

# **HONDURAS**

## **Country Assistance Strategy**



**Fiscal Years 2009-2013**

## Introduction

**Country Context:** Since a return to civilian constitutional rule in 1981, Honduras has made significant progress in many areas. The U.S. Government has been a key partner in much of this progress, including the development of some of the important institutions in the country. Honduras has had seven consecutive free and fair elections, and Hondurans can now directly elect their congressional representatives and mayors. The justice sector has been strengthened, with reforms to the selection process for Supreme Court magistrates, the approval of improved Criminal and Civil Procedure Codes, and the creation of a public defender program and special prosecutors for human rights, the environment, indigenous groups, and women. Civil society has become increasingly dynamic, with groups focused on human rights, the environment, and development.

Key social indicators have also improved dramatically, with significant improvements in primary school graduation, infant and maternal mortality, and fertility rates. Honduras has also experienced a high level of economic growth in recent years and shows great potential for future sustained growth, with a rich resource base and a wide range of opportunities in tourism. Free trade economic policies have been established and a strong cadre of entrepreneurs oriented toward competing in the global marketplace created. Honduras benefits from membership in the Dominican Republic-Central America-United States Free Trade Agreement (CAFTA-DR) and was the second nation worldwide to attain a Millennium Challenge Corporation (MCC) Compact. Honduras is an important trading partner, purchasing \$4.46 billion in U.S. products and services, and exporting \$3.9 billion to the United States during 2007.<sup>1</sup>

Yet Honduras continues to face serious challenges to its prospects for sustainable, long-term progress. Honduras is the third poorest country in the Western Hemisphere, with 48.4% of its people living on \$2 a day.<sup>2</sup> About 40% of Hondurans are unemployed or underemployed, with predictable consequences in terms of crime and the propensity to migrate.<sup>3</sup> With the cost of food, household energy, and transportation rising dramatically, the threat of malnutrition is growing. High public sector staffing costs leave few resources to improve the quality and effectiveness of the education, health, and rule of law systems. In addition, the electric and telecommunications public utilities have been a heavy drain on public finances, absorbing nearly 3% of GDP in 2007.

Significant health issues remain, which place a growing burden on the GOH's ability to provide basic services, spur increased migration to the United States, and undercut Honduras's productivity and competitiveness in attracting new investment. Fertility, maternal and infant mortality, and malnutrition rates remain high, especially in rural areas. Specific high-risk groups are disproportionately affected by HIV, with group prevalence rates exceeding 4%. The containment of this epidemic is essential for a stable social and economic environment for growth. Only 25% of the workforce has more than a primary school education and the lack of sufficient education is a major contributor to poverty and is holding back the ability of Hondurans to compete in world markets, take advantage of CAFTA-DR, and more effectively participate in democratic institutions. Finally, Honduras's rich natural resource base is threatened by illegal logging and environmentally unsustainable policies.

Honduras's location has made it increasingly susceptible to the smuggling of arms, drugs, and people. Violence is growing as organized crime, gangs, political assassinations, trafficking in drugs, arms, and people contribute to one of the world's highest murder rates. The absence of sound macroeconomic policies reduce Honduras's ability to take full advantage of CAFTA-DR, and the private sector needs to be more focused on championing the competitiveness agenda.

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<sup>1</sup> U.S. Department of Commerce data.

<sup>2</sup> National Statistics Institute, "XXXVI Encuesta Permanente de Hogares de Propósitos Múltiples", 2008.

<sup>3</sup> Approximately 185,000 Hondurans migrate to North America each year, of which 83% are male, "Informe de Situación Migratoria Honduras 2006", National Forum for Honduran Migrants, June 2007.

Inadequate security, social services, and economic opportunity for the vast majority of Hondurans have caused thousands of Hondurans to resort to crime, migrate to the United States, or both.

Over the next five years the USG must assist Honduras in consolidating the economic, social and political progress it has made, as well as in making advances in key areas where progress is still needed. Honduras must focus on strengthening its democratic institutions, while improving the safety of its citizens and the security of its borders; reducing trafficking in drugs, arms, and people; increasing transparency and accountability; reducing gang violence and illegal immigration; maintaining its recent progress in economic growth; and attracting increased productive investment and employment. Honduras will also need to work hard to mitigate the impact of the U.S. financial crisis by promoting policies that promote investment and job creation. In addition, increased social investment will be needed to create social justice, improve education and health, and help the poorest and most marginalized members of Honduran society.

**Host Country Priorities and Political Commitment to Reform:** Honduras is benefiting from some \$4 billion in Heavily Indebted Poor Countries<sup>4</sup> debt relief. In return, the GOH has committed to increase funding for social and productive infrastructure under its Poverty Reduction Program. However funding for poverty reduction has only gradually increased, while GOH spending on public sector salaries (now 40% of the public budget) has increased dramatically. The GOH will shortly adopt a revised Poverty Reduction Strategy Plan to guide its development programs. Donor programs, including that of the USG, are aligned with the draft GOH Poverty Reduction Strategy, but GOH procurement and budgeting systems need strengthening. The institutional crises in the state-run energy and telecommunications utilities must be addressed and the economic reforms necessary to take advantage of CAFTA-DR—including a new telecommunications law—and ensure that foreign companies receive equitable treatment in the judicial system adopted. A Transparency Law has been passed, but implementation of the law has been uneven and an anti tax-evasion law has been drafted but not yet passed.

However, there are also opportunities on the horizon. Under the current GOH administration, the Ministries of Health, Education, Governance, and Justice are beginning to decentralize government services to local jurisdictions as the best way to increase accountability and the quality of public services. There is increasing appreciation of the necessity of improving education and the public is beginning to demand more from the education system. Civil society is taking an increasingly active role in the upcoming selection of several high government officials—an opportunity to promote more participatory, transparent government operations. The Mérida Initiative will help Honduras strengthen justice and law enforcement institutions to address major security issues such as organized crime and gang prevention, while the MCC will improve critical infrastructure and encourage the GOH to adopt anticorruption reforms.

## **Overall Strategic Approach and Priorities**

The USG will assist Honduras to more effectively respond to the needs of its people and reduce widespread poverty. The Department of State-USAID Joint Strategic Plan goals outlined below have been expanded to encompass the whole of USG foreign assistance efforts in Honduras. These goals comprise an integrated Mission strategy, in which each goal depends and builds upon the others. Governing Justly and Democratically and Achieving Peace and Security are ranked as the primary goals because they reflect the vital importance of freedom and regional stability to U.S. national interests. Promoting Economic Growth and Prosperity, Investing in People, and Providing Humanitarian Assistance also play a pivotal role in providing the foundation for Honduras's future (see Annex A for a list of priority goals). Mission public diplomacy will support USG interventions in all areas, through public outreach, foreign exchange, and participant training activities. In addition,

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<sup>4</sup> The USG contribution, direct and through international financial institutions, is approximately \$1,050,000,000.

USG regional programs will also support achievement of the above goals, especially under the Mérida Initiative and in the areas of CAFTA labor and environment.

In **Governing Justly and Democratically**, USG agencies, to include USAID and Peace Corps, will support improved transparency and accountability by strengthening the management capacity of local governments, increasing citizen involvement in local decision-making, supporting free and fair elections, and strengthening governmental and civil society oversight of public funds. Decentralization will be the primary means through which the USG will implement its strategy in this area. Peace Corps will continue to support civic education and initiatives strengthening democratic culture. Through the Mérida Initiative, the Department of State and USAID will support court management, prosecutorial capacity development, and community gang prevention initiatives. In the area of community gang prevention, USAID will support community-based alternative education and employment-linked training programs for at-risk youth in “gang hot-spots” of the country. We will also assist legal professional associations to demand change in the justice sector and civil society watchdog committees to monitor local government performance and responsiveness. The Inter-American Foundation (IAF) will support programs that strive to build broader, more inclusive civil society and citizen participation in democratic processes.

To assist Honduras in **Achieving Peace and Security**, the USG and the GOH will develop a bilateral multi-agency strategy to deal with shared transnational threats, including international terrorism, gangs, organized crime, money laundering, and trafficking in drugs, arms, and people. We will help reform law enforcement and improve security by increasing the capacity of the police and prosecutors to fight drug traffickers and related criminal activity, facilitate the sharing of information, strengthen border security and police checkpoints, and encourage cooperative criminal investigations of trafficking organizations. We will also support the reform of the Honduran Armed Forces to more effectively respond to these new threats, to improve coordination with law enforcement on drug interdiction efforts, and develop peacekeeping deployment capabilities to assist with regional stability. The regional Mérida Initiative will strengthen justice and law enforcement institutions and limit the power and impunity of criminal organizations, thereby improving public security and expanding rule of law.

