth

The gender dimension of poverty highlights women's greater vulnerability to the hardships of poverty and more limited access to and control of resources for poverty reduction. They are also impacted differently and, often more severely, by macroeconomic policy adjustments. Gender analysis and monitoring must be built into the policy agenda. Proposed USAID activities that focus on specific business development activities should include gender analysis in the design process to incorporate accommodations or training that may be required to ensure equal access to economic opportunities. The impact of programs on women in terms of working conditions and labor rights should also be monitored. Finally, the Mission should monitor the trade-offs between its longer-term poverty reduction strategy and short-term requirements for income and subsistence among the population currently living in poverty.

Integrated Natural Resource Management

Natural resource management activities should maintain proportional representation of key stakeholders and the full diversity of water users. Women and men should be present in equal numbers. All indicators recording the "number of people" should be disaggregated by sex. Decision-making and action at the local and municipal level should include training or other mechanisms to redress any imbalance in resources and power between men and women. Support should be given to development of extension techniques that are effective in reaching and influencing the behavior of women as well as men in rural communities.

Family Health

USAID/Honduras health programs have been designed around a gender-integrated approach. However, this can be strengthened by: attention to and documentation of increased access of

men to general health care and especially to assistance for family planning and HIV/AIDS; increased outreach to young men and women for sex education and family planning, especially in rural areas; and providing health workers with training and information to recognize victims of domestic violence and providing them with information on how to seek assistance and legal redress.

Strengthening Key Democratic Institutions

USAID/Honduras should support efforts to enforce the Anti Domestic Violence Law through training of police and judges. The experience with the 30 percent quota requirement for elections should be assessed. Women's civil society organizations should be supported in the development of reforms to the rule of law. Women in positions of authority in municipalities should be supported. Gender differences should be considered in the design, implementation, and monitoring of program to build local participation at the municipal level, especially in the management of decentralized services.

Better Educated Workforce

Education statistics and indicators should continue to be disaggregated by gender. The effectiveness of alternative basic education delivery systems for boys and girls learning should be periodically assessed. Similarly, programs to increase access at the pre-school and secondary levels should be assessed. Gender bias in education standards and testing should be addressed and corrected. Messages about gender roles and relations should be incorporated into the development of the pre-school curriculum and of the EDUCADTODOS curriculum for grades 10 and 11. There should be explicit attention to workforce development for both women and men. Issues of self-esteem and awareness of gender roles and relations should be built into teacher training programs.

Honduras Democracy and Governance Assessment

Prepared by ARD, Inc., January 2003

In the area of Democracy and Governance, the Mission carried out a comprehensive Democracy and Governance assessment and assessments in Municipal Development and Anti-Corruption. The Mission also undertook a focused study of key commercial laws and the conflict assessment mandated by the ADS. A summary of assessment results follows:

The September 2002 assessment of the Democracy and Governance (DG) sector relied on the methodology developed by DCHA/DG. The objectives of the assessment were: (1) to recommend areas in which to develop DG programs for the new strategy; and (2) to clarify the role of DG programs in the overall portfolio of USAID/Honduras. The assessment identified the principal challenge to democracy in Honduras as the concentration of political and economic power in the hands of a small elite. According to the assessment, these economic elites control the political parties and, through them, almost all governmental institutions; this prevents Honduran democracy from serving the interests of the citizens as it should.

Based on its comprehensive analysis, the team recommended that USAID continue working in the rule of law, municipal development, and government accountability areas. In addition, the team recommended that USAID take full advantage of opportunities to help Honduras address its primary DG challenge: electoral reform. To carry out this work, the Team recommended that the Mission employ three strategic approaches: promote citizen participation in governance at all levels; cooperate with other donors to exert diplomatic pressure in favor of democratic reform; and undertake initiatives to defend women's rights and to support women's leadership throughout Honduran society.

