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EXECUTIVE SUMMARY

After decades of inconclusive development policies and lacklustre growth, Honduras has now embarked upon a catch-up process. Relative political stability, a growing domestic demand for a long-term anti-poverty strategy, macro-economic consolidation and recent debt alleviation initiatives are important achievements upon which the country can now capitalise in order to proceed with a more forward-looking and sustainable development agenda. In this “window of opportunity”, the leverage offered by EU cooperation should support this new development momentum, in order to make it more conducive to actually reducing poverty.

The present EC strategy for Honduras has been designed after a thorough multi-stakeholder consultation process, and meshes with the country’s poverty reduction strategy and political ambitions. In view of the high social and environmental vulnerability of Honduras, and in line with the EC Development policy objectives and the conclusions of the Guadalajara summit, the purpose of this strategy is to foster social cohesion in a context of regional integration as follows:

Reinforcing Social cohesion by investing in Human capital (Health and Education), in order to reduce the ingrained social discrepancies and territorial imbalances that have made Honduras the second poorest country in Latin America, and to make its anti-poverty strategy more effective.

Fostering the sustainable management of natural resources, with a focus on forestry, to alleviate Honduras’s persistent vulnerability to natural disasters and to combat rural poverty.

Developing a comprehensive public security and justice policy, in order to reduce public insecurity by bolstering law enforcement, strengthening the judiciary and improving prevention to reverse the marginalisation process affecting the younger generation and its drift towards criminal youth gangs.

These three strategic areas are closely interwoven inasmuch as public security, sustainable management of natural resources, and human capital investment are part and parcel of social cohesion. At the same time, insecurity and environmental degradation have grown to become both key regional concerns and crucial domestic challenges.

Adding to the PRSP framework, the well-established cooperation mechanism among donors in Honduras should prove instrumental in implementing the Paris Declaration on alignment and harmonisation.

The implementation of the programmes will be staggered over the 7-year time-span of the strategy, and will unfold through two successive work-programmes.

In view of the current macro-economic consolidation process and the progress made in management of public finances, implementation options will include the whole range of EC aid delivery mechanisms, including budgetary support.

1. OBJECTIVES OF COMMUNITY COOPERATION

1.1. Global Objectives

This CSP is guided by the global objectives of the EC cooperation policy, the more specific objectives of the EC relations with Latin and Central America and the bilateral objectives of the relationship between the EC and Honduras.

Article 177 of the **Treaty Establishing the European Community** lays down the broad objectives for Community development cooperation: sustainable economic and social development, smooth and gradual integration of the developing countries into the world economy, the fight against poverty, the development and consolidation of democracy and the rule of law and respect for human rights and fundamental freedoms.

In November 2005, the Council, the representatives of the Governments of the Member States, the European Parliament and the Commission approved “*The European Consensus on Development*”, providing for the first time a common vision to underpin the action of the EU as a whole (i.e.both at the level of the European Community and its Member States), on development cooperation. It states that the primary objective of the Community development policy is the eradication of poverty in the context of sustainable development, including the pursuit of the Millennium Development Goals (MDGs), together with the promotion of democracy, good governance and the respect for human rights. Furthermore, the Consensus stresses the importance of partnership with the developing countries and of promoting good governance, human rights and democracy with a view to a more equitable globalisation. It reaffirms the commitment to promote policy coherence in development, which means that the EU will take account of the objectives of development cooperation in all its policies that are likely to affect developing countries, and that these policies should support development objectives. It reiterates the principle of ownership as regards the development strategies and programmes to be carried out by partner countries, and advocates both an enhanced political dialogue and a more prominent role for civil society in development cooperation.

1.2. Specific Objectives in Latin and Central America

From January 2007, Honduras will be eligible to the **Regulation** of the European Parliament and the Council establishing a financing instrument for development cooperation (DCI) in application of article 179 of the **Treaty Establishing the European Community**.

The 2004 Guadalajara Summit between Latin American and European countries put the emphasis on multilateralism, regional integration and social cohesion, which are the main priorities for policy dialogue and cooperation. These agreements are to be translated into concrete programmes of action in Central America through country-level initiatives on social cohesion and regional-level initiatives on regional integration

In its December 2005 Communication on “*A reinforced European Union-Latin America partnership*”, the Commission restated its aim of achieving a strategic partnership with the entire region and stressed the need for policy dialogues, targeted cooperation, the promotion

of trade and investment, as well as improving the alignment of cooperation strategies with the political agendas and the needs of recipient countries.

Cooperation between the EU and the six republics of the Central American isthmus has been shaped by the **San José Dialogue**, which was launched in Costa Rica in 1984 and remains the principal channel for political dialogue between the two regions. This annual dialogue was originally set up to support the peace process and democracy in the region. It was confirmed in 1996 and 2002 and expanded to include new issues such as sustainable and equitable economic and social development, the fight against insecurity and organised crime, the rule of law, and social policy.

The Regional Development Cooperation Framework Agreement, between the same six Central American countries and the Commission, signed in 1993, came into effect in 1999. This “third generation” agreement covers a broad range of sectors and provides for the establishment of a Joint Committee to oversee its implementation, as well as sub-committees dealing with specific sectors.

In **December 2003** a new **Political Dialogue and Cooperation Agreement** was signed by the EU and Central America, which, once ratified, will institutionalise the San José Dialogue and expand cooperation to include areas such as migration and counter-terrorism. It also opens the door to a future Association Agreement, which is the common strategic objective of both parties as established at the EU-Latin American Countries Summit in Guadalajara of May 2004, including a free trade area. The two regions decided that a future Association Agreement between them shall be built on the outcome of the Doha Development Agenda and on a sufficient level of regional economic integration. The Declaration of Vienna, issued by the Heads of State and Government of the European Union and of Latin America and the Caribbean on 12 May 2006, reiterates the commitment to expand and deepen EU-Latin America cooperation in all areas in a spirit of mutual respect, equality and solidarity. In this context, and based on the positive outcome of the joint evaluation on economic integration in Central America, the Heads of State and Government of the European Union and Central America decided to launch negotiations between Central America and the EU in view of an Association Agreement including a free trade area.

1.3. Specific objectives for Honduras

After years of inconclusive public policies, Honduras has now embarked upon a catch-up process. Capitalising upon macro-economic consolidation, debt alleviation, political stability and the growing domestic demand for a long-term PRSP, Honduras can now evolve towards a more sustainable mid-term development agenda. In this “window of opportunity”, EU cooperation can exercise strong leverage on the country’s development and make it more conducive to poverty reduction.

It is in Europe’s interest to assert its position in Honduras, which has strong cultural, political and historical links with Europe while at the same time enjoying a “special relationship” with the USA.

Cooperation stands out as the main feature of the EU relationship with Honduras. Honduras is the second biggest recipient of EU aid in Latin America, not only due to the high level of poverty but also due to the EU’s interest in consolidating stability and democracy in this country.

EC co-operation with Honduras is guided by the Framework Agreement signed in 1999 between the European Union and the Central American States, which defines the procedures for aid in relation to programmes, projects and technical and financial cooperation. The priorities of the political dialogue and the main challenges of the EU-Honduras relations were highlighted in the new Political and Co-operation Agreement signed in December 2003, which is currently awaiting ratification. It puts emphasis on regional integration, with a view to the negotiation of an association agreement, and stresses the need to gear co-operation to social cohesion, democracy and the rule of law.

After the USA and Central America, the European Union is Honduras's third trade partner, while Honduras's trade (0.04% of world exports in 2004) remains relatively insignificant for the EU, save a few sensitive products (e.g. bananas).

Obviously, *Social cohesion* and *Regional integration*, the two overarching objectives of EU cooperation in Latin America, which were spelled out in the most recent Guadalajara declaration, are of the utmost relevance for Honduras. Honduras is the third poorest country of the Western hemisphere, marked by ingrained social differences and territorial imbalances. Although located at the very core of Central America, Honduras has long remained slightly apart from the mainstream of Central America, both politically and economically. Honduras's renewed interest in regional integration and the pending settlement of border disputes have now created a better prospect for translating the country's pivotal position into higher trade benefits and diplomatic profile, in a context of deeper regional integration.

2. COUNTRY ANALYSIS AND CHALLENGES

2.1. Rule of law, human rights and political situation

Since democratic life was restored, Honduras has undergone a gradual institutional transition, moving from an authoritarian military regime to a pluralistic one. For the last 25 years, the successive electoral contests have been held regularly, with power alternating peacefully between the two main traditional parties. Honduras has signed and ratified almost all the international and inter-American conventions on human rights, although their actual implementation remains uneven or, in a few cases, is only just beginning¹.

In contrast, the establishment of the rule of law and good governance has been slower to take hold. Ingrained poverty, widespread violence and pervasive corruption have created a volatile social situation, in which the neediest part of the population increasingly perceives democracy as more notional than actual, with public surveys suggesting rising popular dissatisfaction. Despite recent governance reforms, the democratic form of government is still perceived by many as unable to deliver social justice or to protect the ordinary citizen against crime, hence the renewed focus put on these two issues by the newly-elected government of President Zelaya.

After setting the democratic scene, the main political challenge remains the transition from a still rather formal "representative democracy" towards a more broad-based and socially inclusive "participatory democracy", especially in view of the social challenges ahead.

After decades of centralised military rule the current momentum towards decentralisation could instill a new democratic culture and usher in a new political class. At local level, the

¹ In particular, children's rights and some ILO labour standards remain areas of concern.

partnership between the civil society and the authorities should help the country bridge the traditional fault-line between the populace and those in power. Besides its primary purpose – which is development - the PRSP can also play a *political* role, as a powerful catalyst for consensus and confidence-building.

In response to rampant violence, the heavy-handed **law and order policies** that have been implemented until recently have stemmed the tide of crime, but failed to address its root causes. There is now increasing evidence that simply cracking down on crime is likely to backfire unless repressive actions are supplemented by comprehensive state policies on crime prevention, youth employment and rehabilitation. Increasingly marginalised, faced with scant education or employment opportunities and disintegrating family structures, young people are increasingly being lured into violent gang structures (“maras”), which have made crime their lifestyle and developed ever-closer links with organised crime throughout the region.

The general climate of violence has taken a heavy toll on the young generation of Hondurans, resulting in almost 3 000 violent deaths over the last 6 years. President Zelaya’s administration initiated in 2006 a long-term strategy to address socio-economic causes of crime, beef up police forces and improve their coordination with the military while developing a decentralized and grass-root approach to insecurity. Though commendable, these efforts have yet to materialize in lower crime rates and will require both domestic political stewardship and strong external support.

The killings of young people (approximately one per day) cannot be construed as a state policy of “social cleansing” and the authorities have publicly condemned such acts. However, it is not until recently that these cases (notably those involving state agents) have been more thoroughly investigated and prosecuted. The means available to prosecute such cases, however, remain scant and many cases have gone unpunished to date, with a large backlog of legal cases dating back several years. Although the individual responsibility of state agents or private militias has been established in some cases, many fatalities are due to violent turf-wars opposing rival gangs in a fight for the control of territories. The situation is compounded by a general climate of intimidation of potential witnesses and the availability of large quantities of unregistered small arms and ammunition inherited from the protracted regional conflicts.

The main governance problems are primarily related to ingrained deficiencies in public sector management and law enforcement within the civil service and the judiciary. Despite recent reforms in public procurement, the perception of corruption remains high. The Honduran civil service remains highly politicised and exhibits serious staff imbalances across sectors. The long-overdue overhaul of the civil service continues to suffer from political procrastination and prevarication, at a time when the challenges linked to sector-wide approaches and decentralised management make civil service reform more urgent than ever.

Overall, the Honduran judiciary appears to be one of the least efficient in the region and is characterized by excessive delays. Litigation rates are among the lowest in the region, suggesting that there are significant hurdles to accessing judicial services, especially for the poor. Notwithstanding recent reforms, the “spoils system” continues to prevail, and the prosecutor’s office is not immune to party politics. The success of the on-going reform of the anti-corruption institutional framework to combat corruption and the adoption of the law on the judiciary will thus be critical milestones in restoring public confidence.

2.2. Social cohesion and poverty

After the advent of pluralism, the post-Mitch recovery effort and recent macro-economic consolidation, the tangible reduction of poverty is now the key challenge for Honduras, and the litmus test for its PRSP.

Honduras is a lower middle income country, with a per capita income of US\$ 1,190 in 2005. It has a population of 7.2 million inhabitants, growing at an annual rate of 2.2%, and of which around 42% are under 15 years of age. Honduras ranks as the third poorest country of the continent, with an estimated 51% of the population currently living in poverty line, while 24% in extreme poverty. Roughly one-half of the population resides in rural areas, where the incidence of poverty reaches almost 75%, compared to 57% in urban areas. Honduras social indicators are among the worst in Latin America, notably as regards reproductive health. Likewise, social differences remain extremely high in Honduras (Gini coefficient of 0.55), particularly in rural areas, while Honduras's world ranking in terms of HDI remains poor (115).

Notwithstanding economic growth and foreign aid, poverty has been essentially unchanged since 1997. For all its merits, the PRSP has only been able to contain, but not to roll back poverty. During the period 2001-2005, progress in terms of PRSP achievements has been uneven. Despite relative progress in terms of alleviating extreme poverty (one point less per year), Honduras has fallen behind in poverty reduction, while progress in the health and water & sanitation sectors has proved slower than expected.

Honduras has fared worse than the region as a whole in terms of poverty reduction over the period 1990-2005, which suggests that the Honduran development paradigm is not reducing poverty sufficiently, and even perpetuates social imbalances¹. The tax system continues to rely heavily on indirect taxes on consumption (61% of total tax revenues), which exacerbates Honduras's already large income gap². As further evidence of fiscal inequity, the tax pressure on the lowest income categories is proportionally heavier than for the highest income category³.