To support Honduras in **Promoting Economic Growth and Prosperity**, USG agencies, including the Departments of State and Commerce and USAID, will seek to expand the benefits of CAFTA-DR to all sectors of Honduran society, provide technical assistance to the private sector and the GOH to comply with the new requirements, and improve competitiveness by working with the private sector and the GOH to advance business climate reforms. USDA will support improvement of Honduras’s regulatory and institutional capacity to comply with the sanitary requirements of CAFTA-DR and for agribusiness to access markets and be able to fully engage in modern commercial trade. The U.S. Department of Treasury will work with the GOH to improve debt and budget administration, financial crimes enforcement, and tax administration and enforcement. With funding from the previous strategy period, the MCC will continue to support the upgrading of a major section of the country’s main highway (CA-5) and three key secondary highways. It will also support agricultural diversification for farmers, improve credit conditions for small farmers, and upgrade approximately 400 kilometers of rural roads. Peace Corps will continue to provide small business training and advisory services to improve economic opportunities, livelihoods, and business skills in rural communities. The IAF will invest in economic solutions proposed and designed by local, community-based groups. These activities will support small and microenterprise development, promote access to microcredit, increase vocational skills and income generation opportunities, and enhance food security through training in sustainable agricultural production and environmental conservation. USAID and the U.S. Department of Agriculture will improve food security among Honduras’s most vulnerable populations, and USAID and Peace Corps will continue to advance biodiversity conservation and the sustainable management of natural resources. USAID will also support compliance with the CAFTA-DR Environmental

Cooperation Agreement. The Mission will also adopt a comprehensive strategy to promote renewable energy and make development of clean energy projects and investments a significant part of the bilateral relationship.

Under **Investing in People**, USAID will focus on preparing students for 21<sup>st</sup> century opportunities. USAID will put more power for education decision-making in local hands and promote public-private partnerships to improve the education and competitiveness of the emerging work force. We will also work to improve educational quality so that more children succeed academically and are able to complete secondary school. The Department of Defense will assist the GOH in improving access to education and health services, through the construction of schools, orphanages, and health clinics in remote areas. USAID will continue to coordinate closely with the Department of Defense on the locations chosen for the construction of new schools and clinics, as well as with the Ministries of Education and Health on the corresponding assignment of teachers and medical staff. Peace Corps will continue to assist local municipalities with the construction, rehabilitation, or expansion of potable water systems; conduct topographical surveys; and provide environmental and sanitation education to rural communities and water boards. USAID and Peace Corps will continue to provide support to expand, improve, increase, and decentralize maternal and child health services, and institutionalize the Ministry of Health's capacity to oversee family planning services. USDA will continue providing training to GOH Officials and agribusiness through the Cochran and Borlaug Programs. The Centers for Disease Control and Prevention will strengthen national surveillance systems to better track and respond to health conditions. USAID and the Department of Defense will provide support to improve the quality of HIV care and treatment services, and support HIV prevention activities for most-at-risk populations. Peace Corps, through the President's Emergency Plan for AIDS Relief, will support small community grants and HIV/AIDS prevention workshops targeting vulnerable communities and both USAID and Peace Corps will continue to build local institutional capacity. USAID will continue to improve child survival and nutrition through its food security program. Peace Corps will also continue to enfranchise the next generation of youth by working with teachers, parents, and community organizations. The Mission will also support those elements in the business sector committed to corporate social responsibility, as well as seek to promote and leverage public-private partnerships.

To achieve the goal of **Providing Humanitarian Assistance**, the Department of Defense, Peace Corps, and USAID will continue to strengthen the GOH's ability to prepare for and mitigate the damage from natural and man-made disasters, through the improvement of communication systems, evacuation plans and the establishment of a national risk management system. We will also work together to strengthen municipal and local emergency committees in high risk areas and support the construction of regional emergency operations centers and warehouses. We will also seek to work closely with the donor community to ensure that international development assistance efforts are well coordinated and avoid duplication of effort.

USAID, together with USDA's Forest Service, recently conducted an updated biodiversity and tropical forestry assessment (see Annex D), which recommends continued and expanded actions to strengthen national and local institutional capacities, strengthen the conservation role of protected areas, and the promotion of economic alternatives. The results of this assessment have been taken into consideration during the development of the Country Assistance Strategy, and will also be utilized during the subsequent design of specific programs and activities.

## **Goal: Governing Justly and Democratically**

**Problem Statement:** In order to further consolidate democracy in Honduras, governance, rule of law, and public trust in government institutions must be improved. In recent international surveys,

Honduras achieved low levels of trust in public institutions in the region. Weak rule of law not only requires a more efficient court system, but also an evident need to create more balance between various branches of government. Strengthening citizen comprehension of personal responsibility, and a stricter enforcement of existing laws is important to strengthening the rule of law. While Honduras has conducted seven national elections since 1981, GOH institutions responsible for these elections remain weak and dependent on donor support.

Recent development opportunities include: (1) the recognition of decentralization as the best way to increase accountability, transparency, and the quality of public services; (2) civil society convergence around the upcoming selection of high government officials (Supreme Court Justices, Attorney General, Supreme Elections Tribunal Magistrates, etc.) as an opportunity to advocate for more participatory, transparent selection processes; (3) primary and general elections that will provide an opportunity for greater civil society participation; (4) the upcoming transition in national and local governments, including policy development and retention of core staff; (5) leveraging of Mérida resources to strengthen justice sector institutions and community participation in security and gang prevention; and (6) improved coordination between the U.S. and Honduran Governments and U.S. and Honduran civil society groups, nongovernmental organizations, foundations, and church groups that are working to strengthen democratic institutions and achieve social justice.

**Assistance Approach:** The goal of USG assistance is to improve governance, increase transparency and accountability, and ensure a credible electoral process. USAID will support improved transparency and accountability by strengthening the management capacity of local governments, increasing citizen involvement in local decision-making, supporting free and fair elections, and strengthening governmental and civil society oversight of public funds. Decentralization will be the primary means through which the USG will implement its strategy in this area, through strengthened local government management capacity, improved service delivery, better infrastructure planning, improve protection of local watersheds, local economic development, and citizen engagement in local decision-making. USAID will also improve the ability of local governments to engage citizens in planning and budget decisions, increase revenues, and manage financial and human resources. Increased emphasis will be given to supporting institutions with national coverage to facilitate replication of successful models. These efforts will complement the decentralization of health services and education. Municipal officials will be trained to manage decentralized services, measure citizen satisfaction, and improve economic growth through partnerships with chambers of commerce. The IAF will also work to strengthen civil society and increase awareness of citizen responsibilities.

USG assistance will strengthen governmental and civil society oversight of local government use of public funds through technical support to the Supreme Audit Institution, National Congress, transparency commissions, and watchdog organizations. Technical assistance and training will be provided to the national oversight institutions and local governments to establish internal control mechanisms that ensure transparent resource management. To improve accountability, USAID will support civil society advocacy for the application of the Transparency Law and the Civil Procedures Code, and increased use of alternative dispute resolution mechanisms to expand access to justice. We will work with legal professional associations and other civil society organizations to build internal demand for change in the justice sector, and with civil society watchdog committees to monitor local government. These activities are complemented by USAID efforts at the national level to promote ethical standards and regulations for public servants and to increase awareness of the effects of corruption on development. USAID will also support leadership development and civic education for school children and communities on personal responsibilities in a democracy. Through Mérida, the Department of State and USAID will support prosecutorial capacity development and community crime and gang prevention, including community-based alternative education and employment-linked training programs for at-risk youth in “gang hot-spots” of the country.

**Critical Assumptions and Risks:** Critical assumptions include continued GOH support for decentralization and increased empowerment of local government units, and an improvement in personal and business security. Public opinion polls have shown a lessening of popular support for democracy and public institutions and increasing disillusionment among youth.

