

# **HONDURAS COUNTRY PLAN**



**IN SUPPORT OF THE  
CENTRAL AMERICA  
AND MEXICO  
REGIONAL STRATEGY  
2003-2008**

Version 7/31/03

***“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 micro-enterprises.
- 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 limited resources by emphasizing cross-cutting themes and linkages. Each SO team has carefully considered how their components contribute to the achievement of other SOs, and how the activities will 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 work force 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 work force 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.

## **B. Foreign Policy Interests and Goals in Honduras and Strategic 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 work force and the lack of laws and enforcement to protect investor rights.

Conflicts over uses of natural resources, ineffective environmental management and controls, a lack of economic alternatives, and rapid population growth threaten the natural resource base upon which Honduras' economy is largely dependent. To slow and reverse environmental degradation, Honduras

needs the political will and strong involvement and commitment at the community level to implement effective change.

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

#### **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**

### ***SO 1 Just and Democratic Governance: More Responsive, Transparent Governance***

#### **A. 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.

## **B. Development Hypothesis/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.

## **C. 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. By linking with municipal assistance, USAID will assist community policing initiatives.

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.

#### **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, transparency 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.

#### **D. 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:

- No more civil society programs with development of civil society as an objective (civil society involvement will be limited to contributions to the above Intermediate Results);
- No broad or generalized civic education programs;
- Focus more on quality of citizen participation than quantity; and,



- No support to universities (and university like entities such as Unitec) without specific linkages to one or more Intermediate Result.

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

### IR Level Preliminary Performance Indicators

- Percentage Honduran households receiving basic services
- Percentage 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

## **F. Estimate of Required Resources**

The annual financial resource level needed to implement the proposed democratic strengthening program is estimated to be \$5.5 million. This is the minimum required to consolidate major advances thus far, such as intensifying community involvement and transparency in 46 larger municipalities and continuing to improve the application of the revised Criminal Procedures Code and expand it to other criminal courts.

**G. SO Start and End Dates:** FY 2003 - FY 2008

## ***SO 2 Economic Freedom: Open, Diversified Expanding Economies***

### **A. 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 maquila 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 work force. 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.

## **B. Development Hypothesis/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.

## **C. 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 in accordance with LAC's Rural Prosperity Initiative. 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).

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 (CNBS) 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 SMEs and small farmers, and linking them to larger firms and markets so no one is left behind. 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 MSME credit institutions and the use of the DCA funds for loan guarantees with emphasis on micro, small, and medium sized enterprises. USAID, working together with select local commercial banks and a micro-finance 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 micro-finance 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 SME 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.

Pursuant to the above and 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 to utilize resources from existing pipeline to respond to the immediate crisis. In such an event the Mission will submit to the Bureau a time-phased plan delineating required resources and outcomes expected from the redirection of the OYB to meet the crisis. With Bureau approval, activities will be adjusted to take into account the crisis events, within the scope of the SO(s) and the funding account for which the funds were appropriated, approved, notified to Congress and obligated. This modifier applies to all of our Strategic Objectives and appropriate crisis modifier language will be included in all grants, contracts, and agreements under these objectives. The Mission acknowledges that Congressional Notification will still be required and that account and earmark restrictions will remain in force, unless otherwise waived.

#### **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.

#### **D. Strategic Choices**

We will rely on other donors to help Honduras address its critical infrastructure needs, including roads, energy, and telecommunications. USAID/Honduras is also reducing its contributions to micro-finance for commercial lending but will continue to provide technical assistance to reduce the potential of these organizations to lose their lending capital through high default rates and high administration costs so that these funds can be utilized for productive purposes. In the environment, 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:

- No further provision of loan funds to NGO lending organizations or small-scale village banking programs
- No expensive, central planning type, watershed management plan efforts
- No further environmental programs providing generalized technical assistance and training for environmental NGOs and government authorities unless they respond to specific policy interventions that will result in enhanced participation from civil society in management.
- No more generalized assistance for environmental NGOs without determining up front the access local groups have to markets for their environmentally friendly products and services, and without ensuring simultaneously that these groups are securing the financial sustainability of their programs by working with the private sector in country and involving local groups.
- No more infrastructure construction supporting institutional partners.

## **E. 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; i.e.:

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

## **F. Estimate of Required Resources**

USAID/Honduras requires \$12.4 million per year to implement our combined economic growth and Integrated Natural Resource Management program including \$8 in economic growth and agriculture funds and a minimum of \$4.4 million in environmental funds. The Mission has the capacity to efficiently implement a much larger obligation for environmental protection and hopefully additional biodiversity funds will be made available.

**G. SO Start and End Dates:** FY 2003 - FY 2008

### ***SO 3 Investing in People: Healthier, Better Educated People***

#### **A. Development Challenge: Enhanced and Efficient Social Sector Investments**

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 the technical skills needed to achieve: increased incomes; wider use of improved health and family planning practices; better care of natural resources; and greater participation in democratic decision-making. Less than half of the current work force (42%) has completed primary school. Over half of those in the work force 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 work force 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 work

force hinders Honduras' ability to compete in the global economy and limits its ability to trade and to attract foreign investment.

## **B. Development Hypothesis/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 work force, 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 work force will have opportunities for increased employment and higher incomes.

By the end of the strategy period, the Honduran basic and work force development systems will be more capable of meeting the country's needs for a better educated and skilled work force 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 work force 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.