In terms of electoral and political party processes, the team recommended that USAID work with civil society on the key issue of the method of electing congressional deputies. The team also recommended offering technical assistance to the National Electoral Tribunal to improve the administration of elections and also as a means to become involved in more significant political and electoral reform. In terms of government accountability, the team recognized that corruption is intimately related to the concentration of power in the elites. It recommended work on the supply and demand sides – to strengthen GOH control entities and to support civil society advocacy on corruption issues. (Additional recommendations are made in the Mission's anti-corruption assessment report.) In terms of specific program areas in the rule of law, the team recommended the continuation of ongoing work on implementation of the CPC and activities to promote judicial independence (both horizontal and vertical), and recommended developing a comprehensive strategy to promote the rule of law and prevent human rights violations, especially with regard to rural areas and the protection of women's rights. The team also recommended that USAID consider applying lessons learned on the criminal side to the civil side of the equation – particularly with regard to development of a new Civil Procedures Code and civil court administration. The team also recommended that the Mission consider undertaking a more focused rule of law assessment.

Summary of Conflict Vulnerability Assessment

Prepared by ARD, Inc. as part of the Democracy and Governance Assessment

A recent Conflict Vulnerability Assessment found no indication that Honduras is at risk of widespread social conflict in the near term. The most plausible destabilizing element – the emergence of a virulent form of political populism, along the lines of a Hugo Chavez – does not appear especially likely. However, the common, root causes of weaknesses found in the governance and rule of law areas need to be addressed if legitimacy of the democratic system is to be preserved. Key areas for potential conflict include:

Consensus – There are no significant consensus issues. Honduras established formal democratic processes, including elections, twenty-two years ago. Democracy, weak and flawed as it is, is the only political game in town. The military, the most likely threat to democracy, has withdrawn from political life. Hondurans expect that elections will continue and that all parties will abide by electoral decisions.

Inclusion – Social mobility is possible in Honduras. Hondurans can and do rise from humble backgrounds to positions of influence in society, thanks to talent, education and/or business success. Also, citizens at all levels have access to organizations of mutual interest and a wide range of advocacy organizations. Participation rates are relatively high, particularly since Hurricane Mitch. The continued, though diminishing, influence of labor unions, and recent successes of civil society in advocating for reforms suggest that Hondurans have some channels to make their voices heard. While minority groups account for ten percent of the population, there are no legal barriers to their participation in public life. There are no signs of ethnic polarization in Honduras.

Competition – Nearly all democracy problems trace their origin to a concentration of political and economic power is concentrated within a small elite. Political parties are the primary tool of elite control. Elections are free and fair, but occur between two parties beholden to the interests of the same elite. The result is a fundamental lack of competition of ideas, interests and values. The Honduran political system severely limits public accountability opportunities hold public officials accountable. Accountability within the Congress is toward the party bosses (and ultimately their elite patrons), rather than toward the electorate. However, Honduras's elite has allowed some incremental reform. The political parties, seeking voter support, promise social programs, some of which are subsequently enacted. The result, over time, has been the emergence of a social democratic state with inadequate resources to meet its obligations. The gap between what the government promises and what it can actually provide is creating a credibility gap that could provide fertile ground for more extreme forms of political populism. While the destabilizing threat of populism exists, the social conditions that have bred populism elsewhere have been present in Honduras for decades.

Rule of Law – The justice sector in Honduras for many years operates poorly and has fails to earn the confidence of Honduran citizens. The Honduran judiciary has a tradition of political patronage; every change in government results in a substantial turnover of judges and judicial personnel. There are high levels of corruption and low ethical standards and practices. Arbitrary decisions and judicial manipulation of the courts by other governmental branches, the economic elite, special interest groups, and well-financed individuals occur regularly. The poor have no effective defense or recourse. Archaic procedural codes, inadequate training and preparation for justice-system operators, weak administrative capacity, and insufficient budgets handicap the justice system, and minimal public credibility. Similar institutional weaknesses in the face of elite manipulation render personal property rights tenuous, discouraging domestic and international

investment. The legal system is unable to confront rampant corruption in the public sector, or to control widespread crime that threatens public security throughout the country. There are now increasing concerns that human rights are being abused by both private actors and public authorities in the name of fighting crime. Citizens who justifiably have little faith in the criminal justice system, and commonly distrust or fear the police, often take the law into their own hands. The weak rule of law is not a systemic catalyst for social conflict but does engender widespread violence and lawlessness. These issues often ignored in national political discourse and the failure of the state to deal with them, while respecting human rights, could have severe consequences for the legitimacy of democracy.