**Role of Host Country/Regional Organizations/Private Sector Partnerships:** The European Commission is funding justice sector development and decentralization, as well as assistance to human rights civil society organizations throughout the region. The Swedish International Development Agency and the Organization of American States will continue to support elections system development. The United Nations Development Program will support elections systems and civil society participation. The Inter-American Development Bank is assisting Honduras to achieve a more transparent use of public resources, including assistance to improve the tax collection and custom control systems and reform of the public financial administration and management system. The World Bank also has a robust modernization of the state initiative. Spain will continue to support decentralization efforts. The Honduras G-16 Donor Coordination Group takes the lead on ensuring that information on the various assistance programs is shared broadly and the programs are well coordinated in line with GOH priorities. The USG is an active member of the Decentralization, Transparency and Good Governance, and Justice and Security Working Groups. A sub-working group of the Transparency and Good Governance Working Group is responsible for coordinating elections assistance.

**Coordination of USG Efforts:** USAID will provide assistance in governance, audit, and accountability. Under Mérida, the State Department will focus on security and criminal justice initiatives, while USAID will assist with community action programs and gang prevention activities. Peace Corps municipal development volunteers will continue to work throughout the country to improve municipal capacity through citizen participation. USDA, together with USAID, will continue its activities to enhance food security and environmental cooperation by providing technical assistance to Honduran officials and private sector partners.

**Anticipated Five-Year Results:** A successful electoral process and subsequent peaceful transfer of power are key to sustaining the progress achieved to date in strengthening Honduran democracy. Over the long term, the replication of transparent governance models, and improved audit functions, accountability and transparency will result in the effective devolution of increased responsibilities and resources to local governments. In addition, greater transparency will be achieved, through more effective local oversight and control. The USG will improve the ability of local governments to engage citizens in planning and budget decisions, increase revenues, and manage financial and human resources. It will also result in the improved application of laws and internal and civil society control mechanisms that increase transparency, thus increasing opportunities for public and private investment. USG assistance will help civil society organizations to more effectively participate in the selection of new high government officials during the 2008 primary and 2009 general elections. Leadership development and civic participation will result in an improved comprehensive understanding of core democratic values, guarantees, and responsibilities, and increased civil society engagement in advocacy and watchdog functions. We will also help the GOH and Honduran civil society to more effectively address gang proliferation and promote alternatives for at-risk youth, including job-placement programs for former gang members.

## **Goal: Achieving Peace and Security**

**Problem Statement:** High crime rates,<sup>5</sup> the increasing influence of organized crime and gangs, weak public institutions, and fragile public security and judicial systems are serious threats to Honduras's future. Due to its location, Honduras is a prime transit point for money laundering and the trafficking of arms, drugs, and people, and has one of the highest murder rates in the hemisphere. This violence further discourages investment, fuels illegal immigration, and threatens regional stability and U.S. national security interests.

The GOH cooperates with the USG to investigate and interdict narcotics but faces significant obstacles due to lack of resources, weak border controls, and the sparsely populated, isolated jungle regions of the country's northeast. Large gangs have become the foot soldiers of the drug trade and control substantial sections of the major cities. The police are few, poorly trained, under-equipped, and generally mistrusted by the general population.

**Assistance Approach:** To enhance U.S. and Honduran security, the USG and the GOH will create a two-country multi-agency approach to deal with shared transnational threats, including arms and drug trafficking, international terrorism, gangs, and organized crime. The Departments of State, Defense, and Justice will fund programs to interdict drug traffickers, reform law enforcement, and improve security. We will help reform the Honduran Armed Forces by providing training, helping to maintain existing military equipment, eliminating obsolete or inappropriate equipment, and purchasing new military equipment more appropriate to the above threats. Our military assistance will promote regional security and cooperation between law enforcement and the military to disrupt the flow of drugs by improving border security, both land and maritime. We will also support the development of the Honduran Armed Forces to deploy units, solely and as part of the Conference of Central American Armed Forces (CFAC), to peacekeeping operations through the Global Peace Operations Initiative.

Transforming the police is also necessary for internal security and regional stability. We will draw upon the lessons learned from our highly successful training programs for the Honduran Armed Forces to help reform law enforcement and improve security. We will provide the Ministry of Security and the Attorney General's Office with technical assistance, training, and equipment to increase the capacity of the police and prosecutors to address drug trafficking and related criminal activity, improve facilities at border crossings and police checkpoints, and encourage criminal investigations of trafficking organizations. With a comprehensive anti-gang program that includes prevention, rehabilitation and reinsertion, we will assist in reducing social violence. The Mérida Initiative for regional security cooperation with Mexico and Central America will strengthen state institutions in the region and limit the power and impunity of criminal organizations in the drug transit zone that aggressively intimidate these institutions and threaten governments' abilities to maintain public security and expand the rule of law. Merida funding will also support a regional maritime security program aimed at providing a common operating picture and interdiction capability to partner nations.

**Critical Assumptions and Risks:** The Honduran security and law enforcement community lacks the necessary resources to fully counter these shared threats. If the goal of peace and security is not attained, the rule of law in Honduras could deteriorate and regional and U.S. national security could be seriously threatened.

**Role of Host Country/Regional Organizations/Private Sector Partnerships:** The Honduran Armed Forces has advanced in several areas. The Honduran Armed Forces is aligning its military

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<sup>5</sup> An average of 12 homicides per day, United Nations Development Program, Violence Observatory, p. 3, June 2008.

strategy with the GOH's first National Security Strategy, which identifies arms and drug trafficking, terrorism, and organized crime as threats. The GOH formed commissions to plan and carry out changes to the Honduran Armed Forces, a strategic analysis of the new threat environment has been conducted, and decision-making has been improved by establishing liaison officers to work with the Honduran Emergency Preparation Commission (COPECO) and the Ministries of Security, Governance, Health, and Education to respond to natural disasters and civil unrest. The Honduran Armed Forces is being reorganized into a more flexible and efficient organization, outdated equipment is in the process of being destroyed, and new equipment and arms are being purchased to assist with its new missions. The Honduran Armed Forces still need to reduce the number of upper-rank officers and strategically realign its military bases.

The USG is also the sole international supporter of counter-narcotics efforts in Honduras, although Spain and the European Union support the Ministry of Security in its efforts to improve law enforcement. We coordinate our efforts with these donors. The Organic Police Reform Law, which we consider vital to transforming the National Police, was approved by the Honduran Congress in 2008. The GOH provides resources in the form of personnel and some basic equipment, but it is important for the GOH to significantly increase the budget of the Ministry of Security and strategically allocate the funds to truly transform the police. The GOH plans to improve police operations with a focus on police academy reforms, improved communications, and anticorruption measures. The GOH is also trying to improve the prison system with U.S. assistance and dismantle criminal organizations working from within the penitentiaries.

**Coordination of USG Efforts:** The Mission will implement all of our security initiatives in a closely coordinated interagency approach that fully combines our diplomatic, development, law enforcement, military and intelligence resources. Police reform and increased security complement USAID's efforts to assist the GOH in its anticorruption and justice system reform efforts. Programs of the Department of State's Bureau of International Narcotics and Law Enforcement Affairs also complement the activities of the Drug Enforcement Agency contingent at Post through support of ongoing interdiction operations and the Vetted Unit that targets criminal organizations. Operation All Inclusive, an initiative that includes all USG agencies involved in combating drug trafficking (Department of State, Drug Enforcement Agency, Department of Homeland Security/Immigration and Customs Enforcement, and the Department of Defense) focuses on regional efforts. The Department of Defense not only implements Department of State's Bureau of Political-Military Affairs security assistance programs, but also administers its security cooperation program through the U.S. Military Group/Honduras under the Southern Command in Miami. Joint Task Force Bravo, a regional operational unit located at Soto Cano airbase, contributes greatly to the counter-drug effort.

**Anticipated Five-Year Results:** (1) The Honduran Armed Forces begins to convert inappropriate forces into units that can perform the new missions to counter the above transnational threats; (2) Military bases on the north coast are upgraded to address transnational threats; (3) The Honduran Armed Forces Peace Keeping Unit begins to participate in additional international missions, deploying units either under Honduran leadership or as part of the Conference of Central American Armed Forces (CFAC); (4) Training continues for units to better counter the above threats, (5) Maintenance of weapons, aircraft, naval vessels, and ground transportation equipment improves; (6) Improved border crossing and police checkpoint facilities; (7) Increased capacity of the police intelligence unit; (8) Better criminal investigation capability; (9) Police communication links with eastern Honduras, and more combined police-military operations to disrupt the flow of drugs; and (10) A more accepted and respected force that works with the community to fight criminality.