In a positive development, social spending has increased over the last decade (from 27% of total spending to more than 37% in the last few years), moving closer to the 40% level which the UNDP considers necessary for Honduras to bridge the gap with mainstream Latin America in terms of human development. Likewise, PRSP spending rose by almost 1% of GDP 2004 and reached an estimated 8.7% in 2005, with a further increase up to 9.4% in 2006. However, the fluctuating definition of the "PRSP spending" can make any comparison delicate.

¹ A recent study reveals that for one percent of growth per capita, the number of poor has dropped by only 0.27 percent

² Indeed, the comparison of Honduras's Gini coefficients *before* and *after* the payment of taxes illustrates the non-redistributive impact of the tax system, rising from 0.543 to 0.571. To a large extent, the limited contribution of income tax in the overall tax system explains this result.

³ The overall fiscal pressure affecting the lowest income category amounts to 41.2%, whereas the fiscal pressure on the richest income category amounts to only 19% ("Honduras: Hacia un sistema tributario mas transparente y diversificado" Juan Carlos Gomez-Sabaini IDB Economic and Social Studies Dec. 2003.

There is little budgetary leeway¹ to foster social cohesion, with a public sector wage bill absorbing almost two thirds of the budget and declining capital expenditures. In addition, the apparently high level of public spending in important sectors like education does not necessarily translate in “pro-poor” budgetary targeting² in practice. Likewise, public infrastructure pricing and subsidy policies are not always designed to really target the neediest part of the population, and in some cases have a socially regressive impact instead³.

The expected fall in customs revenues as a result of trade liberalisation initiatives (CAFTA, regional customs union) and the persistent income imbalances strengthen the case for accelerating tax reform. With an overwhelmingly US-driven trade pattern, the Honduran economy and tariff revenues will inevitably be particularly affected by CAFTA⁴. At the same time, economic analysis shows that countries characterised by high income discrepancies require a higher growth rate to reduce poverty than those where income distribution is more balanced⁵. In a context of increased trade liberalisation, the mere continuation of the current growth trend alone would not improve social cohesion. As emphasised by the IMF and the World Bank “The elasticity of poverty reduction to economic growth has been characteristically low in Honduras, and consequently higher per capita GDP as well as other key contributing inputs are required to distribute the benefits from growth and for steady progress in most PRSP/MDG goals”⁶.

In Honduras, more than in any other country of the region, there is a correlation between social cohesion and long-term development prospects. Indeed, not only should social cohesion be seen as a “social necessity” in its own right, it also appears as an essential condition for any sustainable economic development in the long run. Until now, the growth factors (maquila re-exports, tourism, remittances, US growth, international coffee prices, etc) that have propelled the Honduran recovery have been largely exogenous and foreign-driven. They may stall unless they are relayed by expanding domestic demand. Moreover, the continued efforts required for macro-economic stabilisation will be more readily accepted if the population can see these efforts being translated into poverty reduction. In Honduras, increasing the emphasis on Social cohesion thus seems amply justified, not only from a strictly social viewpoint, but also for wider economic and political reasons.

Poverty eradication in Honduras is closely linked to the general environmental situation of the country, including the sound management of natural assets, which provides livelihood for particularly poor people living in the rural areas. Among the most salient features of social imbalances in Honduras are:

¹ The relatively high level of tax revenues (17.3% of GDP in 2004) may also be attributable to the underestimation of the GDP.

² The share of the higher education budget, for instance, is considerably higher than in other countries, meaning that the education budget does not really benefit the poorest part of the population.

³ See Honduras Development Policy Review « Accelerating Broad-Based Growth » World Bank Nov. 2004. It is estimated that, until 2003 reform, 82% of the subsidy scheme applied for electricity tariffs went to the non-poor. “A common theme running across the existing subsidy schemes is that they all focus on maintaining affordability of public infrastructure services. However, the end-result is that the lion’s share of the subsidy ends up in the hands of those that can best afford to pay higher prices for these services”

⁴ The CAFTA-related loss in terms of customs revenues has been estimated between 0.6% and 1.5% of GDP, depending on the level of trade diversion.

⁵ In particular, the poverty-reduction/growth elasticity is low (0.4 for extreme poverty), owing to the high degree of inequality in income distribution.

⁶ Honduras: Joint Staff Advisory Note on the Poverty Reduction Strategy Paper, Oct. 2005

High and ingrained discrepancies in distribution between income groups¹, which recent tax reforms have left practically untouched.

Land property distribution remains extremely unequal² and, notwithstanding recent progress in the titling process, registration is only just beginning. With 30% of properties lacking proper registration and two million Hondurans unable to either sell or bequeath their properties, land tenure insecurity continues to generate local conflicts and hamper development and investments.

Territorial fragmentation, with growing imbalances in terms of territorial development³. CAFTA-related trade liberalisation will certainly benefit the regions that are already exporting, while impoverishing those producing less competitive products, especially in agriculture. Likewise, the development of major infrastructure networks connecting Honduras with its neighbours looks set to reinforce economic concentration along the main axis of communication, leaving aside the rural population that already bears the brunt of poverty. In particular, the overwhelmingly poor rural population living in forest lands is at risk of being dramatically affected by rural migration.

Generational-gap: Levels of social frustration, unemployment and violence are significantly higher among young people, leading to an ever-growing process of marginalisation of a large part of the young population. Moreover, the magnitude of this problem will only be compounded by the demographic transformation in the coming decades⁴.

Unequal access to public services infrastructures: Honduras still exhibits many shortcomings in access, efficiency and quality of infrastructure services, with indicators well below the Latin American average levels (except for water and sanitation, where coverage borders 90%). Access still varies significantly across urban and rural areas and in particular across income levels, especially in terms of sanitation and electricity. As noted, the rigid regulatory frameworks and tariff-setting policies should also be reformed, with a view to making them more conducive to social cohesion⁵.

Vulnerable groups: Besides unequal access to land, disparities in terms of income are particularly high between men and **women**, the latter only receiving half of the average income of the male population while having to assume an ever-increasing role in society as a result of massive male emigration (one third of households are now women-led). Half of the women are working. Whereas some key administrative positions are held by a tiny female elite, most women are employed in the informal sector⁶. Domestic violence continues to be widespread, and the primary cause of death among the female population. In practice Honduras still lacks an integrated policy promoting children's rights, and a significant

¹ In 2003, 80% of households received only 40% of the nation's total income, while 60% of the nation's income went to the wealthiest 20%.

² While small farms (below 5 ha.) represent the overwhelming majority (72%) in agriculture, they only occupy 11.6% of farming land. In contrast, a few large estates (over 500 ha.) representing less than 1% of farms occupy 23.4% of agricultural surface, often in the most fertile areas.

³ The bulk of national wealth and development being concentrated on a limited number of regions, situated in a triangle between Puerto Cortes, La Ceiba and Tegucigalpa. Entire regions in the East or South-east, i.e. those already exhibiting the poorest performances in terms of HDI, are increasingly marginalised.

⁴ The population between 15 and 29 should rise from 1.9 m. to 2.9 m. in the next 20 years, creating a risk of massive and uncontrolled urban drain. With 100,000 young people more in the labour market every year, the scarcity of job opportunities jeopardises Honduras's development prospects.

⁵ Indeed, economic analysis suggests that tariff rates in most infrastructure sectors are set in a way that not only distorts sector development but also results in poorly-targeted - and even socially regressive - subsidisation.

⁶ The goal for the gender-related HDI was met in 2003, just reaching the proposed 0.65 objective, but the improvement of the gender empowerment index was not sufficient to reach the objective (0.43 instead of 0.47).

proportion of **children** continue to be affected by malnutrition, abandonment¹, crime, sexual exploitation, child trafficking or child labour². The nine most significant **indigenous groups** represent around 8% of the total population and remain particularly affected by phenomena such as AIDS, rural poverty and urban drain, compounding the gradual loss of their cultural identity. Despite recent progress, indigenous communities – such as the Garifuna community - have experienced difficulties in claiming their land property rights.

2.3. Trade and macroeconomics

With a record of erratic economic policies and sluggish economic growth, Honduras has trailed behind Latin America growth throughout the period 1960-2000 and has chronically relapsed into macro-economic instability. Policy reversals periodically pushed IMF-supported programmes off-track as the country drew closer to elections. In fact, it was not until the early 90's that the country really embarked upon a more reform-oriented agenda. Temporarily halted by hurricane Mitch, the recovery has been steadily gathering momentum over recent years, cruising at an average annual rate of 3% (almost 4.6% in 2004 and 2005 according to estimates) and exceeding the average regional growth-rates. Confronted with untenable external and fiscal deficits, Honduras successfully negotiated a new three-year PRGF arrangement with the IMF in February 2004. Since then, Honduras's macro-economic performance has remained firmly on-track. The public sector wage bill remains, however, a critical target to be kept under close scrutiny³ and the reform process of state-owned companies should also be closely monitored.

With an external public debt-to-GDP ratio of around 66% in 2004, Honduras was considered a highly indebted country. It was declared eligible to participate in the HIPC initiative in 1999 and reached the Decision point in July 2000. After a 3-year delay due to macroeconomic instability, it finally hit the HIPC Completion point in spring 2005, benefiting from substantial debt relief as a result⁴. Most recently, the G-8 Meeting of June 2005 opened the way towards further, sizeable debt alleviation with the IMF and the World Bank, and the IDB followed suit in 2006. **These major developments should more than halve the country's debt burden, which could boil down from 5 to less than US\$ 2 billion as a result, thus significantly widening the country's leeway to engage poverty.**

Further to the wide-ranging financial legislation approved in 2004 (prudential norms, supervision and new provisioning requirements), the financial sector indicators have been steadily improving.

In terms of public sector financial management, significant progress has been made in developing the budget as a comprehensive and multi-annual expenditure management tool⁵.

¹ It is estimated that by 2010 the HIV infection may cause as many as 42,000 children to become orphans.

² More than 300,000 youths are employed, i.e. 15% of those between 5 and 17 y.o.).

³ Although a deal had been clinched to halt the upward creep in the teachers' wage bill, the volatile social climate led the authorities to reopen the issue in August 2006. The financial sustainability of the new arrangement beyond 2006 remains to be confirmed.

⁴ A reduction estimated at more than \$ 1.0 billion in nominal terms or \$ 556 million in terms of net present value.

⁵ Starting with the 2003 budget, accompanying documents include a multiannual budget, which is still in experimental stages. It is an information document of no legal standing, designed to show Congress how the fiscal aggregates will evolve in the medium term. It is revised annually and an additional year is incorporated into the planning horizon. It consists basically of a projection of base year data for the fiscal year and three more years,

In particular, Honduras has made substantial progress in improving the transparency of fiscal activity. The areas that have improved the most over the last two years have been budget coverage, budget classification, timeliness of presentation and approval, public access to fiscal information, procurement and employment regulations, multiannual budgeting, and the regulatory framework for internal control and external audits. Progress is still needed in order to improve multi-annual planning, clarify the roles and responsibilities within the executive and improve the enforcement capacity of the internal and external audit bodies. Better implementation of the new public procurement law and a continued expansion of budget documentation are also needed.

The tax reform implemented by the Government since 2002 has succeeded in reversing the earlier tax revenue decline and total public expenditures have shown relative stability in recent years. However, exemptions have proliferated over time and now need to be streamlined with a view to widening the tax base.

Honduras is now the most open economy in Central America and ranks among the most open in the world, with the US remaining its predominant trade partner by far. With a trade openness ratio of 0.93, any evolution affecting Honduras's trade pattern inevitably reverberates on the country's economic and social context as a whole. Intrinsically vulnerable to external shocks, price volatility and trade fluctuations, the country has nonetheless been able to reduce its exposure over the last decade, with the share of the three main export commodities (coffee, bananas and shrimps) receding from 40% to 20% of total exports. These traditional exports have been superseded by non-traditional ones, especially maquila exports (mainly textiles), whose added value doubled from 1995 to 2002, now reaching 22% of total exports. Although reducing the country's vulnerability, the growth of the *maquila* sector has exposed Honduras to increased competition from low-cost Asian producers of apparel and textiles, especially since the WTO agreement on textile quotas ended in January 2005.

Although Honduras already enjoys preferential access to the US market through the Caribbean Basin Initiative (CBI), CAFTA is meant to further widen and consolidate its export opportunities¹. The very comprehensive - and demanding - nature of CAFTA is expected to "lock in" trade liberalisation and wedge structural reforms into the economic agenda while encouraging FDIs. This will nonetheless require drastic internal adjustments in Education (to maximise the FDI potential and technological spill-over effects), Trade infrastructures (effectiveness of customs), and the acceptance of International Standards such as the WCO Framework of Standards to Secure and Facilitate Global Trade, Labour market and Taxation (to compensate for the fiscal losses).

2.4. Production process

Honduras's development process has traditionally been hampered by its intrinsically low productivity of factors, especially in agriculture. In spite of favourable natural conditions, Honduras remains a net importer of agricultural products and has traditionally been assisted by food-security programmes.

using certain assumptions on the trends of particular categories of expenditure

¹ Designed as a reciprocal trade agreement, granting broader rights and obligations in terms of market access and dispute resolution (as opposed to the CBI renewable unilateral preferences), CAFTA actually constitutes a permanent trade and investment framework, including also regulations for services, disciplines for investment relations and commitments in new areas such as intellectual property rights, government procurement, and labour and environmental standards

An export-led economy, Honduras's economic pattern¹ mirrors the evolving composition of exports, with the declining importance of agriculture, the recent recovery of the coffee industry, the booming maquila-related activities and the recent surge of tourism. Honduras remains critically dependent on oil imports and the estimated 40% increase in the energy bill in 2005 has reverberated strongly on the economy, and exacerbated social discontent. The actual result of the radical changes introduced by the administration of President Zelaya in the oil supply scheme remains difficult to predict. Another structural change that has taken place over the last decade is the steady growth of foreign remittances, accounting for 20% of GDP in 2005, which help withstand external shocks and almost outweigh the maquila sector. Although remittances are critical in rural areas, their actual contribution to growth remains questionable, as long as they are not properly funnelled to productive activities.