Good Governance – Honduras has never had a strong state. The rugged, rural nature of the country presents serious impediments. Numerous communities are inaccessible cannot be reached by road, and many are without police. In addition, many democratic institutions have only developed over the past two decades. Deep politicization of every aspect of government, down to the service delivery level, is a core problem. Honduras has a very weak civil service and positions down to the middle management level are filled with political partisans, leading to a significant learning curve for each new administration. Semi-autonomous oversight bodies, such as the Electoral Tribunal and Controller General are politicized. Corruption is endemic throughout the public (as well as private) sector. Honduras scores consistently very near the bottom of the TI corruption perception index. Governance weaknesses exacerbate citizen dissatisfaction with government performance. Failure to increase political accountability and transparency fuels citizen disillusionment with the government. However, there is no evidence that, in the short term, governance shortcomings are leading Hondurans to turn against the democratic system.

Anti-Corruption Assessment

Prepared by Casals & Associates, Inc. November 2002

The assessment concludes that corruption in Honduras is deeply rooted and present at all levels of society. Corruption is a product of a variety of complex and interconnected factors all of which result in a culture of widespread impunity, including poor legal and policy frameworks, lack of proper public sector accountability and transparency mechanisms, a media that is not able to report freely, inadequate citizen participation in decision-making, a judiciary that is not independent, an electoral system that is highly politicized, and a Congress that does not allow for true representation and accountability of its members. Further, corruption is exacting a high political, social, and economic toll on the country. It undermines the rule of law, limits democratic stability, diverts capital from needed development projects, prevents foreign investment, and creates undue and unfair burdens on the private sector.

However, the Government of Honduras (GOH) appears willing to enact broad-based reforms. It is in the best foreign policy interests of the USG, as well as the international community, to support such changes. USAID and other donors have already supported several efforts to counter corruption, but these are intermittent and disperse and fall short of the assistance that should be provided. Actions that should be considered for inclusion in a new strategy include:

- 1) Development and support of a comprehensive dialogue about policy issues to engage the GOH on much-needed reforms in the area of anti-corruption;
- 2) Targeted technical assistance and training to several oversight and other entities within GOH and municipalities to improve prevention systems, such as ethics, procurement, financial management, internal control, and audit;
- 3) Financial and technical support to organizations outside the GOH in order to mobilize civil society and continue to educate the citizenry about the negative impacts of corruption, as well as institutional strengthening support in order to reinvigorate the National Anti-Corruption Council;
- 4) Training and technical assistance to several justice sector entities to strengthen the GOH's ability to investigate and prosecute corruption cases and improve citizen oversight of judicial processes;
- 5) Establishment of and support for anti-corruption mechanisms at the local level;
- 6) Support for training for elected officials and staffs to address the issue of politicization;
- 7) Development of numerous anti-corruption synergies within the current USAID portfolio in the areas of economic growth, education, and health.

Commercial and Administrative Law Reform

Prepared by Henry Schiffman, June 2002

This analysis was conducted as part of the DG Assessment as well as an additional focused examination of key commercial and administrative laws. The study on the legal framework disclosed several areas where laws could be modernized, namely the laws for secured transactions, company law, and the civil procedure code. However, the overall conclusion of the analysis was that the substantive commercial laws are not the primary obstacle to trade and investment. Implementation of these laws, including their application and the procedures by which courts resolve commercial disputes constitute the greatest obstacle to trade and investment. The strategy takes these considerations into account.

Municipal Development Project Evaluation and Municipal Assessment

Prepared by RTI, November 2002

Relatively little progress has been made on the legal framework for decentralization. The 1990 Municipal Law and the 1993 electoral reform law provide the underpinnings for decentralization. However, implementing laws, like the one for decentralizing authority for water, while debated and stalled for years, are again being considered.

The current Maduro administration in Honduras has brought new energy to decentralization efforts. The Government of Honduras (GOH) is working on a number of fronts simultaneously: the legal framework, citizen participation, finances, and public services. The list of new public services being considered for decentralization—including health and education—is extensive, and all the services in some way involve local capacity to manage new responsibilities. Local government will become an important partner in many sectors in which it has traditionally played a minor role or had no role at all.