## **Goal: Promoting Economic Growth and Prosperity**

**Problem Statement:** Honduras has achieved significant economic growth in recent years (4-6% for 2004-2007) and shows great potential for future sustained growth, with a rich resource base and a wide range of opportunities in tourism. In addition, Honduras benefits from membership in the CAFTA-DR and a five-year, \$215 million MCC Compact. However, there are four main constraints to achieving sustainable economic growth and prosperity. First, Honduras does not possess a sound, modern, legal framework or the institutional capacity to enforce market regulations.<sup>6</sup> As a result, Honduras has not been able to effectively implement CAFTA-DR, including the adequate regulation of the critical telecommunications, energy and financial sectors. This impedes the creation of new businesses and jobs and foreign direct investment, all of which are needed so that a majority of Hondurans can benefit from economic growth. Second, the lack of GOH capacity to adequately plan, analyze, monitor, and evaluate its public expenditure prevents critical investments in health, education, security, and infrastructure. Third, the global food crisis has had a significant impact on Honduras, as high food and fuel prices undermine the food security of the urban and rural poor. Finally, Honduras is rich in natural resources and diverse ecosystems, but much of the biodiversity is threatened by climate change and weak compliance with environmental laws and regulations. More needs to be done to promote renewable energy use by small, medium and large business firms.

**Assistance Approach:** The USG will focus on generating rapid, sustained, and broad-based economic growth. The Department of Treasury will assist the GOH to improve its tax administration and enforcement, debt management, and budget administration. The Mission, including USAID, will also create public-private partnerships to support implementation of CAFTA-DR and provide technical assistance to the Ministry of Industry and Commerce and the private sector on compliance with CAFTA-DR obligations, including the adequate regulation of the critical telecommunications, energy, and financial sectors. The Mission will also launch a strategy to promote renewable energy in Honduras and seek to make the development and investment in clean energy a significant part of the bilateral relationship. This strategy will serve our common national interest in lessening dependence on foreign oil and ensure secure, economically viable, and environmentally friendly sources of energy.

USAID will support improved collateral recovery, banking supervision, and bankruptcy reform, and create public-private partnerships to improve access to credit and increase market opportunities for new and growing businesses. USAID will also advance economic and business climate reforms in areas prioritized by the Honduran private sector (e.g., investor protections, paying taxes, labor regulations, and enforcing contracts) and assist the private sector in generating employment opportunities for the emerging work force. The IAF will support programs targeting small and microentrepreneurs, small and subsistence level farmers, indigenous populations, women, and at-risk youth. The IAF will strengthen community-based organizations that provide training and technical assistance in agricultural production, marketing, microfinance, job training for youth, and environmental conservation.

The U.S. Department of Agriculture (USDA) will support improvement of Honduras's regulatory and institutional capacity in the Ministry of Agriculture to comply with CAFTA-DR and international sanitary and phytosanitary requirements of trade. It will assist small and medium-sized producers and agribusinesses to comply with the technical and sanitary requirements demanded in order to access those markets and be able to fully engage in modern commercial trade. This will be done through the USDA's Food for Progress Program, the USDA-USAID Regional Trade Capacity Building Program, and the Cochran and Borlaug Programs. The Department of State will support the development of biofuels in Honduras via the U.S.-Brazil Biofuels Initiative. This work will be

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<sup>6</sup> Honduras ranks 121 out of 178 on the 2008 Ease of Doing Business Index.

supported by USDA through its Food for Progress program and its work in biofuels reporting. USAID's food security program<sup>7</sup> will continue to help the poorest farmers increase agricultural productivity and access to markets, improve natural resource management, and develop agro-based microenterprises. The MCC Compact will continue to support the upgrading of a major portion of the CA-5 highway and three key secondary highways, as well as the introduction of a vehicle weight control system. It will also support agricultural diversification and improved credit for small farmers and upgrade approximately 400 kilometers of farm-to-market roads in rural areas.

In the area of the environment, USAID, USDA, and Peace Corps will continue to advance biodiversity conservation and the sustainable management of natural resources through an integrated environmental resources management program, which includes sustainable livelihoods around targeted protected areas. USAID and USDA are also supporting compliance with the CAFTA-DR Environmental Cooperation Agreement to strengthen the enforcement of environmental regulations, and coordinating with other agencies implementing components of this agreement from Washington. USAID and USDA will continue to provide technical assistance to the Ministry of Environment and the private sector to advance clean production practices and investments and explore opportunities for investments in renewable energy.

**Critical Assumptions and Risks:** Champions willing to make the case for economic reforms will be identified and supported. Not achieving the economic growth goal almost certainly ensures continued endemic high levels of poverty, pressure to migrate to the United States, and growth of the illicit economy.

**Role of Host Country/Regional Organizations/Private Sector Partnerships:** The Mission will promote public-private partnerships to support implementation of CAFTA-DR, improve access to credit and increase market opportunities for new and growing businesses. In addition, fostering broad-based economic growth to tackle poverty is one of the top priorities of the Honduras G-16 Donor Coordination Group. The USG is an active member of the G-16 Donor Coordination Group and is very well informed about the objectives and programs of other bilateral and multilateral donors, particularly those involved in economic growth initiatives. At the request of the GOH, the Inter-American Development Bank and World Bank have shifted the bulk of their portfolio to rural development. This has created an opportunity for the USG to step in and play a more active role in the economic and business climate policy arena. The International Monetary Fund approved a Standby Agreement in April 2008, but performance has been uneven. The GOH is seeking to renegotiate the program. The Central American Bank for Economic Integration (CABEI), the Global Environment Facility, and the United Nations Development Program are jointly carrying out a Markets for Biodiversity Project, which will enhance biodiversity conservation and sustainable use within micro, small, and medium-sized enterprises. CABEI is also financing of small and medium scale renewable energy projects of less than 10 megawatts. The Inter-American Development Bank is financing an infrastructure program to improve road access to the city of San Pedro Sula, the country's industrial hub, as well as a rural business development program to raise the income of poor and extremely poor rural households, including households and districts targeted by the Solidarity Network social safety net. The World Bank programs are contributing to increased productivity and competitiveness among organized rural small-scale producers through their participation in productive alliances, as well as a reduction in greenhouse gas through the reduction of policy, informational, financing, and institutional capacity barriers to renewable energy technology dissemination and market development. The European Union is strengthening the decentralization and participatory management of local natural resources based on integrated watershed management and land use organization, as well as assistance for protected areas, watersheds, cadastre, land use organization and institutional strengthening in the Caribbean

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<sup>7</sup> The PL 480 Title II program is scheduled to end in 2009. In FY 2010, USAID/Honduras will develop a new food security program that will build upon previous food security activities targeted toward food insecure populations.

biological corridor of Atlántida. Finally, it was recently announced that the GOH will carry out a \$48.5 million program with the Inter-American Development Bank to improve and restructure Honduras's electricity system.

**Coordination of USG Efforts:** The Departments of State and Commerce, USAID, USDA, and the MCC coordinate closely on economic growth activities and issues, through periodic meetings. In addition, we also work closely with U.S. nongovernmental organizations, foundations, and other groups involved in promoting economic growth in Honduras.

**Anticipated Five-Year Results:** (1) Exports as a percentage of GDP increased; (2) Foreign direct investment as a percentage of GDP increased; (3) Credit as a percentage of GDP increased; (4) Tax revenues as a percentage of GDP increased; (5) MCC highway section completed; (6) Value added from agriculture as a percentage of GDP increased; (7) Honduras's rank on the Ease of Doing Business Index improved ten places; (8) Honduras's rank on the World Economic Forum's Global Competitiveness Index improved five places; (9) Improvement in biodiversity conservation; (10) GOH complies with the CAFTA-DR Environmental Cooperation Agreement; and (11) Honduras reduces its dependence on foreign oil and adopts new clean energy technologies such as wind, solar, bio fuels, and hydropower as major sources to power its economy.

## **Goal: Investing in People**

**Problem Statement:** The quality of public education remains low and the Honduran workforce remains ill-prepared to compete effectively in the global marketplace and take advantage of CAFTA-DR. USAID's ongoing work with the Ministry of Education to develop and implement academic standards, formative assessments, and standardized testing for grades 1-12 in public schools will help form a better-educated, emerging workforce. However, to improve productivity, youth—especially at-risk youth—must be provided with higher quality basic education and updated training curricula and life skills. The Ministry of Education continues to operate on a centralized basis, and local school districts and schools lack the resources needed to improve the quality of education. This has adversely impacted teacher training, evaluation, supervision, and the equitable distribution of educational materials. In addition, communication with private sector employers is limited, with the education and training systems largely unaware of private sector needs.