Private sector participation in public services has gradually expanded, but remains limited². Independent estimates place the informal economy at 50% of GDP³. Informal employment remains widespread, especially among young people and women. Unemployment figures vary widely according to the source and reference basis, but it can be estimated that at least 25% of the population is currently unemployed or under-employed.

2.5. Regional and world integration

Spanning ca.112 000 square kilometers, Honduras is the second largest country in the region and the only one sharing a border with three other countries. It stands at the regional crossroads and borders both oceans. The renewed momentum for regional integration, the future development of regional infrastructure projects and the on-going settlement of the remaining border disputes, are liable to help Honduras take advantage of its pivotal position in order to spearhead regional integration and thereby derive increasing benefit.

The process of *trade liberalization* in Honduras resulted in a drastic reduction in customs duties and was accompanied by the country's admission to the World Trade Organization and its participation in trade negotiations and trade integration agreements. At regional level, the non-tariff barriers to trade that were attributable to Honduras have all been removed. As a founder member of the main regional institutions, Honduras has remained committed to Central American integration, supporting the reduction in customs duties, the establishment of common tariffs, providing peaceful conflict resolution, and integrated management of common areas, such as the Gulf of Fonseca. The Puebla-Panama Plan could provide further impetus to Honduras's regional integration.

Although Honduras is a founding member of the United Nations, the World Trade Organization (WTO), and the Organization of American States (OAS), its role in world affairs has traditionally been rather unassuming, while its international profile may have been somewhat blurred by its intimacy with the US. Honduras's profile should, however, gain from its increasing participation in regional integration, which gives Central American countries the critical mass to project their image on the world scene and diversify their network of

¹ Overall, industry accounted for almost one third of GDP in 2004, while services rose to 55% and agriculture subsided to 13%. One third of the labour force works in the agriculture sector, while services account for almost half of the labour force. Tourism in Honduras is now the country's second most important foreign exchange earner.

² The private sector is mainly present in energy generation, road maintenance, domestic passenger and freight transport services, mobile telephone market and value-added telecommunications services.

³ It has been estimated that reducing informal economy to the level seen in Costa Rica (26%) would increase GDP by about 3%.

partners. Currently, the EU ranks as the second trading partner of Honduras (far behind the United States), accounting for less than 10% of Honduras's total trade. Trade with the EU is mainly governed by the new "GSP+" regime, for which Honduras meets all the eligibility criteria. The expected free trade agreement between the EU and Central America would arguably help Honduras consolidate its trade position with the EU.

By any measure, the United States tower over any of Honduras's other partners, and their influence permeates all aspects of the Honduran socio-economic life¹. The CAFTA agreement signed in May 2004 will peg the Honduran economy even more to the US. Notwithstanding its recent withdrawal from the US-led coalition in Iraq, Honduras was among the 16 countries qualifying for the US-sponsored Millennium Challenge programme. An estimated 1 million Hondurans live legally or illegally in the US (including 100,000 under a renewable status granted after Mitch), and their remittances act as a lifeline for a large proportion of the population. As a transit country for regional drug-trafficking towards the US, Honduras benefits from close US assistance in this field.

2.6. Environmental analysis, vulnerability and poverty

Honduras is located at the very heart of Central America, an area of highly active tectonic faults with more than 27 active volcanoes, lying at the western edge of the Caribbean hurricane belt. With its mountainous terrain and complex river basin systems, landslides and flooding are common. Parts of the region are also prone to drought. Being particularly vulnerable², Honduras bore the brunt of hurricane Mitch in October 1998, which caused devastating human and physical damage, and interrupted the slow decline of poverty that had been observed since 1990. Hurricane Mitch's impact on the Honduran economy in 1998 was estimated at equivalent to three-quarters of annual GDP³. A more sustainable management of natural resources would lead to improved water supply and increased economic development, especially in forest areas where poverty concentration is at its highest. The link between environment and poverty reduction is particularly obvious in Honduras, the poorest part of the population being also often the hardest-hit. Conversely, in poor rural areas, the limited access to land and other means of subsistence prompts the poor to over-exploit the scarce resources they can access.

Vulnerability to natural disasters linked to climate change, climate variability and associated phenomena remains critical and requires sustained efforts in terms of disaster mitigation, territorial development and integrated management of forestry and water resources. Although the country has made some progress in prevention and mitigation since hurricane Mitch, Honduras's overall development process has fallen short of incorporating a real risk reduction policy as a cross-cutting dimension. The framework of environmental legislation still needs to be harmonised and completed with the adoption of framework laws on Water, Forestry and the National System of Risk Reduction and Contingency Planning. While Honduras is a member of the regional bodies in charge of coordinating disaster prevention, its own

¹ The US are, by far, Honduras's chief trading partner, supplying 53% of its imports, purchasing 69% of its exports and accounting for 44% of accumulated FDI in 2003.

² According to 2006 data, natural disasters have caused more than 30 000 deaths in Honduras over the last 25 years and US\$ 6 billion have been lost as a result, with almost half of the population being affected one way or another.

³ A significant factor in economic and social instability in Honduras has been the high incidence of natural disasters (seven in the 1990s, including Hurricane Mitch which caused losses equivalent to 75 percent of GDP in 1998). These generated additional financial pressures in the fiscal and external sectors, as well as in the private sector, crowding out new investment and expenditure in priority areas.

institutional system remains highly fragmented, showing overlaps and conflicting competences. The country's National Protected Areas System¹ has long been disregarded in practice, resulting in a continued degradation of biodiversity. Besides their critical importance in terms of vulnerability reduction, these areas are essential sources of genetic material for agriculture and potable water, and as habitat for the country's abundant plant and animal species. The potential economic benefits from ecotourism have remained largely untapped.

Deforestation has continued unabated for decades (almost 100,000 ha. /year, at a rate close to 2% per annum), denting the country's extensive forest cover (45% of the territory to date), aggravating the erosion of soils, and impacting in turn on water resources, to the point of potentially rendering the country more vulnerable to a future major natural disaster. Deforestation² has assumed alarming proportions in the western and southern regions of the country. Besides damaging the environment, illegal logging deflects private investment while perpetuating corrupt practices. The country's forest production potential has remained largely untapped and exports, mainly to the US, fell back significantly in the late 1990's. The lack of a full-fledged forestry strategy is compounded by the lack of legal clarity in the existing regulations, which are often flouted or open to arbitrary interpretation. Low penalties and sanctions, a general confusion of responsibilities, magnified by the limited effectiveness of the State Forest Administration, are all problems that distort competition in favour of illegal loggers. In this abstruse legal framework, any government measure is doomed to be seen as contingent and transitory. More generally, the undefined status of soils and insecurity of land tenure deter investments, while fuelling local conflicts, social instability and deforestation.

While most of the regional watersheds are situated in Honduras, careless management of rivers and basins and the pressure on water resources have resulted in their depletion and contamination. Honduras is the Central American country with the second lowest amount of available water per capita and shows a high rate of extraction of groundwater. Overexploitation of marine and coastal resources as a consequence of tourism and fisheries and the deterioration of coral communities also affect environmental sustainability.

3. NATIONAL AGENDA

The devastating hurricane that hit Honduras in the late 1990's acted as a strong wake up call and also marked a political and social "watershed". Indeed, "The Mitch", as it came to be known, acted as a powerful catalyst, not only in terms of the influx of foreign aid but also in terms of the empowerment of civil society. The Stockholm Regional Consultative Group (1999) drew up a set of guidelines and objectives for reconstruction, including the reduction of ecological and social vulnerability, the need to reconstruct and transform Central America according to a holistic approach, based on transparency, good governance and democracy, decentralisation and civil society empowerment. These principles have largely informed the Honduran PRSP. Under the aegis of the government, the PRSP was set in motion as an inclusive coordination process, whereby both the donor community and civil society could formulate their respective contributions in a forward-looking and coordinated fashion.

¹ SINAPH, covering 2.7 million hectares i.e. almost 25% of the national territory

² Deforestation is attributable to several factors: illegal logging fuelled by corruption, wood-based domestic heating, and ever-expanding agricultural frontiers. Disregarding Honduras's natural forestry potential, the overriding priority given to agriculture and livestock has led to an uncontrolled expansion of the agricultural frontier while forest eradication has been compounded by the perpetuation of ancestral slash-and-burn practices.

Designed with a long-term perspective (up to 2015), the PRSP process has been steadily gathering pace and should now constitute the real backbone of the country's anti-poverty agenda. Enshrined as a State policy and strongly supported by the donor community, it is currently being reviewed in an attempt to enhance its impact on poverty. A revised PRSP framework is due to be finalised during the course of 2007. The donors' community has been following very closely this up-dating process, insisting that the new document should include policy measures reflecting long-term commitments in public service and tax reform, a clear mid-term budgetary framework (including a better targeting of the poverty spending), a sound and operational institutional framework, a clear articulation between sector policies and the PRSP as well as pertinent indicators focusing on performance.

The attainment of the HIPC completion point and the sizeable debt relief granted to Honduras can give the PRSP a strong impetus, consolidate the political consensus around the strategy, increase its domestic visibility and enhance its impact on poverty, especially if the current reform process of the PRSP increases its efficiency.

The regional trade liberalisation agreement ratified by Honduras in 2005 (CAFTA) will increasingly shape the country's **trade agenda** and will also impact on the economic and social situation. On the **macro-economic** side, the fundamentals will continue to be determined by the agreement reached with the IMF until 2007. This agreement is also expected to inspire any subsequent agreement with the IMF. As regards its foreign agenda, Honduras looks set to forge ahead with its pro-integration stance, notably in customs union and security issues, while keeping close ties to the US. The clear prospect of negotiating a bi-regional Association Agreement with the EU should support progress towards achieving a customs union in Central America.

4. OVERVIEW OF PAST AND ON-GOING EC COOPERATION, COORDINATION AND COHERENCE

The influx of foreign aid was significantly increased in the wake of the devastation wreaked by hurricane Mitch, culminating in an annual amount of USD 575 million in 2004. The accumulated volume of assistance to Honduras (both reimbursable and not-reimbursable) in June 2005 was slightly above US\$ 3,100 million, with reimbursable assistance accounting for 56% of the total amount. More than 90% of this global assistance is directed to the public sector. Bilateral assistance represented 1/3 of the total volume, and multilateral cooperation 2/3. The total portfolio of public and private cooperation comprises 569 projects, most of them non-reimbursable. The most prominent bilateral donors are the US, Spain, Sweden, Germany, Italy, Canada, Japan and Taiwan, accounting altogether for 90% of bilateral aid. Among multilateral partners, the most important are the EU, IADB, the World Bank, BCIE, the UNDP, the WFP, the Nordic Fund and FIDA. The disbursement rate in June 2005 had reached 48.3%.

4.1. Past and on-going EC cooperation, lessons learned

Honduras is part of the cooperation agreement signed in February 1993 between the European Union and the Central American Countries. At present, the two main financing instruments are (a) the memorandum of understanding signed in March 2001 for an indicative amount of EUR 147 million for the period until 2006 and (b) the Regional Programme for Reconstruction of Central America (**PRRAC**), under which the country has so far received EUR 119 million. Furthermore, Honduras is eligible for a series of **horizontal programmes**

for Latin America, namely Alis, AL-invest, URB-AL, ALFA (see annex 11) and can benefit from thematic programmes.

EC assistance has more than doubled over the last decade and now accounts for more than 10% of international aid. Overall, current EC assistance can be estimated at €338 millions, making Honduras the second largest recipient of EU assistance in Latin America, after Nicaragua.

Financial Commitment – on-going projects in Honduras

	€	%	NUMBER OF PROJECTS
Bilateral Projects (*)	134.448.932	39.7	25
Regional Projects, without PRRAC	91.190.970	27.0	3
PRRAC	112.631.048	33.3	10
TOTAL	338.270.950	100.0	38

(*) Includes government, food security, Co-financing with NGOs and environment.

The regional post-Mitch rehabilitation programme (PRRAC) has come to make up one third of the total EC financial commitment. As regards bilateral EC cooperation with Honduras, the main budget lines used up to now have been Technical and Financial Support (79.12%), Co-financing with NGOs (11.53%), Food Security (7.31%) and Environment (2.04%).

After initially focussing on the democratic transition process and the promotion of human rights, the emphasis of current EC bilateral cooperation has gradually been extended towards reducing poverty. The sustainable management of natural resources, education, and decentralisation were the three focal areas of the 2002-2006 country strategy. Although none of the most important areas has been left uncovered, the non-reimbursable nature of EC assistance has meant that the EC has concentrated on the Social sector (56%), State modernisation (19%) and Production (23%), rather than Infrastructures (2%). The main focal areas of total EC cooperation (both country-based and regional) have been: access to Social services (34%), Sustainable rural development / Food security (30%), Environment (18%) and Regional integration (16%).

EU assistance is in line with the country’s poverty reduction strategy and closely coordinated with the other donors, with the Commission participating in the main coordination bodies.