Despite the lack of progress on decentralization, many changes have occurred in the sector since the Municipal Development Program (MDP) began, especially in the 46 municipalities where technical assistance is being provided. Mayors have a larger role than ever in providing services because they have been able to increase municipal income. They are also better prepared and educated than before. Relations between municipalities and community groups have improved to some extent. In MDP municipalities, and others around the country, the emergence of the administrative capacity and commitment to generate local revenues has increased significantly. In other small and medium-sized municipalities, there is much less or little administrative capacity to raise resources locally without outside assistance. This lack of capacity is a major hurdle facing broad decentralization efforts.

Strategic Themes and Programmatic Recommendations

USAID's strategy should include major players in the sector from the GOH and a much more direct approach to citizen participation in municipal affairs. The strategy should also continue its work, albeit with differing emphases, with municipalities and their supporting institutions. There is an unprecedented opportunity within this administration to make significant progress in municipal development and decentralization, yet how long this window of opportunity will remain open remains unclear. We recommend that USAID work with a number of GOH entities (relevant ministries, Congress, the Comptroller General and others) and encourage and support the establishment of a reasonable set of decentralization objectives to pursue. We recommend new participatory approaches to local government in the Mission's municipal program. USAID, it appears, will also need to develop an administrative mechanism to support activities proactively in these areas in a comprehensive way.

Market-based approaches to training and technical assistance are needed. Specifically, implementing institutions need to begin to charge for assistance, and to become more demand driven and more businesslike in operation. Strategies for sustainability in a post-USAID period should be developed. Finally, other private sector and nongovernmental organizations (NGOs) should be encouraged to participate in the municipal services market.

New models are needed for working with smaller communities. One promising approach is to work through associations of municipalities, or *mancomunidades*. One USAID municipal training program is oriented to very small communities, and might have potential for wider, more intensive application. Finally, assistance programs should include a broader set of goals and

activities in community participation, and use techniques to make community groups more equal partners with municipal authorities in investment decisions and oversight.

Summary of Biodiversity and Tropical Forestry Assessment: USAID/Honduras

Prepared by Jaime Bustillo Pon, December 2002

According to the GOH AFE-COHDEFOR, 9,786,804 hectares (or 87% of Honduras' territory) are covered by forest soils, out of which approximately 50% remain under forest cover. However, some 80,000 to 100,000 hectares of these forests are lost annually, primarily from areas of broadleaf forest. Although pine forest appears more stable, it has suffered a drastic reduction in its regenerative ability and genetic quality. The present study finds dry forest, mangroves, and humid or cloud forest, to be among the most threatened forest ecosystems in Honduras. Coral reefs and aquatic ecosystems in general, are the other highly threatened ecosystems.

As a result of the high national rate of ecosystem modification and destruction, some 82 species of wildlife are included in the CITES appendices for Honduras. Threatened families in Honduras include the parrots, the raptors, the wild cats and the marine turtles. Most threatened individual species include the Emerald hummingbird; the Quetzal; the Manatee; the Danto; the American crocodile, and the Pink boa of the Bay Islands. Among the plants, all major commercial hardwood families are threatened, including the famous Atlantic Honduran mahogany because of its lumber high value and scarcity and the entire family of orchids is threatened due to habitat destruction, particularly those cloud forest species.

To protect natural ecosystems and the biodiversity associated with them, the government has set aside 1.2 millions hectares of the total 5.2 millions hectares of forest in Honduras and declared them as protected areas. However, in spite of strong interest in conservation from the government and the international scientific community only about 25% of these protected areas are partially attended, due to their high tourism, scientific and economic value. Only some 38 protected areas have been selected priorities, and receive some type of management.

One of the main causes of ecosystem modification and destruction is man's lack of environmental awareness.

Rural poverty is one of the most important threats to biodiversity in a country where 54% of the total population is concentrated in rural areas, and of which, 75% is below the poverty level. To survive, those living in poverty must use subsistence measures that negatively affect the ecosystems and biodiversity, such as deforestation and hillside farming. All of these activities have negative impacts on watersheds, water production and quality, and the rate of soil erosion.