Fertility, maternal and infant mortality, and malnutrition rates are high by developed country standards, and rural/urban and socioeconomic differentials in these rates disguise serious, widespread deficiencies. The containment of the HIV epidemic in Honduras, still largely confined to high-risk groups, is essential for a stable social and economic environment for growth. Sustainable efforts to help Honduras deal with these problems over the next five years are key components of the USG's agenda. Health service improvement is impeded by an unwieldy central bureaucracy. The national AIDS program is understaffed and relies heavily on donor-funded service providers, and problems persist in procuring and distributing antiretroviral drugs. The Minister of Health has established as priorities the reorganization of the health system, the prevention of HIV/AIDS, the reduction of maternal and infant mortality rates, and the prevention of infectious diseases.

**Assistance Approach:** Decentralization will continue to be a major component of the Mission's agenda over the next five years. In education, USAID will place more decision-making power in local hands by working at the departmental and school district levels to train local officials, parents, and teachers to analyze problems in their schools and develop strategic plans to improve student achievement and achieve Education for All-Fast Track Initiative and Poverty Reduction Strategy goals. We will also establish public-private partnerships to improve the education of the emerging

work force, including vocational education and training for at-risk youth to better meet the 21<sup>st</sup> century challenges of the global economy.

The USG plays a key leadership role in the health sector in Honduras. USAID will assist the Ministry of Health to develop the skills needed to finance, monitor, and regulate a decentralized system. USAID will continue to assist the Ministry of Health to improve, increase, and decentralize maternal and child health services to all 18 departments by 2015. USAID with other donors will support GOH efforts to strengthen the administration and management of public hospitals and health clinics. Peace Corps will support maternal and child health through training community health workers in obstetric emergencies and nutrition counseling. The private sector's key role in the provision of family planning services is as an important component of phase-out of family planning assistance by 2012. USAID will help develop national health systems in the public and private sectors.

USAID and Peace Corps will continue to support improved quality of HIV care and treatment services and HIV prevention activities for most-at-risk populations. With funds from USAID and the Office of the U.S. Global AIDS Coordinator, the Centers for Disease Control will strengthen national, departmental and local HIV and other surveillance systems to better track and respond to health conditions. The Department of Defense will provide HIV/AIDS education to Honduran soldiers, officers, and their families.

USAID's food security program will continue to improve child survival and nutrition through community-based growth promotion, including infant and young child feeding, promotion of exclusive breastfeeding and food distribution, prevention and treatment of preventable childhood disease, and improvements in ante-natal care, through the new National Initiative for Reduction of Maternal and Child Death Rates (RAMNI) strategy.

**Critical Assumptions and Risks:** Continuing donor coordination and cooperation will be critical for ensuring that all Education for All-Fast Track Initiative and Poverty Reduction Strategy goals are achieved. If Honduras cannot implement the required reforms, it will be difficult to reduce poverty and improve employment opportunities for youth, resulting in increased gang-related activities, drug trafficking, insecurity, and migration to countries with better opportunities.

To attain maternal and child health goals, the GOH must institutionalize the new RAMNI strategy. If the GOH does not consolidate and expand current health sector reform and decentralization efforts, two million people will lack access to a basic package of local health services and over 100,000 hospital deliveries per year will be at significantly increased risk of ending in maternal or neonatal complications. With the phase-out of USAID assistance, the Ministry of Health must ensure the approval of a specific budget line item for procurement of contraceptives.

**Role of Host Country/Regional Organizations/Private Sector Partnerships:** Donor education programs are well coordinated through a long-standing donor working group, of which USAID is a leading member. The group focuses on coordinating activities with the Ministry of Education and among donors to implement Education for All-Fast Track Initiative and Poverty Reduction Strategy strategies. Health activities are coordinated by a health donor group, of which USAID is a leading member. In addition, private sector organizations, the USG and other donors, and the Ministries of the Presidency, Health, and Agriculture form an active food security coalition that has developed a coordinated national Food Security Strategy.

With USAID assistance, the Ministry of Health is making progress in forecasting contraceptive requirements and procuring increasing amounts of contraceptives, implementing a national family planning strategy, and implementing the new RAMNI strategy at hospitals in the four poorest departments. The success of these efforts has led the Ministry of Health, UNICEF, the Pan-

American Health Organization, and the United Nations Population Fund, to also support the nationwide implementation of the RAMNI strategy by 2015. The Ministry of Health, USAID, World Bank, and Inter-American Development Bank collaborate on a decentralized maternal and child health program in the aforementioned four departments, and the Ministry of Health will use \$50 million in Italian debt relief funds to finance the nationwide expansion of this successful decentralization model.

The Department of Defense will continue to identify isolated areas where additional health and education services are needed and coordinate all activities with COPECO and the Ministries of Health and Education. The Department of Defense will continue to work closely with these partners in the construction of schools, orphanages, and health clinics in areas that the GOH is unable to reach. In addition, these projects will be coordinated with local authorities, in order to promote ongoing maintenance of these investments. The U.S. Military Group and Joint Task Force Bravo will continue to provide 20-30 Medical Readiness Training Exercises per year, bringing medical aid to needy rural areas and populations.

The Global Fund for AIDS, Tuberculosis and Malaria is the largest AIDS donor in Honduras and the principal donor for treatment programs. Honduras was recently approved for a six-year, \$47 million grant to expand the Global Fund's program through 2014. USAID is an active member of the Fund's local governing board. The Pan American Health Organization supports updating of national norms for HIV care and treatment, and improvement of the Ministry of Health's HIV monitoring and evaluation capability. UNICEF supports prevention of mother-to-child transmission and HIV prevention among youth. The United Nations AIDS Program helps with policy development and strengthening civil society organization of national HIV/AIDS efforts.

The GOH and the World Food Program implement modest programs to provide food to malnourished children, pregnant and lactating women, and families affected by drought and crop failures, as well as a national school feeding program providing daily rations to children in public schools. The GOH, through its Family Allowance Program, provides cash grants to poor women for microenterprise programs and to keep children in school.

The USG will work closely with nongovernmental organizations, foundations, and church groups providing health services to the poor. An assessment of opportunities for health partnerships with the private sector will be carried out in FY 2009. USAID collaborates with the Pan American Health Organization for regional activities in health information systems assessments and strategic planning. USAID education programs will support those elements in the business sector committed to corporate social responsibility, and promote and leverage public-private partnerships in alternative delivery systems and work force development, including vocational education and training for at-risk youth.

**Coordination of USG Efforts:** USAID, the Department of Defense, Peace Corps and the Centers for Disease Control closely coordinate efforts in all health interventions, including through an HIV/AIDS Country Team. USAID will also coordinate closely with the regional HIV/AIDS prevention program.

**Anticipated Results (five-year horizon):** (1) Reduction in repetition and dropout rates; (2) Increased enrollments and higher completion rates in primary and secondary schools; (3) Improved academic performance at the primary and secondary levels; (4) A more competitive emerging work force; (5) Increased percentage of most at-risk populations who received HIV testing in the previous 12 months and who know the results; (6) Increased percentage of most at-risk populations who can identify ways to prevent transmission of HIV and who reject major misconceptions about HIV transmission; (7) Increased number of health care workers trained to deliver antiretroviral services according to national or international standards; (8) Increased use of

obstetric and neonatal services in hospitals; (9) Lower infant and maternal mortality rates; (10) Increased couple-years of protection and contraceptive prevalence; and (11) Decreased percentage of unmet need for family planning services among women ages 15-49.

## **Goal: Providing Humanitarian Assistance**

**Problem Statement:** Effects from natural disasters in Honduras have been exacerbated by a lack of prevention and preparedness. In the ten years since Hurricane Mitch in 1998, significant progress has been made in this area. The Honduran Emergency Preparation Commission's (COPECO) national and seven regional emergency operation centers have been equipped and received training, as have many municipal and local emergency committees. Nevertheless, there are gaps in COPECO's funding, equipment, supplies, and emergency communications system, and training is urgently needed in damage assessments and disaster response. Public awareness and a disaster preparedness "culture" also need to be further promoted. There are also isolated areas of Honduras where the education and health systems are unable to provide services due to limited resources.