For efficiency reasons, the EC has been narrowing down its portfolio of projects, while increasing their average amount and impact. This streamlining process is set to continue, with increased emphasis being put on sector-wide approaches and large-scale budget support operations. Following the consolidation of democratic institutions and the improvement of human rights, EC assistance has been more and more directed to the public sector and geared to poverty reduction.

In parallel with the gradual empowerment of the national authorities dealing with cooperation, the evolution of EC aid management has been marked by a gradual transfer of responsibilities from EC headquarters to the EC regional Delegation in Nicaragua covering Honduras (“de-concentration”), with a view to bringing the level of operational decision-making closer to the actual needs and beneficiaries. As a further step, an EC “regionalised Delegation” was opened in Tegucigalpa in November 2005, in order to improve programme management, raise the disbursement rate, strengthen EC visibility and increase its participation in donor coordination

mechanisms and in policy dialogue with the authorities. Management responsibilities are gradually being transferred from the EC regional Delegation in Managua towards the EC delegation in Tegucigalpa, which should bear the brunt of management tasks as of 2007.

The 2004 external evaluation of EC assistance to Honduras¹ concluded as follows:

- Interventions in general are considered to be relevant, but the impact of cooperation was uneven and often suffered from a lack of consistency, fragmentation of actions, a lack of synergy, a poor learning process, and too little dialogue with the local actors. The EC should open a representation in the country to remedy these shortcomings.
- The principle of the adoption of cooperation strategies represents major progress with a view to ensuring greater consistency and a greater impact of cooperation, even if the CSP under review corresponded only very partially to this objective and cooperation was rather loosely linked to the strategies being discussed in the CSP.
- The Commission has played an active role in several innovatory projects on the promotion of human rights, ethnic rights of indigenous populations, gender equality and environment protection. However, the sustainability of the results is being threatened by the limited duration or premature completion of several major projects, plus the lack of evaluation, political dialogue or complementary measures.

In line with the recommendations of this evaluation, the Human Rights, Civil society, Gender and Environment dimensions have been given renewed emphasis in the definition of the present strategy, either as self-standing objectives (Forestry, Public security component) or cross-cutting issues. Likewise, the recommendations of resorting to budget support and encompassing all available cooperation instruments have also been heeded. While concentrating bilateral cooperation on a limited number of priorities, the CSP also reviews all cooperation instruments at the disposal of the EC in the country.

As to the **PRRAC**, one of the most important lessons is that such programmes should include a component specifically designed to assist and strengthen the public institutions responsible for long-term sector strategies. Integrated interventions would facilitate the implementation of the projects while ensuring their long-term viability.

The 2004 general evaluation concerning the **Environment and Forest regulations** concluded that “Forest issues [were] not adequately reflected in CSPs” and that these budget lines should be more closely in tune with the general objectives set by the EU, while some concerns have been expressed about the sustainability of some specific projects and their consistency with the national policies. This consideration arguably justifies the introduction of forestry as a focal area in this CSP and, possibly, the implementation of such programmes through budget support.

4.2. Information on programmes of EU Member States and other donors

4.2.1. Coordination among donors

Since hurricane Mitch, the main bilateral and multilateral cooperation partners, including most of the locally represented EU Member States, have set up joint coordination structures to maximise their impact. The existence of an established, operational and well-structured group of donors – now dubbed “**G-16**”- has led the Member States and the EC to address most of the cooperation issues within this forum, after due consultation, where necessary, at EU level.

¹ See detailed representation of relevant EC evaluations in Annex 13

After initially structuring the international response to hurricane Mitch, this coordinating forum has come to assume an ever-increasing role and credibility in all cooperation issues, and to be an authoritative, influential and widely-recognised partner for the government. The G-16 has played a role to lubricate the political transition during the election year of 2005 and insulate the PRSP from the political agenda, while advocating continued budgetary discipline. The steering role of the G-16 constitutes an undeniable asset for Honduras in view of the ambitious objectives set by the recent Paris declaration on harmonization and alignment. More recently, a yet informal sub-group of donors has been set up to gather those interested in implementing programmes through budgetary support.

It is worth mentioning that most donors share the objective of supporting the PRSP and that a number of important donors, such as the World Bank, the UNDP, Sweden, Canada and the IDB, are in the process of updating their country strategy. The advent of a new administration in 2006, the beefing up of the PRSP through debt alleviation resources, and the fact that a number of donors are designing their forthcoming strategies, offer an excellent opportunity to achieve both donor harmonization and alignment with the domestic agenda.

4.2.2. Member States and the European Investment Bank (EIB)

The assistance programmes of the EU Member States account for 50% of total EU cooperation with Honduras, and 10% of total international assistance. In addition to their general contribution to the EU budget, nine EU Member States provide direct bilateral assistance, representing almost 13% of the total non-reimbursable grants to the public sector. Only five EU countries currently have embassies in Honduras (France, Germany, Sweden, Italy, and Spain), two of them managing their cooperation programmes directly (France and Italy), the others through their cooperation agencies. Germany and Sweden accounted for almost 80% of all EU bilateral grants in 2004, while Spain, Belgium, Italy and Germany also provide part of their contribution through reimbursable funds (see annex 6).

Taken as a whole, the total amount of European assistance (Community cooperation + Member States bilateral projects) accounts for more than 20% of the total aid provided to Honduras (about 1/3 of the grants to the public sector), making Europe the main donor. The total share of EU assistance is even higher if one includes the participation of EU Member States in multilateral financial organisations. There is a wide convergence of views among donors in Honduras. However, and without prejudice to the overarching role of the G-16, the magnitude of EU aid to Honduras justifies enhanced coordination between the Member States and the EC on the ground.

Honduras is eligible for European Investment Bank (EIB) lending. The EIB has not been directly active in Honduras so far, but seems increasingly interested in supporting regional infrastructure projects involving Honduras.

4.2.3. Other Donors

Apart from the EC, a few external partners have medium-term cooperation programmes, most notably USAID, the IDB and the World Bank. The USA provides assistance through grants and is by far the biggest bilateral donor in Honduras, with almost 40% of the total grants to the public sector. The priorities of the 2004-2009 strategy embrace Governance, Justice and Transparency, Health and Education. After qualifying for the US-sponsored Millennium Challenge Corporation, Honduras should receive an additional 215 million USD over a 5-year period for projects aimed at enhancing the productivity of farmers and reducing transportation

costs between producers and markets. Among bilateral donors, Canada and Japan account for 12% of total bilateral grants during 2004, concentrating their cooperation on health, education and infrastructure.

As regards multilateral donors, the two biggest donors are the World Bank and the IDB, both of whom actively support the PRSP. The new IDB strategy is set to concentrate on the reinforcement of Competitiveness, Human development, State modernisation and Rural development. As to the World Bank, its portfolio covers the whole spectrum of PRSP areas, with a focus on social sectors, competitiveness, governance, natural disaster mitigation and forestry.

4.2.4. Breakdown of Aid per Sector

No single PRSP sector has been left uncovered by international assistance, and absorption levels per sector are roughly comparable. At sub-sector level, however, some financing gaps do appear, for instance in secondary/technical Education or Forestry. The bulk (84.5%) of foreign aid to the public sector (2 800 million USD) is now geared to PRSP-related programmes, providing a total amount of 2 350 million USD (40% of which is non-reimbursable). Understandably, a large amount has been allocated to the Health, Education, Sustainability and Rural Poverty pillars of the PRSP, while Urban Poverty and Vulnerable Groups seem to have received less attention so far.

Sector-wise, the Social sectors take the lion's share of international assistance - with 44% of available foreign aid, followed by Infrastructures and the Production sector (around 20% each), while State modernisation accounts for 12%. International assistance for Tourism, Forestry and Natural resources remains relatively modest and would need strengthening.

Based on the 6-pillar structure of the original PRSP, the financial shortfall identified in 2004 by the Honduran authorities for reaching the PRSP objectives by 2006 would amount to around 1 billion USD. In volume, the global financial response of international cooperation has been proportionate to this "needs assessment", although the breakdown per pillar seems at variance with the sector gaps estimated by the authorities. At present, the financial offer of international cooperation seems to be sufficient in the field of Sustainability, Rural poverty, Urban poverty and – to a lesser extent - Equitable growth, but would fall well short of meeting identified needs in the area of Human Capital investment (Education, Health).

5. EC STRATEGY

5.1. Global objectives

In selecting the recommended focal areas, the principle of concentrating aid in sectors where the EC offers an added-value and a series of considerations pertaining to the EU Development Policy, the EU priorities in the region, donor harmonisation and alignment with the domestic agenda have prevailed. In the case of Honduras, the magnitude of the needs, the sizeable country allocation and the implementation vehicle offered by the PRSP are arguments justifying the selection of three focal sectors.

Strengthening social cohesion through the PRSP, promoting sustainable management of natural/forestry resources and improving justice and public security stand out as meeting all the above-mentioned considerations and constitute, as such, clear priorities for the EC in Honduras. They are in line with the general EC cooperation objectives and mesh with the

principles emphasised by the EU in the last Guadalajara summit for Latin America. These three priorities are all consistent with the social cohesion objective of the EU. Moreover, two of them - natural resources and public security - address issues that are also regional concerns, and are thus liable to promote Honduras's regional integration agenda. Additionally, and subject to the findings of the evaluation process regarding regional integration and the outcome of the negotiation process, Honduras's integration efforts may be further bolstered through a facility designed to cover its specific needs in view of the Association Agreement to be signed between the EU and Central America.

Encompassing a wide spectrum of political, social and environmental challenges, the three priorities identified are expected to complement each other. Moreover, in the EC can usefully capitalise upon a vast array of past or on-going cooperation programmes in each of the aforementioned fields. Finally, additional foreign assistance has been considered necessary to bridge the financing gaps in the sectors identified as priorities.

5.2. Strategy of EC cooperation

5.2.1. Human and social development – Making the PRSP a catalyst for social cohesion

As indicated (see Section 2, Country agenda – PRSP), the overall PRSP framework has now gained “credentials” in terms of international cooperation. Once updated, it should develop into the cornerstone of the national anti-poverty policy, upon which sustainable and coordinated cooperation strategies can be aligned with the domestic agenda. Following the general EC approach towards PRSPs¹, channelling cooperation funds through the PRSP framework in the form of global budget support (GBS) would bring the following general benefits:

- Consolidating the PRSP framework as a whole, increasing its domestic legitimacy and “locking in” its initial achievements (consultation with civil society, sector-wide strategies, coherence in resource planning and allocation etc);
- Reducing transaction costs by making full use of the existing PRSP machinery and mechanisms (SWAPs, objectives and indicators, round-tables etc) in designing and monitoring the EC assistance programmes, thus ensuring alignment with the country's agenda as well as harmonisation among donors;
- Supporting the recently achieved macro-economic stability and sustainable economic growth, while consolidating poverty spending;
- Offering a multi-annual and predictable aid instrument (while allowing a graduated response in case of partial performance);
- Promoting domestic accountability for cooperation funds;
- Stimulating the improvement and, where appropriate, the updating of poverty data.

To maximise its impact on poverty, general budget support to the PRSP needs to be tailored so as to target, in particular, those PRSP components that are seen as most relevant in terms of poverty reduction and social cohesion. Therefore, the “Human capital” pillar (Education and Health) should be targeted as a priority. Indeed, this pillar represents the bulk of the PRSP spending (more than half). At the same time, it is also the pillar in which the largest financing gap has been identified, jeopardising the achievement of the related PRSP/MDG goals.

¹ Among the world donors' community, the Commission has made firm commitments to support and be actively involved in any country developing a PRSP process, and poverty reduction remains the core objective of EC assistance in the region.

Lastly, it is an area in which PRSP performances to date have been uneven (especially in Health).

Education

Closing the education gap remains one of the country's top priorities in a mid-term perspective. One of the worst performers across Latin America, the Honduran education system exhibits shortcomings in terms of both social cohesion and efficiency. Despite significant progress in raising enrolment rates in primary education, its efficiency indicators remain poor. Although Honduras stands out in spending an extremely large proportion of its GDP on education (7%), its education outcome indicators are not commensurate with such high sectoral spending levels¹. In particular, access to secondary schooling remains a significant problem in rural areas and education outcome indicators are very unequally distributed across income groups. While primary education absorbs, as expected, the lion's share of the education budget, pre-primary and above all secondary education (largely private) are less well endowed, while higher education seems relatively privileged. Although education spending is distributed in a "pro-poor" manner at primary level, it becomes increasingly unequal at the upper levels, even culminating in what could be termed a "pro-rich" approach for higher education (which receives one fifth of the total education budget).

While primary education is covered by the EFA-FTI initiative, secondary education remains both socially inequitable and in dire need of further international assistance. Besides reinforcing social cohesion, the development of secondary/vocational education will also make it possible to address the issue of massive youth unemployment, one of the root-causes of juvenile crime, and will help reap the potential benefits offered by the forthcoming trade liberalisation agreements.