Government agencies need substantial additional institutional capacity in order to be able to comply with their legal functions related to biodiversity conservation. The same can be said for University Biology faculties, which have good intentions to include more applied research in their curricula, but lack the resources to do so. NGOs are struggling to make ends meet, and some that have signed agreements with COHDEFOR/DAPVS for joint management of a particular protected area, are either giving up or doing the bare minimum to develop management plans. Municipal environmental units also need capacity building such as more training and logistical resources in order to coordinate and work better with NGOs, government, and the private sector.

Land and Property Rights Assessment

Prepared by Jolyne Sanjak, USAID/W

In recent years there has been increased awareness of the need to improve governance of property. The parameters paper for the new USAID/Honduras strategy calls for USAID/Honduras to address the capacity of Honduras to improve land use planning and to make sound land use choices. Land administration is a critical infrastructure for land use management. For the new strategy a “cross-cutting” approach in which activities that support the current momentum in Honduras for substantial reform are embedded within broader activities. A holistic approach to regularizing property rights will help engender good governance and enhances competitiveness and the seeds of pro-poor growth through asset-building. Good governance of property rights is a key to mobilizing property as a source of collateral for enterprise development.

The assessment describes the historical problem of informal and irregular land tenure combined with an inadequate legal framework and weak institutional structure for property rights. It identifies several on-going initiatives that provide a window of opportunity for USAID to support property rights initiatives including new legislation and a more coordinated country strategy. The assessment discusses several recent and proposed pieces of legislation that affect property rights including the draft law for the National Property Institute, the draft law for Land Use Planning and Zoning; the Administrative Simplification Law, and the Municipalities Law as well as the Geographic Information Systems (GIS) Initiative. The assessment discusses alternatives for follow-up of an assessment carried out by ILD and COHEP on informal property and notes that the ILD follow-up proposal is not in sync with the current dynamic or within the funding limits of the Mission. The assessment also describes the roles of other donors, especially the World Bank, the IDB, the EU and Bi-lateral donors including CIDA and GTZ, all of whom are financing activities that related to improved property rights and land tenure. The assessment points out the need to coordinate with the World Bank land administration project and IDB municipal projects.

The assessment recommends activities under four separate action areas.

- Coalition Building through Broadening and Deepening Understanding. This set of activities is aimed at building a stronger and broader coalition of interests behind legislation and implementation of reforms for title registration.
- Specific technical assistance. This should be provided on an “as-needed” basis.
 - o Map out the process to pass legislation for a National Property Institute;
 - o Improved methods for property appraisal and valuation;
 - o Appropriate development of a GIS; and
 - o Addressing specific land titling constraints.
- Diplomacy. Dialogue by senior USG officials in Honduras and Washington with GOH and other donors on important property cases;
- Regional opportunities. There are a number of specific Central American or Latin American-wide clinics, workshops, training networks, etc. that can be accessed.

Trade and Investment Concept Paper for Honduras

Prepared by Kermit Moh, USAID/W, August 2002

A free trade agreement (FTA) between the U.S. and Central America is expected to be finalized by the end of 2003. As Honduras negotiates this agreement and the Free Trade Area of the Americas (FTAA) it must consider several sectors that will impact on trade or be impacted by trade.

In the financial sector Honduras is overbanked and the sector is weak. Lenders are very cautious and interest rates are very high because of the large bad debt load. Loans are short term. For all practical purposes private equity and bond markets do not exist. This severely constrains the financing options of local companies as they must rely heavily on bank financing.

In agriculture, growers of traditional products, bananas, coffee, sugar, meat, and corn have not been doing well and have sought government assistance. Growers of locally-consumed products have sought high import tariffs. This trend is expected to continue. Non-traditional products (fruits, vegetables) are grown for the export market. Growers of these products must be flexible to respond to changing demand.

The maquila industry continues to be an employment generator and foreign exchange earner. It has been adversely affected by the U.S. recession. The major focus is textiles, as it has been during the past 12 years. The labor code and constitutionally-provided workers "protections" are impediments to the broadening of the sector to pharmaceuticals and electronics. These greatly limit the ability of the maquila industry to go "up-scale" with higher wage jobs.