**Assistance Approach:** USAID and the U.S. Military Group/Honduras will continue to provide technical assistance and training to strengthen COPECO's leadership through the improvement of communication system and evacuation plans, and the establishment of a functional national risk management system to promote a disaster preparedness culture throughout Honduras. USAID will also provide training and equipment to strengthen municipal and local emergency committees in high risk areas, including establishment of Incident Command System plans of action. USAID will train trainers in fire departments and the Red Cross in advanced first aid and advanced search and rescue from collapsed structures. We will also train COPECO staff in damages analysis and needs assessment, and other key emergency response actions. In addition, the Department of Defense will provide training to the fire department and other ministerial level departments. The U.S. Military Group/Honduras, through the Humanitarian Civic Assistance Program, will provide support in the construction of regional emergency operations centers and warehouses. Furthermore, Department of Defense Joint Exercises will assist COPECO and their regional response elements in strengthening their ability to respond to natural and manmade disasters. USAID will collaborate closely with the National Teachers University to incorporate risk management into curricula, and will train Ministry of Education facilitators in the validation of risk management guides for subsequent incorporation into the primary school curricula. USAID will also help COPECO and municipalities to expand training for at-risk youth.

**Critical Assumptions and Risks:** Many additional municipalities and communities located in high risk areas need to be adequately trained and strengthened. A national risk management system has yet to be established, and COPECO lacks adequate funding and appropriate equipment. It currently uses most of the Honduran Armed Forces equipment and shares warehouse space with them. This undermines COPECO's autonomy and response capability. In addition, COPECO lacks a reliable database that allows them to pinpoint all available resources, including those from nongovernmental organizations, in each department during emergency situations.

**Coordination of USG Efforts:** USAID and the Department of Defense will coordinate on training activities. In the event of an emergency, the USAID Mission Disaster Relief Officer will coordinate with the Department of State for the Ambassador to request USAID disaster assistance funds, and will also coordinate response efforts with the Departments of State and Defense and Peace Corps. The Department of Defense and USAID coordinate with the Ministry of Education on classroom location and teachers.

**Role of Host Country/Regional Organizations/Private Sector Partnerships:** The USG through the USAID Mission Disaster Relief Officer coordinates all emergency responses and disaster

preparedness activities through COPECO. A large number of international and local nongovernmental organizations work in risk management with the USG, including establishing and training municipal and community emergency committees, provision of essential communications and rescue equipment, and preparation of risk maps and contingency plans. USG funding is channeled through a nongovernmental organization already working in development in the particular geographic area affected by the disaster. In addition, the Department of Defense is working closely with the National Engineering College on joint water and sanitation projects. CABEL's Mesoamerican Territorial Information System for the Reduction of Natural Disaster Risk will create an accessible and updated territorial information instrument for the planning and execution of development actions.

**Anticipated Results (five-year horizon):** National and regional level emergency committees trained and equipped; (2) Number of trainers of trainers certified in emergency response actions; (3) Risk management incorporated into Ministry of Education primary school curricula; (4) Number of municipalities with functional High Risk Youth Training Programs; (5) Risks management incorporated into National Teacher's University curricula; (6) A national risk management system established and functioning in COPECO; (7) One central and two regional emergency operations centers and warehouses constructed; (8) Improved ability of the GOH to independently respond to disaster; and (9) Improved medical outreach by GOH.

## Resource Assumptions

**Required Resources and Allocation:** To achieve this strategy, the Country Team has assumed \$720 million from all USG sources (except, as noted above, the MCC) over the five year period; i.e., current planned levels for 2009 and 2010 and an annual 5% increase for 2011-2013. The 5% increase would be allocated to the priority areas of democracy, security, economic growth, and food security. At this level, current Presidential Initiatives and Congressional earmarks can be met, including the President's Initiative for Expanding Education and the Mérida Initiative.

**Partner Contributions:** The USG contribution is expected to leverage significant cash and in-kind contributions from the GOH, nongovernmental organizations, regional organizations, the private sector, communities, and beneficiaries.

**Scenario A (20% Increase):** The Country Team would focus these additional resources on the priority areas of democracy, security, economic growth, and food security. We would expand our activities to reduce trafficking in drugs, arms, and people; improve prison management and gang-related law enforcement; and strengthen community policing and vocational education for at-risk youth. We would also expand food security efforts in rural and urban areas where high food prices could lead to social instability.

**Scenario B (20% Decrease):** Assuming no earmarks, the Country Team would reorient its resources to the priority areas of democracy, security, economic growth, and food security. This would necessitate a corresponding reduction in HIV prevention, maternal and child health, education, environment, and decentralization activities.

**Program Management Implications:** The increased emphasis on security, democracy and rule of law, economic growth, and food security would require increased staffing in these areas. An additional position would be required for the security program, as well as a democracy and governance officer with experience in rule of law and anti-gang programs. For food security, a USAID agriculture officer would be required.

**Annexes:**

Annex A: Foreign Assistance Goals and Program Areas

Annex B: Acronym List

Annex C: Bibliography

Annex D: Executive Summary: FAA Section 118/119 Assessment

Annex E: Key Issues for Consideration in Country Assistance Strategy (CAS) for Honduras

## **Annex A**

### **U.S. Foreign Assistance Priority Goals and Program Areas**

Goal: Governing Justly and Democratically

Program Areas:

- Rule of Law and Human Rights
- Good Governance
- Political Competition and Consensus Building
- Civil Society

Goal: Achieving Peace and Security

Program Areas:

- Stabilization Operations and Security Sector Reform
- Counter-Narcotics
- International Crime

Goal: Promoting Economic Growth and Prosperity

Program Areas:

- Macroeconomic Foundation for Growth
- Trade and Investment
- Financial Sector, Infrastructure
- Agriculture
- Private Sector Competitiveness
- Environment

Goal: Investing in People

Program Areas:

- Health
  - HIV/AIDS
  - Maternal and Child Health
  - Family Planning and Reproductive Health
- Education
  - Basic Education

Goal: Humanitarian Assistance

Program Areas:

- Disaster Readiness
- Mitigation Management

## **Annex B**

### **Acronym List**

AIDS	Acquired Immunodeficiency Syndrome
CABEI	Central American Bank for Economic Integration
CAFTA-DR	Dominican Republic-Central America-United States Free Trade Agreement
COPECO	Honduran Emergency Preparation Commission
GDP	Gross Domestic Product
GOH	Government of Honduras
HIV	Human Immunodeficiency Virus
IAF	Inter-American Foundation
MCC	Millennium Challenge Corporation
RAMNI	National Initiative for Reduction of Maternal and Child Death Rates
UNICEF	The United Nations Children's Fund
USAID	U.S. Agency for International Development
USDA	U.S. Department of Agriculture
USG	U.S. Government

## Annex C

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#### Investing in People

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procurement opportunities to ensure contraceptive security is not compromised during this transition period. This report presents findings from a legal and regulatory analysis and pricing study of different procurement options to identify efficient, economical, high quality, and timely distribution of contraceptives. A summary of the current country situation, procurement practices, laws, policies, and regulations is presented along with a comparison of regional contraceptive prices. Options and recommendations are presented for next steps.]

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## **ANNEX D**

### **EXECUTIVE SUMMARY**

#### **TROPICAL FORESTRY AND BIODIVERSITY (FAA 118 AND 119) ANALYSES**

##### **EXECUTIVE SUMMARY**

The development of USAID/Honduras's new five-year country development strategy must take into account the state of the nation's tropical forests and biodiversity to inform the selection of development priorities. This report presents an updated assessment of biodiversity conservation to comply with Sections 118 and 119 of the Foreign Assistance Act of 1961, which will inform the development of USAID/Honduras's new five-year country program strategy. The report provides recommendations for activities that will contribute to conservation needs. Furthermore, it is expected that this assessment will also serve as a planning tool to assist USAID/Honduras in better integrating environment concerns into its overall program.

This joint USAID/USDA assessment took place during the month of August 2008, and was conducted by interviewing key government, non-government, university, and community leaders in biodiversity conservation, as well as a thorough review of all available secondary data and information.

##### **KEY FINDINGS**

The assessment identifies a number of findings related to the lack of basic information and capacity in Honduras to sustainably manage and conserve its biodiversity and forestry resources. The assessment found that recent biodiversity research focuses on cataloging individual species and little has been written on the state of ecosystems, their flora and fauna, and the processes that maintain ecological functions. Additionally, the assessment team found little information on freshwater aquatic systems.