Health

As pointed out in the 2005 PRSP Progress Report, "the main problems in achieving the PRSP goals have been related to health coverage [...] despite government's efforts to increase spending [...] no significant progress has been made. Therefore, intervention strategies will need to be reviewed". Notwithstanding the notable progress made in the area of *health*, particularly through the broadened coverage of primary health programmes, there are still high rates of malnutrition and maternal and child mortality, as well as deficient medical care, principally in rural areas. Honduras is one of the worst affected Latin American countries by AIDS, which has become a serious health problem, affecting in particular the economically active population and the Garífuna community. The lack of access to drinking water facilities (especially, in rural areas) and increased water pollution negatively affect the situation of health. There is also a serious management problem in the health sector. The expansion of services has been accompanied by a growing underutilisation of facilities and a systematic decline in productivity. Access to hospitals on the part of the rural and indigenous population is limited chiefly by rigidities in the supply of services, a problem which arises both at the Ministry of Health and in the Honduran Social Security Institute (IHSS). In addition, there are

¹ Analysis of the country's labour force indicates that the average level of education is 4.7 years, and that the return on education, that is, the impact on wages of one year of primary, secondary, or tertiary schooling, is the lowest in the countries of Central America, reflecting the poor quality of education. Teacher absenteeism remains a problem and student test scores have declined. High drop-out rates at the primary level and low coverage at the secondary level have almost cancelled out Honduras apparent performance in terms of enrolment.

leakages in the system, as care is being provided to non-members and to population groups that could afford the costs of private services. Unlike education, spending on health (5.6% of GDP) remains limited (by regional standards) and mainly devoted to wages and salaries, highlighting an extremely poor level of preventive health. The widespread informal sector leaves many out of the national health insurance regime. In such conditions, sector reform aimed at efficiency and prevention as well as maternal and infant health should be primary objectives to be pursued in the framework of the sector-wide strategy that is being elaborated.

5.2.2. The environment and sustainable management of natural resources – promoting forestry reform

The sustainable management of natural resources should obviously remain at the core of the EC strategy. The current momentum towards forestry reform should be closely monitored and supported. Provided it crystallises in a full-fledged sector strategy, primary consideration should be given to this sector, but without prejudice to alternative areas of intervention if forestry reform were to stall or prove inconclusive.

The long-overdue reform of the forestry sector has recently been given a renewed impetus, with the elaboration process of a sector strategy in Agro-forestry containing a specific forestry component and the foreseeable adoption of new comprehensive forestry legislation. There is also growing political recognition of the role of forests in alleviating rural poverty, and of the need to provide equal opportunities for community-based forest producers. The draft Law seeks to harmonize and consolidate into one single statutory instrument all existing legislation governing the administration and management of forests, protected areas and wildlife, including their harvesting, conservation, protection, rehabilitation, and promotion, in order to streamline the legal basis¹. The bill also provides for the creation of a full-fledged “Ministry of Forestry”, en lieu of the existing agency.

This bill has been discussed at length with civil society. This public debate and the anti-logging protests in the Olancho region have reshaped the forest sector by highlighting the importance of civil society groups and community-based organisations. While the settlement of some important contentious issues is still pending, less antagonistic positions have been gradually emerging among stakeholders. This relative convergence stems from a new awareness that the current status quo is no longer tenable and could open the way towards compromise solutions within reasonable delays.

Besides increasing Honduras’s resilience in the face of natural disasters, the reform of the Honduran forestry sector is necessary in order to improve governance and promote the rights of ethnic minorities, while bringing significant “economic return” (promotion of exports, agro-tourism, reduction of tax evasion). As most of the people affected by deforestation and the ensuing degradation of water resources are living in poor areas, developing forestry activities would also foster social cohesion, especially for indigenous populations.

¹ The law should eliminate two important barriers: (i) The law establishes a Community Forest Management Contract. This should solve previous problems surrounding usufruct agreements and will grant long-term recognition of community forest rights.(ii) The draft law proposes eliminating the very limited harvesting quota to community-based producer groups established by the regulations of the 1992 Law of Agricultural Modernization. The draft law also proposes facilitating the participation of community-based enterprises in timber auctions, partly by means of a new financing mechanism to facilitate access to auctions by agro-forestry groups which are able to show sustainable management practices and compliance with technical norms.

Indeed, it is estimated that 75-85% of the broadleaf timber extracted from the forests of Honduras on an annual basis is removed illegally¹. This constitutes an enormous loss to the Honduran economy². From a governance perspective, forestry encapsulates most of the problems affecting Honduras (patronage systems, corruption, organised crime etc) perpetuating a pervasive climate of illegality and violence. By supporting unfair competition, it undermines all the efforts to introduce proper forest management by dramatically reducing the economic viability of such initiatives. It also contributes to the deterioration of forest resources and to a corresponding loss of environmental services. The elimination of barriers to legality is one of the primary objectives to be pursued. These include both obstacles that make compliance difficult or impossible as well as inducements that encourage illegality³.

Poorly managed and underdeveloped, the forestry sector has not attracted much international assistance until now, the IDB, Germany and the World Bank being the most committed donors in this field. Building upon the renewed political interest in forestry reform, the “new deal” that is in the offing in the forestry sector seems worth supporting as it could be short-lived in the absence of strong international support.

Mustering the wealth of experience garnered through its many small-scale projects in forestry⁴, the programme should address three areas: governance, sustainable management and economic development:

- *Governance*: supporting the reform of the legal framework, considering forests within a broader pattern of land-use and restoring a sound equilibrium between farming and forestry activities, addressing governance and administrative capacity issues, ensuring participation of all stakeholders and empowering local communities, supporting the land registration and titling process to improve land tenure security and encouraging implementation of international commitments (notably Climate change)
- *Sustainable management*: promoting sustainable management of natural resources in order to ensure environmentally sound harvesting (timber and NTFP), protection of watersheds and biodiversity, the promotion of alternatives to wood for energy and agriculture practices based on forest clearing and the prevention of soil erosion
- *Economic development*: promoting legal trade and employment, in particular of marginalised young people, by developing a private sector in forestry (Small and medium-scale processing and marketing of timber and NTFP), promoting certification and fair trade in forest products

¹ This amounts to between 125,000 and 145,000 cubic metres. When it comes to conifers, clandestine logging of between 350,000 and 600,000 cubic metres accounts for 30–50 per cent of the total annual supply. The total market value of the illegal timber involved is estimated at US\$55–70 million.

² For example, the direct annual fiscal/financial losses to the governments from just three sources (production taxes, income tax, and the waste of public investment) amount to between US\$11 and 18 million. The overall total, after factoring in the indirect losses, may well be several times that figure.

³ The most serious obstacles are those involving (i) the confusion and uncertainty surrounding land tenure; (ii) ‘faults’ in the legislative framework itself; (iii) the weakness of the institutions concerned; (iv) a shortage of information; and (v) economic disincentives. Among the “incentives” to illegal activities are (i) the low risks associated with forest crime; (ii) corruption; and (iii) the situation on the ground in remote forest areas, where there is little central control and a whole web of closely interconnected illegal activities.

⁴ See in particular The Environmental Aspects of Development Cooperation in Central America, European Court of Auditors 2005.

5.2.3. Justice and public security programme

As pointed out, insecurity and lawlessness have made Honduras the second most violent country in Latin America. The increasing public insecurity has now come to affect Human rights in many respects. Not only does insecurity constitute in itself a denial of a basic Human right for a large part of the population, it has also triggered heavy-handed law-and-order policies in response, whose enforcement is not immune to encroachments upon fundamental rights (arbitrary arrests, excessive remand in custody, prison overcrowding, killings and abuses in prisons, possible reinstatement of the death penalty etc).

Besides the aspects related to fundamental freedoms, addressing insecurity is also critical in terms of social cohesion. As with environment degradation, the hardest-hit population is also the worst-off, while most gang members themselves come from destitute households. Furthermore, the misdemeanours of gang members impact on the image of young people as a whole, resulting in the stigmatisation and social estrangement of an entire generation.

The iron fist policies implemented until recently (dubbed “Tolerancia zero”) have attempted to curb violence but left its socio-economic root causes wholly unattended, suggesting that even their apparent effects would be short-lived. Moreover, severe budgetary constraints, the public outrage at gang massacres of innocent people and a growing social indifference to the plight of young people are all factors that have alienated a large proportion of the population against prevention and, most of all, rehabilitation policies. Actually, the few existing prevention and rehabilitation projects has had only a piecemeal and sporadic impact, many of these projects being actually instigated by foreign donors or non-state bodies such as churches, rather than by public authorities. Yet, there is now a growing recognition that the law-and-order policy has exhausted its effects or backfired and should be complemented by prevention and rehabilitation programmes; hence, the need for donors to step in and support this new awareness by promoting an integrated approach.

The magnitude of the insecurity phenomenon is such that it requires a dedicated intervention on the part of the EC, going far beyond its general assistance in Human capital as part of the PRSP support. As recommended in the recent report on insecurity produced by EU Heads of Mission in Honduras, the EC should specifically address insecurity in its programming.

As highlighted in the 2001 Law on Prevention and Rehabilitation and also in a recent official diagnosis¹, this multifaceted problem should not only be seen as a law-and-order issue, but treated in an integrated manner, which requires the elaboration of a full-fledged justice and public security policy. To be efficient, any such policy should be three-pronged, simultaneously addressing prevention, law enforcement and rehabilitation.

Indeed, **law enforcement measures** remain important, as the youth gangs have now become so strong and pervasive that they would continue to exist even in the absence of further external social causes, and regardless of the implementation of prevention and rehabilitation programmes. But beyond traditional law enforcement measures, the emphasis should now be placed on **prevention**. In this respect, incipient governmental programmes like “Comunidad mas Segura” have already proved efficient and their coverage should thus be extended

¹ “Diagnostico de los Servicios de Prevencion, Rehabilitacion y Reinsercion social de Personas vinculadas a Pandillas o Maras in Honduras”, Programa Nacional de Prevencion, Rehabilitacion Y Reinsercion Social, Unidad desconcentrada de la Presidencia de la Republica de Honduras, Septiembre 2005.

nationwide¹. **Rehabilitation** efforts should also be significantly increased, as most gang members expressed their readiness to quit gangs if they were offered an alternative. At a time when rehabilitation itself is met by public disbelief, if not sheer incomprehension, a rehabilitation and protection programme is nonetheless needed for young offenders who decide to clean up their act, for them to avoid retaliation by former gang-members and be given an economic alternative to crime. Rehabilitation remains, however, largely alien to the police, who have also paid a heavy human toll to crime and violence or tend to consider gang-members as irredeemable criminals. For all these reasons, a large-scale awareness raising campaign should be part and parcel of any intervention.

5.3. **Coherence with other EC policies and instruments**

An analysis of the relevant Commission policies and instruments and of their possible impact on Honduras shows that they are consistent and coherent with the present Strategy. However, it is important to underline some implementation issues, about which some concerns have been voiced by Honduran officials. One such concern is the GSP mechanism, as its limited duration might be insufficient to attract long-term investments (despite the recent GSP reform) and EC trade policy in agriculture, particularly in the banana sector.

A detailed review of the coherence of EC policies and instruments vis-à-vis Honduras can be found in Annex 9 “Policy mix”, which includes some policy orientations.

5.3.1. **Strategy in non-focal sectors, other EC budgetary instruments**

Strategy in non-focal sectors: Regional integration facility

With the expected negotiation of an Association agreement linking Central America to the EU and the entry into force of CAFTA, Honduras will be confronted with major challenges in terms of regional economic integration in the years ahead. In this context, sustained and well-designed adaptation efforts will be needed if Honduras is to catch up with its more integrated Northern neighbours (El Salvador and Guatemala) and reap all the potential benefits of the integration process. Honduras’s active participation is critical for the success of the regional integration process, not only due to the pivotal position of this country at the heart of the region but also to ensure the critical mass of countries necessary to proceed with regional integration.

In spite of the ambitious political statements made by Central American leaders and recent progress achieved towards building a customs union, the preparedness of the various Central American countries in relation to the challenges posed by integration is uneven, and generally offers considerable ground for improvement. With its modest domestic market and high sensitivity to external shocks, Honduras is no exception. Depending on how it will prepare and respond to integration, the country will see its development prospects radically affected, either negatively or positively.

Honduras’s commitment to regional integration is now unequivocal but is also relatively recent; hence the need to help Honduras consolidate its policy planning capacity, cushion the possible integration shocks and maximise its benefits.

¹ In this respect, the multi-sector programme of the IDB in the Sula Valley region would be worth considering

To be successful, such a policy should be carried out on a double track, both on a regional scale (through the EC Regional Strategy Paper for Central America, RSP) and at country level. Indeed, if the reform agenda of regional integration should be primarily supported through regional cooperation programmes, it will nonetheless necessitate some specific national efforts, which may vary in their nature and/or magnitude depending on the local context. In the case of Honduras, there is thus a clear rationale for operating, on top of the RSP, a country-based “integration facility”, aimed at translating the regional ambitions into national reform policies.

The exact coverage of this facility will be tailored in such a way as to address the main shortcomings identified after evaluating Honduras’s preparedness to regional integration. A joint assessment of regional economic integration in Central America has been performed by the Joint Working Group EU-Central America to provide a clear picture of the region’s shortcomings and achievements in its effort towards reaching the level of economic integration that would permit the negotiation of an Association Agreement with the EU. Beyond this stock-taking exercise, additional needs arising during the negotiating process and the implementation of the Association Agreement will also be reviewed and taken into consideration. As appropriate, this regional integration facility will be further elaborated through a Trade Needs Assessment study specifically dedicated to this objective.

The areas of intervention of this regional integration facility should be co-decided by the beneficiary (Ministry of Trade and Industry) and the EC and may include issues such as:

Fiscal policy reform: to secure more sustainable sources of revenues, while ensuring higher social cohesion.

Legislative and regulatory framework: to help Honduras implement the commitments towards regional integration and those possibly arising from a future bi-regional Association Agreement with the EU, notably as regards customs union. This should be complementary to regional capacity building measures and respond to clearly identified national needs.

Trade-related technical assistance/private sector: to support Honduras’s insertion in regional and world markets for specific products with export potential, such as non traditional exports, certified forestry products or non-timber forestry products. Actions should be complementary to regional trade-related assistance and may cover trade facilitation, certification facilities, meeting SPS standards, custom facilitation, etc.