Honduras is focusing on tourism related to diving but many other countries in the region are doing the same. Honduras will have to develop a niche market, perhaps by combining the beach with visits to Copan.

To prepare for free trade both the private sector (FIDE) and the government are trying to prepare for negotiations; however, the government lacks the necessary resources to field an effective FTA negotiating team. Also, representatives of many productive sectors have declined to participate in negotiation sessions demonstrating a lack of understanding of the potential benefits of an FTA. COHEP is perceived as weak and somewhat protectionist.

There are four major challenges for Honduras in trade capacity building. These are: preparing for and participating in trade negotiations by involving government, the private sector and civil society; implementing obligations under trade agreements, including standards and practices to comply with the "rules of trade;" identifying constraints to carrying out efficient and competitive business; and doing away with these constraints.

There are several targets of opportunity for USAID to assist in trade capacity building:

- providing information on free trade agreements and their potential impact;
- providing resources to take selected Hondurans to trade-related seminars
- providing basic analytical tools on trade;
- providing assistance to analyze and do away with business constraints;
- helping to identify ways to mobilize medium to long-term investment funds'
- assisting to strengthen accounting standards;
- helping in the development of strategies to overcome high shipping costs from Honduras;
- helping to develop strategies to broaden the maquila sector; and
- helping to develop market-niche tourism.

**Rural Economic Development and Agricultural Diversification --
Generating Sustainable Economic Growth while Reducing Poverty**

Prepared by David Bathrick, September 2002

For Honduras to escape from poverty, there must be GDP growth and trade. But Honduras is severely challenged on many critical fronts. Until the 1998 coffee crisis, coffee had been Honduras's leading export, employing 1.4 million as producers or workers. Coffee has continued in a major slump during the past five years. Also, 75 percent of Honduran small farmers produce basic grains for which prices have been declining in real terms since 1987. GOH policies have, for decades, favored urban-based, increasingly inefficient manufacturing sectors and engendered rural sector negative terms of trade, causing traditional land and labor comparative advantages to be under-utilized. There is no single economic sector that is positioned to stimulate broad-based economic growth. The bulk of the Honduran workforce remains concentrated in low-remunerative basic grains production. Honduran non-traditional agricultural exports have lacked a broad agro-industrial, value-added orientation.

There are several challenges that must be addressed including:

- The prevailing very weak competitiveness base;
- The less than optimal national commitment and institutional base; and
- The lack of appropriate competitiveness-enhancement elements in the areas of technology and knowledge dissemination, reliable and efficient market services;
- Limited long-term financing; and
- Limited understanding of global markets.

However, there are significant opportunities for Honduras to increase its economic growth:

- There are some post-Mitch trade and enterprise development experiences on which to build;
- There is a national commitment for economic reform that includes macro-policy reform; improving Honduran competitiveness; and improved GOH governance; and
- Some key support elements are being put into place, including improved road and port infrastructure; some high quality but under-utilized research centers and increased external remittances.

The essential elements of a USAID should focus on:

- Strengthening the essential enabling conditions for stimulating competitive market-led growth by:
 - o Fomenting the new superstructure to support the appropriate policies, trade negotiations, development strategies, and public information and awareness services;
 - o Heightening environmental awareness and appropriate natural resource management practices;
 - o Facilitating market support systems to drive and energize the new market-based system;
 - o Introducing market-responsive technology systems;
 - o Facilitating access to capital; and
 - o Providing essential business development support services.

- Supporting the strategic elements of an economic diversification program including:
 - o Support for new non-traditional agricultural exports;
 - o Development of coffee diversification strategies;
 - o Providing alternatives for basic grains producers;
 - o Supporting development of a wood products “secondary industry;” and
 - o Tourism development.

Micro-Finance Assessment

Checci and Company, September 2002

USAID has supported the development of sustainable micro-finance in Honduras for fourteen years. This assistance continues to play a significant role in enhancing the incomes of the poor, especially women. One out of every four persons earn their living by working in micro and small businesses. More than 300,000 jobs have been created or maintained. Since early 2002 USAID has provided a technical assistance and training package to assist selected micro-finance institutions in strengthening their organizational capacity to expand outreach. This has played a key role in helping assure sustainability of the micro-finance sector. An evaluation of the program recommended continuing programmatic technical assistance and support to ensure the passage of a law to regulate financial private voluntary organizations and support to the National Banking and Insurance Commission to establish a supervisory body for micro-finance lending.