Honduras has been evaluating its conservation system since 2002 by contrasting biodiversity within and outside of protected areas. While government authorities have established a 12% conservation goal for each terrestrial ecosystem found in Honduras, this assessment found that five major ecological systems are scantily represented in the national protected areas system.

Eighty-seven percent of Honduras's territory is considered to be of forestry vocation, but only 51% is under forest cover today. Historically, more than 90% of industrial forestry activities have taken place in pine forests. In 2006, 852,200 m<sup>3</sup> of pine and 20,900 m<sup>3</sup> of broadleaf species were legally harvested. It is estimated that 80,000 to 100,000 ha of forest are lost annually to the expansion of agriculture, forest fires, and illegal felling, especially in broadleaf forests. The coniferous forests, although stable in terms of area, have suffered from drops in productivity and genetic quality mainly due to fires, pests, and inadequate selective felling. This drop in pine forest production is of concern because the forestry sector on average generates 67,787 direct jobs and a similar quantity of indirect employment annually.

The assessment identifies the main causes of biodiversity degradation as loss or deterioration of forest cover, poaching of wildlife species, promotion of biofuel production, massive use of pesticides and synthetic fertilizers, disposal of untreated organic and inorganic solid waste, and discharge of untreated wastewater into natural systems. Administrative weaknesses such as limited understanding of ecosystem functioning, regulatory gaps and ambiguities, lack of political will and priority for biodiversity conservation and sustainable forestry, weak environmental controls, widespread dominating poverty, and a lack of economically accessible energy alternatives all contribute to the lack of substantial progress on improving biodiversity conservation.

## **PRINCIPAL RECOMMENDATIONS**

Throughout the document, several issues have been highlighted as priorities or as opportunities to improve conservation and forestry management. The assessment proposes continued and expanded actions to strengthen national and local institutional capacities, strengthen the conservation role of protected areas, and promote economic alternatives.

### **INSTITUTIONAL CAPACITY STRENGTHENING**

- Disseminate information and educate national-level agencies and municipalities about the new forestry, wildlife, and protected areas law (Decree 98-2007);
- Harmonize environmental legislative mandates and regulation with the new decree, and identify needed regulatory instruments that will guarantee the implementation of Decree 98-2007;
- Support administrative strengthening of the Instituto Nacional de Desarrollo y Conservación, Forestal, de las Áreas Protegidas y la Vida Silvestre (ICF) to ensure effective implementation of Decree 98-2007 and other related regulatory instruments;
- Support the revision of protected area (PA) design using physical, administrative and financial gap analyses, and complete work on legalization and field delimitations of PAs;
- Institutionalize professional training and skills building programs within SERNA, ICF, and other national level institutions;
- Identify and support implementation of civil society coordination and environmental advocacy mechanisms.

### **STRENGTHEN THE CONSERVATION ROLE OF PROTECTED AREAS**

- Continue and accelerate programs that provide opportunities for communities to participate in PA management, and develop alternative and environmentally sound income generation;

- Continue supporting sustainable tourism initiatives for national and international visitors;
- Encourage contracting of local residents as nature guides and support staff for tourism services;
- Scale-up and accelerate agroforestry plantations that include fuel wood crops, and short cycle and permanent crops;
- Continue to support micro-watershed management planning and other local land-use management instruments to strengthen municipal land use management (ordenamiento territorial) and quality control;
- Promote and support field implementation of ecological integrity monitoring.

### **PROMOTE ECONOMIC ALTERNATIVES**

- Explore and develop additional payment for environmental services mechanisms for conserving natural cover for CO2 capture, production of clean water, voluntary conservation opportunities (i.e. private conservation), and decreased vulnerability to natural disaster;
- Work with municipalities, water boards, and/or mancomunidades to integrate management of aquatic biological resources into natural resources and watershed management programs;
- Assess the possibility of using sustainable tourism certifications as a means to attract more tourists to Honduras;
- Incorporate land-use zoning using environmental goods and services criteria in natural resource management plans.

**Key Issues for Consideration in Country Assistance Strategy (CAS) for Honduras**  
*Issue Paper Based on Washington Interagency Focus Group, July 17, 2008*

On July 17, 2008, the Office of the Director of Foreign Assistance (F) convened an interagency meeting to discuss key issues for consideration by Post in developing a five-year Country Assistance Strategy (CAS) for U.S. assistance to Honduras.

The meeting was chaired by the Regional Director for Western Hemisphere in the Department of State's Office of the Director of Foreign Assistance (F). It was attended by approximately 33 persons, representing the U.S. Agency for International Development (USAID), the U.S. Department of State (State), the U.S. Department of Agriculture, the U.S. Department of Health, the Millennium Challenge Corporation, the U.S. Department of Defense, and the U.S. Department of Treasury and the Deputy Mission Director designee. In Honduras, the following members of the Country Team participated via in the conference call: Gabriella Leva of USAID/MDDI (Democracy Office); Jose Espinosa, MILGROUP; Kellie Stewart, USAID/HRD (Health); Ned Van Steenwyk, USAID/HRD (Education); Andrew Winters, USAID/SPS (Program); Rebecca Morgan, ECON (Embassy); Peter Hearne, USAID/TEA (Economic Growth); Martha Perez, USAID.HRD (PL 480); Sonia Zacapa, USAID/MDDI; and Donald Soules, USAID/SPS. The participants reviewed the country's major political/economic challenges as identified by Post and offered a number of additional views.

This paper is not a comprehensive record of the meeting, but instead synthesizes the discussion into key issues (not hard and fast recommendations) for consideration, by both Post and Washington, in development of the CAS. While U.S. Government (USG) assistance already may address some if not most of these areas, the CAS process provides an opportunity to prioritize what the USG is and/or should be doing.

The target date for completion of the Honduras CAS is the end of October 2008.

**A. USG Foreign Policy Interests.**

Although Honduras has a long history as a close friend and ally of the United States, it seems to be shifting to the left, along with the rest of Latin America. On August 26, 2008, in Tegucigalpa, Honduras, President José Manuel Zelaya Rosales signed an agreement making Honduras a member of the international cooperation organization the Bolivarian Alternative for the Americas (ALBA). ALBA is an alternative to the Free Trade Agreement of the Americas, which sought to reduce or eliminate obstacles that would hinder trade. ALBA's mission is not limited to commerce and trade; ALBA is also striving for political, economic and social integration among the countries of Latin America and the Caribbean.

Honduras's democracy remains fragile, due mainly to endemic corruption and the government's failure to deliver on promises of economic and social development for all citizens. Equally damaging, Honduran leaders have failed to develop a truly open, transparent, and fair system of justice and rule of law, leaving the people cynical about the

results of a democratic process. Further, Honduras remains the third most impoverished country in the Western Hemisphere.

Strategic Priorities: As stated in the FY 2010 Mission Strategic Plan, the top USG priorities for Honduras are (i) promoting regional stability through transforming the security forces, (ii) strengthening democracy, (iii) promoting economic growth, and (iv) improving human capital.

Focus and Concentrate Approach: The bulk of U.S. assistance to Honduras to date has supported a broad range of interests, including domestic and international security matters, counter-narcotics, law enforcement, anti-corruption, education, HIV/AIDS, agriculture, biodiversity, and economic development. The interagency agreed that the Honduras CAS should establish longer term, more focused five-year assistance objectives and project their impact at the end of the strategy period.

Note: existing programs may influence but should not dictate CAS development.

## **B. Post's Goals.**

According to Post, Peace and Security and the need for the GOH to improve its military and to address problems such as drug and weapons trafficking, decreasing gang activities, and improving the Honduran police is the number one priority. Governing Justly and Democratically is the second priority and includes working on improving the transparency law, reinforcing civil society, supporting elections, and the national citizens' registry. The third priority for USG activities in Honduras is to stimulate Economic Growth which includes enabling Honduras to take full advantage of CAFTA-DR, ensuring that debt relief is converted into poverty reduction – considered a particularly large challenge, and creating a “dry canal” from the north coast to El Salvador (via MCC). Honduras needs to broaden its tax base and to comply with CAFTA-DR. Watershed management is a key area in which USAID makes significant contributions. The fourth priority is Investing in People, focusing on HIV/AIDS, maternal and child health, and family planning (FP) issues. Honduras's educational reforms are considered “world class” and include training teachers in testing their students and programs for out-of-school youth. Post's fifth and final priority is Disaster Relief.

Post noted that good governance and accountability issues need attention in order to ensure sustainable achievements in the aforementioned areas. Post is addressing these issues through interventions that are designed to strengthen institutions that are critical to the delivery of services in key areas such as the justice sector.