## **C. Results Framework**

Our program will focus on achieving improvements in key components of family health and a better-educated Honduran work force. 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 work force. The program will support expanded access at the pre-school, middle school, and upper secondary levels (grades 10-11) using alternative delivery systems. However we will gradually phase out of pre-school education during the life of the program. 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 the 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 education reforms to improve the efficiency and cost-effectiveness of the education system; and,
- Support GOH efforts to decentralize their alternative education system by supporting the development of a foundation that will be directly responsible for the 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 expanded access to quality pre-school and secondary education for out-of-school youth and work force 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) goals, the Poverty Reduction Strategy's (PRS) goals, and rationalize the vocational educational system to develop a more coherent work force development strategy that will increase the skill and education levels of the young work force. We will target gaps that are not being addressed by other donors. USAID/Honduras will build on the successes that have been achieved under the current strategy, which include: the development of the EDUCATODOS alternative education program through the 9<sup>th</sup> grade; expansion of the private-sector based vocational education program to 30 centers; the development of pilot programs to improve the

quality of early primary education and reduce student failure rates; and support 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 work force development efforts.

#### **Illustrative Activities:**

- Provide technical assistance to develop a national interactive radio instruction (IRI) pre-school program and delivery system and test the materials in community-based pre-school programs and MOE kindergartens;
- 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' (EFA-FT) 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 (CA CETT), 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; and,
- Provide technical assistance to help create a coherent national work force development system in which work force planning efforts will focus on meeting the demand for specific work force skills and competencies.

#### **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 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 need<sup>1</sup>. The current Development Assistance Program (DAP) 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.

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<sup>1</sup> 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.

- 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 technical assistance, training and field support for the Community Based Health Centers program (HOGASA) that provides health services to mothers and children; for the Food Security Extension Program (EXTENSA) to increase local agricultural diversity and production; and for the Rural Development and Employment Generation Program (PODER) to 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 (commercial sex workers, men who have sex with men, and the indigenous Garifuna population).

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, and provide support to help increase general availability of HIV counseling and testing and knowledge of HIV status to identify pregnant women eligible for interventions to prevent mother-to-child HIV transmission;
- 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 to evaluate the effectiveness of interventions;
- Provide training for health and community personnel in the DOTS (Directly Observed Treatment-Short Course) strategy to enhance diagnostic capability to ensure rapid and accurate TB diagnosis of suspected cases; and,
- Train community Environmental Health Technicians (TSAs) 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 the proliferation of disease.

#### **D. 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 (UPN) in the teaching of reading and will rely on the Central American Center for Excellence in Teacher Training (CA 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:

- No further health service infrastructure; and
- No water and sanitation infrastructure construction will be financed with CSH account funding (except in the case of disaster).
- No school or vocational center construction or other infrastructure;
- No vocational education;
- We will not provide additional direct financial and institutional support to NGOs and other entities for education service delivery.

### **E. 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 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 3<sup>rd</sup> grade, 6<sup>th</sup> grade, 9<sup>th</sup> grade, and secondary)

### **F. Estimate of Required Resources**

Our health program resource requirements are \$20.8 million per year, including \$6.75 million in CSH/POP, \$7.2 million from PL 480 Title II, and \$6.85 million for HIV/AIDS. Our Education program will require \$6.25 million per year.

### **G. SO Start and End Dates: FY 2003 - FY 2008**

### III. PROGRAM RESOURCES

To achieve the target results indicated in this Country Plan, the Mission will require an annual budget of \$45 million. (see budget, below).

FY 2003 - 2008 Strategy Budget (millions of US\$)

| SO/TYPE OF FUNDS | SECTOR   | FY03         | ANNUAL FY04-FY08 | Total        |
|------------------|--|--------------|------------------|--------------|
| <b>SO 1</b>      | <b>More Responsive, Transparent Government</b>                 |              |                  |              |
| DA               |  | 2.0          | 5.5              | 29.5         |
| <b>SO2</b>       | <b>Economic Freedom: Open, Diversified Expanding Economies</b> |              |                  |              |
| DA               | Economic Growth  | 3.6          | 8.8              | 44.0         |
| DA               | Environment  | 2.9          | 4.32             | 24.5         |
|                  | Subtotal   | 6.5          | 12.4             | 68.5         |
| <b>SO3</b>       | <b>Investing in People: Healthier, Better Educated People</b>  |              |                  |              |
| CHS              | Health & Population  | -            | 13.6             | 68.0         |
| Title II         | Food Security  | -            | 7.2              | 36.0         |
| DA               | Education  | 1.75         | 6.25             | 33.0         |
|                  | Subtotal   | 1.75         | 27.05            | 137.0        |
|                  | <b>Total</b>   | <b>10.25</b> | <b>44.95</b>     | <b>235.0</b> |
| DA               |  | 10.25        | 24.15            | 131.0        |
| CHS              |  | -            | 13.6             | 68.0         |
| Title II         |  | -            | 7.2              | 36.0         |
| <b>TOTAL</b>     | <b>Total</b>   | <b>10.25</b> | <b>44.95</b>     | <b>235.0</b> |

### IV. PROGRAM AND OPERATIONAL MANAGEMENT

#### A. 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.”

- “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.

## **B. 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. The Mission plans to make 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).

## **C. 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. ANNEXES: 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. **(Annex 1 -- See Assessment Summary).**