National Action Plan for Trade Capacity Building: Honduras

Ministry of Industry & Commerce, November 2002

The Honduran National Action Plan for Trade Capacity Building (TCB) was written in November 2002 by the Ministry of Industry & Commerce (MIC), with assistance from USAID. This plan lays out the Government of Honduras' program and priority needs to negotiate and implement the U.S.-Central American Free Trade Agreement (CAFTA) during 2003 and beyond. This plan provides a well-defined program for donor assistance to prepare the MIC's trade negotiators and analysts for the year-long CAFTA negotiation with the United States, and to work with the private sector to obtain their support for this free trade agreement. This plan provides a list of priority development projects (e.g., export diversification, strengthening small enterprises, vocational training, improved phytosanitary facilities, greater personal security) that Honduras needs to implement a free trade agreement with the United States and to promote greater private investment, competitiveness, and economic growth in an open Honduran economy in the future.

Food Security Update for the USAID Mission in Honduras
AED, Food and Nutrition Technical Assistance Project, May 2002

As part of the new Mission strategy development exercise, in 2002, USAID/Honduras commissioned the Food and Nutrition Technical Assistance project (FANTA) to carry out an updated analysis of the food security situation in Honduras. The study found that despite the sometimes dramatic swings in food insecurity following natural disasters, food insecurity in Honduras is primarily a problem of poverty (access) and poverty is widespread, although more prevalent in rural areas than in urban centers. The review of literature and interviews with key informants suggests that there is room for expansion of the Title II program. Other regions and departments, in addition to those where Title II is currently working, have widespread food insecurity as measured by high levels of malnutrition, irregular food availability and poor income-earning opportunities. The west should continue to be a region of priority for the Title II program (Title II is presently working in the Departments of La Paz, Intibucá and Lempira).

Two possible directions of expansion are: 1) the south and central south regions, and 2) parts of the Departments of Santa Barbara and Copán. An expansion of the program would most likely require opening the door to other PVOs and ensuring that adequate Title II and other resources (Development Assistance, 202(e), etc) are available. The types of interventions currently being implemented with Title II resources - household nutrition, production diversification, and/or market development/income generation - are applicable to many other municipalities in Honduras. To better address food access, the Title II program will need to place more emphasis on market opportunities and demand preferences. This will require additional technical capacity, particularly in marketing, from either DA-funded programs or other qualified organizations. Title II PVOs should also consider incorporating HIV/AIDS prevention activities into their food-security programs. Details on tonnage, commodity type and locations would follow a more intense study of food needs and possible constraints to program implementation. Expansion of the program should consider the local market capacity to absorb food resources, potential disincentives to local producers, possible disruption of existing non-food or non-incentive based development projects and the management capacity of the Mission.

Action Plan to Accelerate the Reduction of Anemia in Women and Children

Prepared by J. Arguello et al, (in Spanish), October 2002

The study found that the policies and programs oriented toward the prevention and control of malnutrition in Honduras have been effective in reducing some deficiencies, especially those of Vitamin A and iodine, anemia in women and chronic malnutrition in children. However, other nutritional indicators have not changed significantly. Of special concern are the persistently high rates of anemia in children. The assessment recommended, therefore, increased coverage of fortified sugar, increasing the levels of quality and coverage of iodized salt and of wheat flour fortified with iron and complex Vitamin B vitamins, increasing the levels of folic acids, strengthening the supplemental iron and folic acid programs for women and children, promoting more effective policy reforms, and the development of a more effective information system. The child and maternal health portion of the new strategy has taken these findings into account.