## **C. Programmatic issues raised in the interagency meeting by objective.**

The advent of Millennium Challenge Corporation (MCC) and the Dominican Republic-Central American Free Trade Agreement (CAFTA-DR) and 27 years of civilian rule should be advantages for Honduras and there has been impressive growth although mostly for consumption, not for investment.

### **Achieving Peace and Security:**

Post stated that both national and regional security issues are over-arching concerns, as Honduras faces the pressures of organized international narcotics trafficking, money laundering, and rampant crime. Likewise, increased resources for counter-narcotics and law enforcement initiatives in other Caribbean nations highlight the importance of addressing these areas to prevent a “balloon effect.”

### **Governing Justly and Democratically:**

According to Post, neither civil society nor the media hold the Government of Honduras (GOH) accountable. Furthermore, the GOH’s procurement processes as well as issues dealing with CAFTA-DR and telecommunications reform law indicate that more transparency is needed. Corruption is rampant in Honduras. A participant in Washington expressed interest in the choice of corruption as a key issue. USAID/Honduras responded that although USAID does not have a program specifically directed at corruption, it is addressed in other program areas as a cross-cutting issue. For example, it is included in MDDI’s municipal oversight program as well as in civil society programming among NGOs at the local and national level. USAID/Honduras noted that they are funding an assessment of corruption in Honduras and that information will be used for the CAS. USAID is carrying out activities to ensure clean elections this year and in 2009. That programming includes training for national observers which will add credibility to the election process and reduce fraud.

### **Investing in People:**

A Center for Disease Control (CDC-GAP) representative stated that the GOH is making a great effort in HIV/AIDS surveillance and that Honduras has the best HIV/AIDS data in the region. A year ago CDC and USAID requested that the GOH pay to hire several health professionals to work in HIV/AIDS. USAID/Honduras stated that CDC, the Department of Health and Human Services (DHHS), and USAID have had an active collaboration over the past few years in Honduras on surveillance efforts. The GOH currently procures about 70% of costs for antiretroviral drugs for HIV/AIDS patients in Honduras.

An DHHS representative in Washington talked about their efforts being carried out in the region. Specifically, HHS has established a training center in Panama which has trained about 500 health professionals from the region. Every country except Belize and the Dominican Republic has sent participants to this school. HHS would like to further develop partnerships, working with USAID, to support health care efforts in the region. DHHS also commented on the difficulty of changing the region’s health care focus from a treatment-based model to a prevention and control, public health-based model. The DHHS representative also mentioned that the USG needs to assist countries to develop food safety programs, beginning with the development of an agreement on common goals regarding food product safety.

USAID Global Health Bureau/Washington stated that health goals are “distinct” and commented on the need to develop a sustainable capacity to meet the region’s needs. He mentioned progress made in Honduras in meeting Family Planning goals and that the MOH is taking over Family Planning programming. In fact, the GOH has begun to take steps to procure contraceptive products to meet projected needs. He added that corruption is still a problem in the procurement process for health programs.

### **Promoting Economic Growth and Prosperity:**

Post noted that the commercial side of CAFTA-DR seems to be working and that there have been a number of improvements in the business climate in Honduras since its implementation. For example, the number of days to start a business in Honduras has been reduced from 62 in 2005 to 21 in 2007.

Although there have been improvements in the business climate, there are notable examples of noncompliance to CAFTA-DR, such as the President of Honduras's refusal to sign the decree to implement tariff rate quotas for chicken leg quarters from the U.S.. In addition, the business climate has been deteriorating and the GOH manages from crisis to crisis. Post went on to say that the government-owned electric company is losing millions of dollars annually and that the GOH's terms with Petrocaribe are "muddled" and corruption is pervasive.

According to USDA/Washington, the GOH has improved its ability to export food products to the U.S. and stated that this assistance will need to be continued. When asked by Post whether the Food and Drug Agency is planning to establish a regional office in Central America, the HHS representative in Washington stated that FDA is planning to send a representative to the region.

**Public/Private Partnerships:** Businesses in Honduras perform a social role mainly through their own individual Corporate Social Responsibility programs. For example, Post mentioned that Walmart, a U.S. business in Honduras, has successfully trained local farmers, and has been nominated for the State Department's Award for Corporate Excellence for socially conscious activity. USAID/Honduras stated that it has a public/private partnership program that uses local currency and that the program may be expanded. USAID/Honduras also mentioned that as the strategy is developed, public-private partnerships will be given serious consideration as a means of implementing programs.

**Agriculture:** USAID/Honduras stated that their programming in the agriculture sector will end in 2009 with the close-out of PL-480 assistance. At the same time, the Millennium Challenge Corporation (MCC) has been scaling up its agricultural programming. MCC is scheduled to end its agricultural diversification program in 2010. For the CAS, Post needs guidance and parameters to determine how they would like to see work in agriculture continue over the next five years.

**Trade and Business:** USDA's technical assistance and capacity building activities are aimed at ensuring Honduras's full implementation of CAFTA-DR. This assistance will continue through FY 2010. These activities include sanitary and phytosanitary (SPS) technical assistance, food assistance, forestry and environmental law enforcement, and Honduran participation in USDA-sponsored fellowship and exchange programs. Proceeds from monetized food assistance are sometimes used to further the work of the SPS program. Food for Progress (FFP) is funding micro-credit, market and business development, food safety, and trade capacity building activities.

**Energy:** USAID/EGAT/Washington confirmed that the local electricity utility is not sustainable and needs major reform and privatization. He stated that a reform law pertaining to energy has not been implemented. He also commented on Honduras's dependence on oil from Venezuela. He stated that 75% of Honduras's electricity is

generated by oil and that the supply is “illusory”. He commented that Honduras’s agreement with Venezuela is enforceable from “government to government” and that Honduras is very vulnerable as a result. He stated that Honduras’s energy market is dependent on market forces but that the market is dysfunctional.

**Natural Resources:** USDA supports the Environmental Cooperation Agenda of CAFTA-DR. Technical assistance is being provided to build institutional capacity on forest management planning and environmental impact assessment. Assistance is also being provided to support Honduras’s implementation of its international treaty obligations, including those related to the Convention on International Trade in Endangered Species. Several timber species are listed under the Convention, and USDA is building capacity to inventory, monitor and manage populations.

**Humanitarian Assistance.** The fifth and final goal described by Don was disaster relief. He described “med-ready” visits by military teams and school, clinic, and hospital construction efforts by the U.S. military.

#### **D. Resource Trends**

The United States, through USAID, the Department of Agriculture, the Department of Commerce, the Department of Homeland Security, the Department of Defense, the Department of Treasury, the Department of Energy, and the Department of Health and Human Services, has provided more than \$209 million in bilateral assistance to Honduras since 2005, the bulk of which has been concentrated in health, education, and economic growth. From 2006 through the FY 2008 Operational Plan, funding in Peace & Security has remained relatively stable at between \$2.4 million and 2.8 million a year, while investments in health, education have declined slightly. Funding for Governing Justly and Democratically has, on average, remained the same at roughly \$3 million annually. Funding for economic growth has remained the same over the same period.

With respect to resource flows over the next few years, it is anticipated that the Administration may request increases in the Strategic Objectives of Peace and Security, Governing Justly and Democratically, and Economic Growth and Humanitarian Assistance. Health and education are expected to remain at roughly the same levels. These increases would enable the USG to better address the root causes contributing to Honduras’s economic stagnation and a growing number of security concerns, in addition to bolstering the Administration’s Merida Initiative. It is also anticipated that the Administration may maintain the same level of funding for HIV/AIDS. While the CAS is not a request for resources, it is important that Post be explicit in the CAS document about assumptions related to increases or decreases in funding, as well as the development of any new programs and/or closures in the near future. Thus, in developing the CAS, Post is encouraged to explore how to adapt the USG assistance portfolio for higher- and lower-end funding scenarios.

Post is encouraged to explore the mechanisms to leverage resources and promote sustainability through partnerships with civil society groups, NGOs, the donor community, and the private sector. Post should primarily discuss the 150 account, and also discuss the whole USG at post, to the degree possible. For example, DOD, MCC and Peace

Corps are big players and should be discussed more thoroughly. Food security continues to be a big issue for Honduras with the \$10-12 million Title II program ending in 2009. MCC is scheduled to end in 2010 as is planned Food Security DA in 2010 (\$22.5 million)