Other thematic programmes and budgetary instruments

The expected coverage and impact of this strategy and its possible interaction with other EC thematic programmes (which have specific objectives and programming procedures) are detailed in Annex 9. In particular, the support to the sector reform in Forestry should be seen in conjunction with the new Thematic Programme on Environment and Sustainable Management of Natural Resources, including Energy, the developments regarding the EU Water initiative and the activities pursued under DIPECHO to prevent and mitigate the impact of natural disasters. Likewise, the EC contribution to the Global Fund (covering HIV, Malaria and Tuberculosis) will be complementary to the assistance provided to the Health sector as part of this strategy. More generally, the revised EU Initiative for Democracy and Human Rights and the Co-financing for Non-state actors and Local Authorities in Development should also be instrumental in structuring the involvement of the civil society in the sector-wide approaches contemplated in this strategy. Finally, the persistent food insecurity in Honduras warrants a particular consideration under the Food security instrument.

While not being a focal sector, **Infrastructures** could be tackled through possible EIB interventions involving Honduras. Likewise, the EC should encourage major participation by Honduras in the regional programmes dealing with **Private sector development**.

5.3.2. Cross-cutting issues

Through the Rural development/Forestry component and the appropriate recourse to environmental impact assessments whenever needed, the **Environmental dimension** features prominently in the CSP. Likewise, the Justice and Public security component will contribute, in a wider perspective, to **Conflict prevention**, both at national and at regional level.

Gender issues have been factored into the programme design, and gender-related objectives are to be found in both the Global Budget Support to the PRSP (in Education and Health) and the Forestry component of the CSP. As young women are being increasingly affected by the gang phenomenon (both as members and victims), the gender dimension has also been integrated in the Justice and Public security component of this strategy.

Indigenous peoples' rights are particularly highlighted in the Forestry component of the CSP. Moreover, as a particularly vulnerable group, indigenous people are expected to benefit significantly from the Global Budget Support to the PRSP.

Children's rights in terms of Education and Health will be addressed as part of the PRSP component, while the protection of children is an essential part of the Justice and Public security component of the CSP.

6. PRESENTATION OF INDICATIVE PROGRAMME

The principle of moving towards budgetary support and pursuing sectoral approaches, wherever possible, is supported by the Commission. After due examination of the current economic and budgetary context, and as recommended in the 2004 independent evaluation of EC assistance to Honduras, sector-wide approaches and budget support operations have been considered, at this stage, as viable vehicles for aid delivery, without prejudice to other implementation mechanisms if further sector developments so warrant. The NIP will be periodically reviewed in accordance with the applicable Regulation/Agreement. The allocation corresponding to the implementation of this strategy needs to be identified. The country allocation will be complementary to the relevant EC thematic programmes (such as those covering NGOs, Environment and Tropical Forest, Human Rights), as well as to the regional and sub-regional programmes for Latin America. and Central America.

After examining already existing environmental assessments (if available) and the incorporation of their conclusions in the sectoral strategies contemplated under this CSP, the EC may decide to carry out Strategic Environmental Assessments (SEA) with a view too achieving an adequate integration of the environmental concerns into its cooperation policies. The SEA may be carried out in co-operation with other donors and the Honduran Administration.

6.1. Main priorities and goals of the CSP

- *Reinforcing Social cohesion by investing in Human capital (Health and Education)*, in order to reduce Honduras's ingrained social discrepancies and territorial imbalances, and make its anti-poverty strategy more effective.

- *Fostering the sustainable management of natural resources, with a focus on forestry, to alleviate Honduras's persistent vulnerability to natural disasters, reduce rural poverty, generate employment and promote good governance as well as legal trade.*
- *Developing a comprehensive public security and justice policy, in order to reduce public insecurity by bolstering law enforcement, strengthening the judiciary and improving prevention to reverse the marginalisation process affecting the younger generation and its drift towards criminal youth gangs.*

6.2. Specific objectives and target beneficiaries

6.2.1. Priority 1. Improving social cohesion (Global Budget Support to the PRSP)

Specific objectives

Education: improving primary education, by widening access to education in rural areas; reforming and developing secondary education by improving access of poor and rural populations to secondary education as well as gender equality; reforming and developing technical/vocational education; improving education efficiency

Health: reducing infant mortality rate, under-5 mortality rate and child malnutrition; reducing maternal mortality; developing preventive health care

Target beneficiaries

In its Health and Education dimensions, the PRSP covers a large share of the poor population. The rural poor should primarily benefit from a better Education policy, while improvements in preventive, infantile and maternal care should primarily benefit the young female population and children, both of which are considered as particularly vulnerable groups.

6.2.2. Priority 2 Improving the management of natural resources (Budget support Forestry)

Specific objectives

Complementing the country's strategy in forestry, an integrated approach will be sought, combining the following objectives:

Governance objective: supporting the reform and consolidation of the legal framework, considering forests in a broader pattern of land-use; addressing governance problems (illegal logging) and administrative capacity weaknesses; encouraging implementation of international commitments (in particular, climate change); ensuring participation of all stakeholders and empowering local authorities and local communities; supporting the land registration and titling process to improve land tenure security, particularly by respecting customary rights and ownership of land and resources

Sustainable management objective: enhancing the environmental resource base and forest regeneration, maintaining biodiversity and avoiding harmful effects on the environment in order to ensure environmental sound harvesting (timber and NTFP), protection of hydrographic basins and the prevention of soil erosion; promotion of alternatives to wood for

energy and agriculture practices based on forest clearing; determining and evaluating environmental costs and benefits; promoting certification and equitable trade of forest products

Economic development, Employment and Trade objective: promoting employment, notably of marginalised young people, by developing private sector in forestry (Small and medium-scale processing and marketing of timber and NTFP); developing the trade potential of legal logging; increasing the economic and environmental benefits derived from forest ecosystems and non-timber forest products.

Target beneficiaries

A multi-stakeholder approach will be sought, addressing the interests of all groups involved in forestry development: *authorities* (State authorities in charge with forestry development and local authorities in forest regions); *civil society* (organisations active in environment protection, indigenous populations, local rural communities, women's associations); *private sector* (small and medium-sized law-abiding economic operators)

6.2.3. Priority 3 Improving Justice and public security

Specific objectives

A three-pronged approach should be sought, combining the following objectives:

- **Law enforcement objective:** Strengthening police command and control systems to improve police disciplinary/oversight mechanisms, supporting the police in charge of investigation and particularly the Special Unit investigating the violent deaths of children; providing training in Human Rights, due process and gang intelligence gathering for police forces; supporting a specific witness protection programme; differentiating among gang members by identifying and targeting gang leaders
- **Prevention objective:** Extending the coverage of decentralised and community-oriented policing and prevention programmes (like the “*mesas ciudadanas de seguridad*”); promoting inter-institutional cooperation between police, justice and community leaders at local level; developing crime prevention programmes at school targeting at-risk youth; promoting specific technical education programmes for children deemed socially at-risk; promoting programmes for light arms' collection/registration; reforming the detention system to reduce overcrowding and separation of young offenders from other hardened criminals
- **Rehabilitation and reinsertion objective:** Supporting technical training and income-generating activities for ex-gang members; developing employment of ex-gang members in community-work schemes (possibly in the Forestry sector); promoting tattoo removal projects; developing protection from gang retaliation; widening rehabilitation programmes for drug-addicted mareros

Target beneficiaries

The whole population should benefit from a less insecure environment, especially the worst-off part of the population which happens to be also the hardest hit by insecurity. More specifically, the programme should benefit the following groups: *Young people* (socially at-risk minors and their family, young detainees, young drug addicts and especially detainees,

ex-offenders committed to rehabilitation programmes; *State* (authorities investigating extrajudicial executions especially against minors, police departments involved in prevention, witness protection and arms' registration/collection, local/community police; *Civil society* (organisations active in crime prevention and rehabilitation, churches, NGOs)

6.3. **Expected results (outputs)**

For each CSP component, a tentative list of indicators is presented in Annex 1, to be formalised and finalised during the preparation phase. To the widest possible extent, the indicators will be drawn from the PRSP framework or the relevant national sector strategies, being supplemented, if need be, with additional ones more specific to the EC intervention.

6.3.1. **Global Budget support to PRSP social sectors**

Obviously, the main objectives here should be those set in the PRSP for Education and Health, which are largely aligned with the related MDGs. Due consideration should also be given to the national programme on education efficiency, which is currently being elaborated. However, a special attention will be paid to Secondary / Technical education as well as to improving sector reform strategies and sector efficiency indicators, both in Health and Education, which may imply complementing the set of existing indicators. A specific result-indicator should be included with a view to raising environmental awareness through education.

6.3.2. **Forestry**

To the widest possible extent, indicators will be derived from the government's strategy on forestry (PRONAFOR) and the relevant parts of the PRSP. However, the insufficient coverage of forestry issues within the PRSP makes it necessary to define more precise indicators within the programme. As appropriate, the matrix may draw on the results of a Strategic Environmental Assessment (SEA).

6.3.3. **Justice and Public security**

The programme indicators will notably be inspired from the Law on Prevention Rehabilitation and Social Reintegration¹, and the related National Programme on Prevention, Rehabilitation and Social Reintegration. The widest possible use should be made of the sector strategy currently being designed by the Ministry of Security in the field of public security.

6.4. **Programmes to be implemented in pursuit of these objectives; types of assistance**

6.4.1. **Global budget support to the PRSP**

Rationale for the aid delivery mechanism: The updating process of the PRSP has not been finalised at the time of drafting. However, basic pre-conditions appear to be met for considering Global Budget Support (GBS) for the PRSP².

Key assumptions: Further progress is on-going or expected in (i) extending the coverage and accuracy of the mechanism for monitoring poverty spending, completing the matrix of indicators and linking sector policies with the PRSP (ii) better tying in of the national PRSP

¹ Approved on 31 October 2001, by Decree 141-2001

² Macro-economic stability, progress in Public Finances Management, comprehensiveness of the PRSP framework and relevance of the indicators, ownership of the authorities and involvement of the civil society

with the regional and local development plans, (iii) better defining poverty spending, completing the list of policy measures attached to the PRSP and (iv) improving the overall visibility of the PRSP. The renewed cross-party commitment expressed in 2005 by all presidential candidates should not go unheeded. The recent emergence of a Budget Support Group gathering like-minded donors would also be instrumental in defining the programme along agreed lines.

Risks: Should political commitment to the PRSP process falter, then specific EC support could still be provided to Health and/or Education sector policies separately, in the form of stand-alone SWAPs (instead of a GBS) or traditional projects.

6.4.2. Budget support :Forestry/natural resources

Rationale for aid delivery mechanism: Budget support also seems to be the most appropriate delivery mechanism. As yet, the insufficient coverage of Forestry in the PRSP document makes it necessary to address this sector specifically, as a self-standing sector programme. Cooperation among donors has been building up and could create sound conditions for considering joint interventions or co-financing.

Assumptions: In this sensitive field, however, EC intervention in the form of SWAP/budget support would be predicated upon the adoption of the Forestry law (and quality thereof) based on a sufficient consensus with the civil society, as well as on the consolidation of the national Forestry strategy (PRONAFOR). A strong tripartite consultation and monitoring process (involving authorities, donors and civil society) will be of paramount importance. It is assumed that the current political momentum surrounding Forestry will gather pace and mature by the time the EU intervention shapes up.

Risks: For the authorities, reaching a consensus among stakeholders and arbitrating between conflicting interests still represents a challenge. Should the current efforts to design a sector strategy and pass the Forestry Law be unsuccessful, a project-based form of implementation might have to be considered.

Other implementation aspects: Whatever the method of aid delivery, a decentralised approach, relying as much as possible on local authorities and communities, will be one of the key objectives. While not focussing on Forestry as such, EC assistance has traditionally been significant and manifold in Rural development and protection of Natural resources. When formulating the budget support programme to the Forestry sector, appropriate efforts should be made to ensure consistency with a number of related EC policies or programmes¹.

6.4.3. Justice and Public security programme

Rationale for aid delivery mechanism: A sectoral strategy is being elaborated in this field, but has yet to be finalized and debated with the civil society. It is set to be submitted to all stakeholders in 2007. The possibility of a budget support approach seems rather unlikely, due to the specific characteristics of the public security sector. Adequate formulae should be sought to promote the participation of the relevant administrations of Member states in the implementation of the programme/project, inspired by the “twinning” model used for acceding countries during the enlargement process. A leading role should be bestowed to the

¹ Among which the Natural Resources programmes implemented under the 2002 2006 CSP, the planned regional Vulnerability programme, projects financed under the Environment thematic programme, ECHO assistance (DIPECHO) and the Food Security assistance.

Ministry of Security and the Public Ministry (*Fiscalia*) should be strongly involved, especially its Human Rights department.

Assumptions: While respecting the leadership of the government, the involvement of non-state actors, including churches and NGOs, should be considered essential. A balancing act will have to be performed between the different dimensions of prevention, law enforcement and rehabilitation/reinsertion, with special emphasis on prevention. In the field of security, close cooperation with the Member States seems most opportune, given their keen interest and specific expertise in this field.

Risks: The multiplicity of state and non-state actors involved and, at times, their conflicting priorities, represent a challenge. Due attention will have to be paid to inter-ministerial coordination, ownership and leadership issues.

6.5. Integration of cross-cutting themes

The main cross-cutting issues will be factored into the CSP components as follows:

6.5.1. Global Budget support to PRSP social sectors – Health and Education

- *Environment:* fostering environment and risk awareness in Education programmes
- *Gender:* improving gender equality in education, especially secondary; improving infant and maternal health

6.5.2. Forestry

- *Environment:* promotion of sustainable management of natural resources
- *Gender:* promoting women's rights and activities in forestry and an equal participation in benefits
- *Indigenous populations:* promoting the recognition of ethnic groups' rights

6.5.3. Justice and Public security

- *Human rights:* developing human rights training for police forces, in particular in relation with children's rights
- *Gender:* acknowledging that most of the socially at-risk young people come from single-parent families, the increasing participation of women in gang structures and their specific problems.