Honduras HIV/AIDS Strategic Plan

TvT Associates, October 2002

The updated strategy document was prepared as part of the Agency's requirement for countries designated as "Intensive Focus AIDS Countries". The analysis found that HIV/AIDS now affects almost as many Honduran women as men, the epidemic is concentrated mainly in San Pedro Sula and Tegucigalpa, and that infection rates are significantly higher among commercial sex workers, men who have sex with men, and the Garífuna population. The study concluded that the epidemic in Honduras appears to be worse than in other parts of Latin America, and that it is growing, albeit at a reduced rate. However, since there are clearly identifiable risk groups and regions where prevalence is high, the analysis proposes that the new USAID strategy concentrate on those specific groups and regions to reduce prevalence, with a major continued emphasis on prevention activities. However, the strategy team also recommended that USAID add new components to its current strategy: first, to play a role in HIV/AIDS care and support, as part of the new, expanding national treatment and care program; and second, to play an expanded role in assisting the key national players in coordinating AIDS activities and the national and regional level, in light of the rapidly growing support from the Global Fund to Fight AIDS, Tuberculosis and Malaria, as well as other donors.

ACTION MEMORANDUM

TO: AA/LAC, Adolfo Franco

FROM: Rosalie Fanale, LAC/SPO

SUBJECT: Approval for USAID/Honduras Country Plan

Action Requested: Your signature to the attached Management Letter is requested to approve the USAID/ Honduras Country Plan and to authorize its incorporation into the recently approved Central America and Mexico (CAM) Regional Strategy and to allow the Mission to proceed with obligations. The Mission's Country Plan will have an approved funding level of \$235.0 million for the FY 2003–2008 period.

Background: The Mission has completed and submitted its Country Plan for FY 2003–2008. The plan was developed with the central objective of supporting the CAM Regional Strategy for the FY 2003–2008 period. Following submission, the Country Plan was reviewed by the LAC Bureau and relevant offices throughout the Agency. The Mission's Country Plan is consistent with and strongly supports all three strategic objectives of the CAM Regional Strategy.

Authority: Approval of the CAM Regional Strategy was provided through the Management Agreement that you signed on August 1, 2003 in accordance with ADS 201.3.10.3. You have the authority to approve the Country Plan and its incorporation into the CAM Regional Strategy pursuant to ADS 103.3.8.1 in which you are delegated authority for strategic planning by the AA/PPC. The authority for program implementation delegated to you by the AA/PPC in ADS 103.3.8.2 gives you the authority to allow the Mission to proceed with obligations (subject to the Mission meeting all preobligation requirements).

Recommendation: That you sign the attached Management Letter indicating your approval of the Mission's Country Plan and its incorporation into the CAM Regional Strategy beginning in FY 2003.

MANAGEMENT LETTER

Mr. Paul Tuebner
Mission Director
USAID/Honduras

Dear Mr. Tuebner:

This is to express my sincere congratulations to your Mission for its outstanding work in completing its Country Plan for FY 2003–2008. I am pleased with the strategic direction and focus areas you have emphasized in your Country Plan.

This Management Letter approves the incorporation of the USAID/Honduras Country Plan into the Central America and Mexico (CAM) Regional Strategy. The USAID/Honduras Country Plan is consistent with and strongly supports the CAM Regional Strategy.

As the Mission moves forward with its activities, it should keep in mind program and staffing resource limitations so as not to overextend the program and dilute potential impact.

With this letter, subject to the Mission meeting all preobligation requirements, you are formally authorized to obligate funds under the CAM Regional Strategy beginning in FY 2003.

Sincerely,

Adolfo A. Franco
Assistant Administrator
Bureau for Latin America
and the Caribbean

Clearance Page for Approval of USAID/Honduras Country Plan and Incorporation into CAM Regional Strategy

LAC/ADAA, DBoyd	_____	date: _____
LAC/RSD, CMango	_____ (draft)	date: <u>08/13/03</u>
LAC/CEN, PKranstover	_____ (draft)	date: <u>08/08/03</u>
LAC/EMT, CRoyalty	_____ (draft)	date: <u>08/12/03</u>
LAC/SPO, JRudasill-Allen	_____ (draft)	date: <u>08/13/03</u>
PPC/PC, JLombardo	_____ (draft)	date: <u>08/06/03</u>
GC/LAC, JLifur	_____ (draft)	date: <u>08/13/03</u>

Drafter: PBrady x25886, 8/01/03 P:\lacspopub\countries\Central America\CAM Strategy\Annexes\Honduras Action Memo-Management Letter.doc