6.6. Financial envelopes

The National Indicative Programme covers the Financial and Technical Assistance and Economic Cooperation, for which a provisional country allocation of €223 million has been indicatively earmarked, subject to confirmation. For each sector, a provision is presented, the exact amount of which will depend on the respective needs and objectives of the related programmes. In addition to the National Indicative Programme, activities could be financed through specific thematic horizontal budget lines. Honduras is also benefiting from the Central American and the Latin America Regional Indicative Programmes.

The time-span of the CSP will be split into two successive National Indicative Programmes (NIP), respectively covering the periods 2007-2010 and 2011-2013. This work programme covers the first National Indicative Programme, i.e. a four-year period from 2007 to 2010.

Based on an estimated total allocation of 223 million Euros for the whole period of the CSP, the indicative budget of this first NIP 2007-2010 would amount to ca. 127.5 million Euros.

Breakdown of cooperation per sector¹:

	NIP-1	NIP-2	TOTAL
Priority 1. Global Budget Support to the PRSP	30%	20%	50%
Priority 2. Forestry	12%	18%	30%
Priority 3. Justice and Public security	16%	4%	20%
TOTAL	58%	42%	100%

Due to its overarching nature, **Priority 1 PRSP** should tentatively be tackled at a relatively early stage, as of 2008, leaving the year 2007 to finalise and formalize the ongoing updating process of the PRSP document.

Priority 3 - Security/Justice - should be addressed as early as possible in the programming period and preferably as of 2007, owing to the urgency characterizing this sector and in recognition of the efforts deployed by the government to redesign its strategy in a more comprehensive fashion (lest this new positive momentum would be lost for lack of external support).

Priority 2 Natural resources/Forestry will only be addressed at a later stage, possibly 2009, in order for the forestry reform to start materializing and in view of the fact that a substantial Natural resources programme (“Procorredor”) was launched in 2006 as part of the 2002-2006 CSP. All programmes are assumed to cover a 5-year period.

Based on the present strategy and assuming that the conditions for budget support schemes are met, the work programme would unfold as follows (in millions of €):

Priority sectors			NIP-1		NIP-2	TOTAL
	2007	2008	2009	2010	2011-2013	
Priority 1: Social sectors PRSP		21.5	22	22	45.5	111
Priority 2: Forestry			13	13	42	68
Priority 3: Justice Public security	9	9	9	9	8	44
TOTAL	9	30.5	44	44	95.5	223

¹ This table does not include support under the regional integration facility. Envisaged as a “non-focal sector”, its design, allocation and exact content will actually depend on several factors or processes, whose outcome is yet partially undefined: the on-going joint evaluation process as regards regional integration, the negotiation process leading up to a possible Association Agreement between Central American countries and the EU, the actual support measures contained in the EU Regional Strategy Paper and, as appropriate, a Trade Needs Assessment to be commissioned in due course.

The final selection of programmes and the corresponding amounts will be made on the basis of the results of the detailed identification and preparation work managed by the Commission. The indicative work programme will depend on the availability of funds in the annual Commission budget. The figures given for the NIP-2 are purely indicative at this stage.

6.7. Activities under other relevant EC budgetary instruments in the country

6.7.1. European Initiative Democracy and Human Rights

Although Honduras has not been a “target country” for the initial *European Initiative for Democracy and Human Rights*, the successor instrument for *Democracy and Human Rights* could nonetheless be instrumental in strengthening the traditionally fragmented Honduran civil society and in assisting its inclusion into regional/international fora and institutions, with a view to achieving a more consistent and substantive policy dialogue between representative organisations of civil society and the relevant national authorities (particularly as regards the protection of children’s rights and environmental protection).

6.7.2. Environment and Sustainable Management of Natural Resources / Forestry thematic programme

The paramount importance of the environment justifies this dimension being tackled, in a consistent fashion, with the whole range of available EU instruments (bilateral, thematic, regional). The budget lines on Environment and Forestry have been addressing the environmental challenges in the region, notably in Honduras. The environment is also addressed by the regional strategy for Latin America and horizontal programmes (e.g. education/ALFA; trade and Investments/AL-INVEST; local management/URB-AL). Finally, the Andean and Central American countries have received special treatment under the EU Generalised System of Preferences, taking into consideration their international commitments in this field. The EU Water initiative should also be an important reference basis. The importance and the political sensitivity of this sector, as well as the variety of cooperation instruments at the disposal of the EC, call for the development of a sustained co-operation in this field and full integration of environment into ongoing political dialogue.

6.7.3. Health

The selection of CSP priorities in health takes into consideration the fact that EC assistance specifically related to AIDS, tuberculosis and malaria has been essentially provided through a different, multilateral channel (the Global Fund initiative). Recent developments in this respect indicate that the EC should continue contributing to this global initiative, while insisting that prevention issues be given due priority in Honduras.

In view of the structural reforms needed in Honduras, the new regional programme “Euro-social” should also be used to support capacity-building projects in health.

6.7.4. Disaster prevention

The sequencing of emergency, rehabilitation and development (LRRD) has been of particular relevance for Honduras in the aftermath of hurricane Mitch. The Regional Programme for Rehabilitation and Reconstruction of Central America (PRRAC) has helped Honduras overcome the post-hurricane challenges and resume its development course. In practice, this programme has undergone a certain evolution and its thrust has gradually been shifted from post-emergency to more development-related projects. It is now drawing to a close, which

means that the bulk of EC assistance to Honduras will from now on be channelled through the geographic cooperation mechanism (CSP), thus probably raising expectations from the latter. In parallel, ECHO's regional disaster preparedness programme (DIPECHO) offers assistance to vulnerable communities living in the most disaster-prone regions to upgrade their preparedness. However, the relative progress made at local and national level has yet to be matched by more coordinated response mechanisms at regional level; hence the importance of the EC regional Vulnerability programme for Central America approved in 2005. Honduras's persistent vulnerability to natural disasters and the need to enhance disaster prevention justify the strong emphasis put on the forestry sector in the present strategy.

ANNEXES

ANNEX 1

GENERAL OBJECTIVES, CONDITIONS AND INDICATORS FOR FOCAL AREAS

PRIORITY 1. Social cohesion (Global Budget Support (GBS) to the PRSP)

General objectives

Commission [COMMUNICATION COM\(2002\) 116 on Education and Training in the context of Poverty Reduction in Developing Countries](#) provides for the principles to be followed in the political dialogue on education and training strategies which include (emphasis on the poorest; improved efficiency and quality of education systems; compulsory and free access to primary education; gender equality; links between education, AIDS and conflicts; sector-wide approaches to be promoted).

The general EC objective is to break the vicious circle between poverty and ill health. There is growing consensus that increased investment in health is needed to attain the MDGs. [Communication COM\(2002\)129 from the Commission to Council and European parliament on Health and Poverty Reduction in Developing Countries](#) recommends focusing at country level on: promotion of public health - prevention efforts, including education; strengthening of health systems to improve the access to quality services; ensuring pro-poor systems of health financing and social protection; communicable diseases - in particular HIV/AIDS mainstreaming, malaria and TB; reproductive and sexual health and rights - in particular maternal health.

Indicators

Whereas the PRSP list of Secondary/Technical education indicators should be completed, the main PRSP indicators in Health (infant mortality rate, under-5 mortality rate, child malnutrition, maternal mortality rate) seem to reflect adequately the main problems of this sector. In addition, it will also be necessary (in both Health and Education) to develop and monitor indicators in terms of sector efficiency, especially progress in preventive health measures.

Lessons learnt

Experience of GBS is still at an early stage but preliminary comparison of actual outcomes with anticipated benefits and risks suggests that:

- Some of the benefits are medium-term, rather than immediate. These include increased allocation efficiency and lower transaction costs for recipient governments. Some benefits are even longer-term, such as more effective local institutions and stronger domestic accountability.
- Few of the expected benefits (local ownership; alignment; harmonisation) are automatic. Complementary measures (appropriate technical assistance and policy dialogue) are needed.
- Donors are pursuing a variety of objectives through budget support. Better coordination would improve their impact.

Initial experience of GBS shows that it is less predictable than expected. But predictability can be improved by clearer operating rules. Donors and partner governments have joint

responsibility for providing predictable resources, which will be used to reduce poverty on the basis of country-owned strategies.

<p>GENERAL OBJECTIVES</p> <p>PRSP objectives</p> <p>Human Capital pillar objectives</p>	<ol style="list-style-type: none"> 1. Making the PRSP more conducive to actual poverty reduction 2. Consolidating the PRSP framework and mechanism, fostering an increasingly decentralised implementation of the PRSP, consolidating the institutional restructuring processes, the SWAPs and the sector round-tables in Health and Education, encouraging a focus on efficiency - rather than inputs - in Health and Education; favouring donors' coordination within the PRSP, increasing the domestic legitimacy and visibility of the PRSP, especially at local level. 3. Supporting macro-economic stability and growth, while consolidating the poverty spending 4. Achieving the PRSP goals in Health and Education, 5. Promoting secondary and technical education 6. Supporting Health reform towards preventive health.
<p>GENERAL CONDITIONS FOR GBS</p>	<ol style="list-style-type: none"> 1. IMF programme on track 2. Progress made with Public Finances Management (PFM) 3. Positive review of the PRSP
<p>SECTOR GENERAL CONDITIONS</p>	<ol style="list-style-type: none"> 1. Progress in reforming the Health and Education sectors, notably technical education 2. Completion of the indicator matrix for subsequent variable tranches
<p>INDICATORS</p> <p><u>Education</u></p> <p><u>Health</u></p>	<ol style="list-style-type: none"> 1. <i>-net coverage rate in secondary education</i> 2. <i>-improvement of social cohesion in secondary education (with respect to income-group distribution, coverage of rural areas)</i> 3. <i>- improvement of gender equality in secondary education</i> 4. <i>-net coverage of technical/vocational education</i> 5. <i>-education efficiency indicator (aggregate indicator to be defined, combining drop-outs and repetition rates as well as test results)</i> <ol style="list-style-type: none"> 1. <i>-infant mortality rate</i> 2. <i>-under 5 mortality rate</i> 3. <i>-child malnutrition</i> 4. <i>-maternal mortality rate</i> 5. <i>-preventive health efficiency indicator (to be defined)</i>

PRIORITY 2 Management of Natural resources (Budget support for Forestry)

Objectives and Indicators

The PRSP framework offers valid but probably insufficient indicators concerning forestry. Objectives and indicators will have to be aligned or made consistent with those of the Forestry component in the agro-forestry strategy, and compatible with those of the IDB and World Bank programmes in the sector.

Lessons learnt

- Participation of local stakeholders (municipalities and civil society) is essential;
- Agro-forestry extension services should be gradual in order to build the capacity of smallholders; using private service providers enhances efficiency of technology transfer;
- For the sustainable management of public forests, the problems related to land tenure can be overcome by provision of usufruct rights and profit-sharing; in indigenous communities, communal forest management enhances success;
- Training and extension act as a strong stimulus to the adoption of conservation technologies, especially if combined with security of tenure/usufruct.
- Tropical primary forest requires careful management, due to the lack of previous experience, the remoteness of the areas and the corruption factor.
- In some cases, emphasis on agro-forestry and community forestry may conflict with agriculture and farming plans, especially for small landowners.
- Progress in forestry management should be seen as a mid-term or long-term objective.
- For indigenous groups, community forestry has a very high potential.
- The development of non-timber products is a key aspect for sustainable forestry.
- Besides forest areas, forestry activity in already deforested areas should also be considered.

<p>GENERAL OBJECTIVES</p>	<ol style="list-style-type: none"> 1. supporting the reform and consolidation of the legal framework, considering forests in a broader pattern of land-use 2. addressing governance problems (illegal logging) and administrative capacity weaknesses 3. encouraging implementation of international commitments (notably Climate change) 4. ensuring participation of all stakeholders and empowering local authorities and local communities 5. supporting the land registration and titling process to improve land tenure security, including by respecting customary rights and ownership of land and resources
<p>Governance</p>	
<p>Sustainable management</p>	<ol style="list-style-type: none"> 1. enhancing the environmental resource base and forest regeneration, maintaining biodiversity and avoiding harmful effects on the environment in order to ensure environmental sound harvesting (timber and NTFP), protection of catchment basins and the prevention of soil erosion 2. promotion of alternatives to wood for energy and agriculture practices based on forest clearing 3. determining and evaluating environmental costs and benefits

<p>Economic development, trade, employment</p>	<p>4. promoting certification and fair trade of forest products</p> <p>1. promoting employment, in particular of marginalised young people, by developing private sector in forestry (Small and medium-scale processing and marketing of timber and NTFP)</p> <p>2. developing the trade potential of legal logging</p> <p>3. increasing the economic and environmental benefits derived from forest ecosystems and non-timber forest products (NTFP).</p>
<p>GENERAL CONDITIONS</p>	<p>(Same as those for Global Budget Support to the PRSP)</p>
<p>SECTOR GENERAL CONDITIONS</p>	<p>1. Definition of a specific strategy in Forestry</p> <p>2. Adoption/positive review of the implementation of the Forestry law</p> <p>3. Existence of a functioning tripartite forum involving the authorities, civil society and donors to monitor sector developments</p> <p>4. Completion of the indicator matrix for subsequent variable tranches</p>
<p>INDICATORS¹</p> <p>Governance</p> <p>Economic development</p> <p>Sustainable management</p>	<p>1. Number of municipalities strengthened, with municipal development plans being implemented, and land use and vulnerability reduction plans formalised;</p> <p>2. Number of local organizations strengthened to carry out planning, administration, and management of their own productive and natural resources management activities;</p> <p>3. % of land tenure regularised, of which % benefiting indigenous groups and women</p> <p>4. % of increase in the per capita income in targeted areas;</p> <p>5. Number of households benefiting from forestry programmes in the targeted areas; % of participation by women;</p> <p>6. Number of jobs created through forestry investment, including number of people belonging to indigenous groups and number of women);</p> <p>7. % increase in the number of small-scale community enterprises;</p> <p>8. % growth in certified trade</p> <p>9. % growth in NTFP</p> <p>10. <i>Number of Priority Protected Areas (PPAs) with management plans;</i></p> <p>11. <i>% of total surface area cover by PPAs with management plans;</i></p> <p>12. % of reduction in deforestation rates in PPAs.</p> <p>13. % of reforestation</p>

¹ Whenever possible, the 2005 Criteria and Guidelines for Sustainable Management of Forestry developed by the ITTO should be used in the final definition of indicators. Given the current shortage of accurate and relevant indicators in forestry, the proposed indicators will have to be qualified during the identification phase. If necessary, a Strategic Environment Assessment may be considered for this purpose.

PRIORITY 3 Justice and Public security

Objectives and indicators

The programme indicators will make use of the Law on Prevention Rehabilitation and Social Reinsertion (approved 31 October 2001 by Decree 141-2001), and the related National Programme on Prevention, Rehabilitation and Social reinsertion. The widest possible use should be made of the sector strategy currently being designed in the field of Justice.

Lessons learned

Few large-scale Justice and Public security programmes have been conducted so far. From the range of experience gathered, it is worth highlighting the following aspects:

- Need for a three-pronged approach, combining prevention, law enforcement and rehabilitation/reinsertion
- Need for a clear inter-ministerial and inter-institutional coordination mechanism, under the umbrella of a lead ministry
- Need to involve non-state actors as much as possible in the definition and implementation of the programme
- Existence of a multiplicity of sporadic and isolated initiatives, which would greatly benefit from mutual exchange of experience and networking
- Need to address trans-border crime and insecurity across the region and coordinate the national programme with regional initiatives addressing public security and combating crime
- Need to address insecurity at grass-roots level and extend current experience of local policing (“Comunidad mas segura”, “mesas ciudadanas de seguridad”) nationwide
- Promising results of the - limited - rehabilitation experiences carried out so far in Honduras, but also risk of abuse by ex-offenders.
- Need to offer a “rehabilitation/reinsertion package” combining employment training, protection from retaliation and tattoo removal.

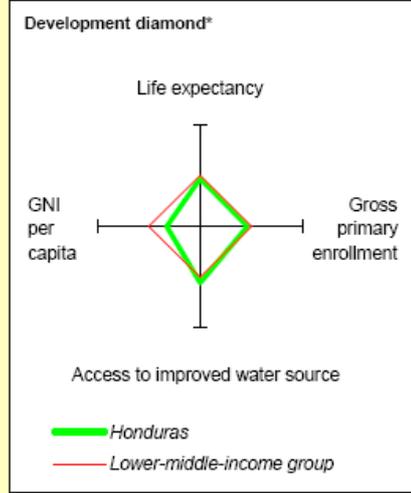
GENERAL OBJECTIVES	
Law enforcement	<p>1. strengthening the investigation police, especially the Special Unit investigating the violent deaths of children,</p> <ul style="list-style-type: none"> - providing training (particularly in Human Rights) for police forces as well as equipment, - supporting witness protection programmes <p>2. strengthening command systems and oversight mechanisms within the police</p>
Prevention	<p>1. extending the coverage of the programme “Comunidad mas Segura”, promoting “mesas ciudadanas de seguridad”, developing inter-institutional approaches between police, justice, local leaders....</p>

Rehabilitation	<p>2. developing crime prevention programmes at school, while targeting at-risk youth</p> <p>3. promoting specific technical education programmes for children deemed socially at-risk,</p> <p>4. promoting light arms’ collection/registration programmes,</p> <p>5. reforming the detention system to reduce overcrowding and to separate young offenders from other hardened criminals</p> <p>1. developing technical training and income-generating activities for ex-gang members,</p> <p>2. developing employment of ex-gang members in community-work schemes (possibly in the Forestry sector),</p> <p>3. promoting tattoo removal projects,</p> <p>4. developing protection from gang retaliation,</p> <p>5. widening rehabilitation programmes for drug-addicted mareros</p>
	(Same as those for Global Budget Support to the PRSP)
SECTOR GENERAL CONDITIONS	<p>1. Existence of a strategy, with a clear division of tasks and inter-ministerial coordination rules</p> <p>2. Existence of a tripartite forum monitoring security developments</p> <p>3. Completion of the indicators matrix for subsequent variable tranches</p>
INDICATORS	<p>Prevention</p> <p>1. Coverage of social programmes for families/children at social risk</p> <p>2. Coverage of training programmes for children at social risk</p> <p>3. Rate of employment of children at social risk</p> <p>4. Number of prevention initiatives at school</p> <p>5. % of municipalities covered by “Comunidad mas Segura” programme</p> <p>Law enforcement</p> <p>1.% of cases dealt with by the Special Unit for the Investigation of Minors’ Deaths</p> <p>2. % of victims benefiting from the Witness Protection programme</p> <p>3. Number of arms registered/decommissioned</p> <p>4. % of prison overcrowding</p> <p>5. % of young detainees benefiting from training programmes</p> <p>Rehabilitation</p> <p>1. % of ex-detainees under rehabilitation in training programmes</p> <p>2. % of ex-detainees whose tattoos have been removed</p> <p>3. Number of jobs opportunities for ex-detainees</p> <p>4.% of ex-gang members benefiting from drug rehabilitation programmes</p>

ANNEX 2

SELECTED INDICATORS FOR HONDURAS

POVERTY and SOCIAL	Honduras	Latin America & Carib.	Lower-middle-income
2004			
Population, mid-year (<i>millions</i>)	7.1	541	2,430
GNI per capita (<i>Atlas method, US\$</i>)	1,030	3,600	1,580
GNI (<i>Atlas method, US\$ billions</i>)	7.4	1,948	3,847
Average annual growth, 1998-04			
Population (%)	2.6	1.4	1.0
Labor force (%)	2.9	0.9	0.7
Most recent estimate (latest year available, 1998-04)			
Poverty (<i>% of population below national poverty line</i>)	..	..	..
Urban population (<i>% of total population</i>)	46	77	49
Life expectancy at birth (<i>years</i>)	66	71	70
Infant mortality (<i>per 1,000 live births</i>)	32	28	33
Child malnutrition (<i>% of children under 5</i>)	17	..	11
Access to an improved water source (<i>% of population</i>)	90	89	81
Literacy (<i>% of population age 15+</i>)	80	89	90
Gross primary enrollment (<i>% of school-age population</i>)	106	123	114
Male	105	126	115
Female	107	122	113



Honduras Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1996-02	Latin America	Lower-middle Income
POPULATION					
Total population, mid-year (millions)	3.0	4.2	6.4	515.7	2,047.8
Growth rate (% annual average for period)	3.0	3.2	2.7	1.6	1.1
Urban population (% of population)	32.1	37.7	46.9	75.4	42.0
Total fertility rate (births per woman)	6.8	5.6	3.9	2.6	2.1
POVERTY (% of population)					
National headcount index	..	..	63.3	..	..
Urban headcount index	..	..	55.5	..	..
Rural headcount index	..	..	70.8	..	..
INCOME					
GNI per capita (US\$)	400	790	920	3,670	1,130
Consumer price index (1995=100)	12	26	160	144	146
Food price index (1995=100)	..	22	192	..	..
INCOME/CONSUMPTION DISTRIBUTION					
Share of income or consumption					
Gini index	..	..	56.3	..	..
Lowest quintile (% of income or consumption)	..	..	2.2	..	..
Highest quintile (% of income or consumption)	..	..	59.4	..	..
SOCIAL INDICATORS					
Public expenditure					
Health (% of GDP)	..	..	2.8	2.8	2.3
Education (% of GDP)	3.6	4.0	4.7	3.3	4.6
Social security and welfare (% of GDP)	1.2	..	2.2	7.4	..
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	78	85	97	91
Male	..	78	..	99	91
Female	..	78	..	96	91
Access to an improved water source					
<i>(% of population)</i>					
Total	..	..	89	85	80
Urban	..	..	96	93	95
Rural	..	..	82	62	69
Immunization rate					
<i>(% under 12 months)</i>					
Measles	..	53	98	93	89
DPT	..	58	95	87	89
Child malnutrition (% under 5 years)	..	..	33	9	11
Life expectancy at birth					
<i>(years)</i>					
Total	56	63	66	70	69
Male	54	61	63	67	67
Female	58	65	69	74	72
Mortality					
Infant (per 1,000 live births)	90	62	34	29	33
Under 5 (per 1,000 live births)	170	103	45	37	41
Adult (15-59)					
Male (per 1,000 population)	361	306	245	208	192
Female (per 1,000 population)	283	237	152	121	125
Maternal (per 100,000 live births)	..	..	108	..	..
Births attended by skilled health staff (%)	..	50	55	..	..

Note: 0 or 0.0 means zero or less than half the unit shown. Net enrollment ratios exceeding 100 indicate discrepancies between the estimates of school-age population and reported enrollment data.

Honduras: Selected Economic and Financial Indicators					
				Prel.	Proj.
	2001	2002	2003	2004	2005
Real economy (percentage change)					
Real GDP 1/	2.6	2.7	3.5	4.6	4.2
GDP deflator	8.0	6.3	7.7	7.7	7.8
Consumer prices (end of period)	8.8	8.1	6.8	9.2	6.9
Public finances (percent of GDP)					
Consolidated public sector deficit	-3.2	-3.6	-5.1	-3.0	-2.5
Consolidated primary deficit	-2.7	-3.3	-4.6	-2.7	-2.3
Public sector debt (percent of GDP, end of period)	75.2	73.7	75.3	72.8	56.1
Money and credit (end-year, percentage change)					
Net domestic assets	8.8	7.9	30.2	6.8	11.8
<i>Of which</i>					
Non-financial public sector	3.1	-0.9	45.9	-38.2	-6.7
Private sector	12.2	9.6	9.8	18.1	14.5
Broad money	14.2	14.3	13.6	20.5	12.4
Interest rates (average)					
Deposit rate (six months)	14.3	13.1	11.0	11.0	...
Lending rate (more than one year)	23.2	21.1	18.0	18.3	...
External sector					
External current account balance (percent of GDP)	-4.1	-3.1	-4.2	-5.2	-2.5

Change in net international reserves					
(millions of US dollars, increase -)	-80	-129	77	-496	-210
Gross international reserves (in months of					
next year imports of non-maquila goods and services)	4.7	4.7	3.7	4.8	4.9
Terms of trade (percentage change)	-7.4	-7.9	-5.2	-0.9	-0.3
Real effective exchange rate (end of period) 2/	4.2	-3.7	-7.8	-3.0	...

Sources: Central Bank of Honduras; Ministry of Finance; and IMF staff estimates and projections.

1/ For 2004 preliminary Fund staff estimates.

2/ As of end-December 2004.

¹ Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepare a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

ANNEX 3

MILLENNIUM DEVELOPMENT GOALS

CUMPLIMIENTO DE LOS OBJETIVOS DE DESARROLLO DEL MILENIO Informe de País 2002-2005

HONDURAS– 2002- Objetivos y Metas propuestos	Situación Actual	Estimación de Cumplimiento	Desafíos y Prioridades	
1. Erradicar la Pobreza Extrema y el Hambre	<ul style="list-style-type: none">• En 1992 un 25.3% de los hondureños vivía con menos de un dólar diario, y	Poco Probable	Políticas Sugeridas en el informe	Costeo de las metas

<ul style="list-style-type: none"> ▪ Reducir a la mitad a la proporción de personas con ingresos menores a un dólar por día ▪ Reducir a la mitad la proporción de personas que sufren hambre 	<p>un 24.6% en 1999, indicando un leve descenso de la pobreza.</p> <ul style="list-style-type: none"> ▪ 63.9% de los hogares se encontraban en el 2002 debajo de la línea de pobreza (canasta básica), y 45% en pobreza extrema (canasta de consumo). • El Coeficiente de Gini indica que la desigualdad se ha reducido, pasando de 0.51 en 1990 a 0.42 en el 2001. • Durante la década de los 90 se logró igualmente un crecimiento del PBI de 0.5%, sin embargo el crecimiento demográfico anual ha sido de 2.6%. • Las reformas económicas de los 90 no han logrado un crecimiento económico sostenido ni equitativo. ▪ La tendencia es un aumento de la desnutrición infantil de un 34.9% en 1991 a 36.2% en el 2001. De seguir con esta tendencia, la cifra será de 38.1% en el 2015, con lo cual la meta no será alcanzada. El problema nutricional es mas grave en las zonas rurales, donde el 42% de los niños se encuentra en estado de desnutrición crónica, frente a un 24% en las zonas urbanas ▪ En cuanto a desnutrición global, es decir el porcentaje de niños que tienen bajo peso por la edad, se nota una pequeña mejoría, de un 21.4% en 1991 a un 18.4% en 2001. 		<ul style="list-style-type: none"> ▪ Se deben fortalecer los programas y proyectos en el marco de la Estrategia de Reducción de la Pobreza que fue acordada en el año 2001, ampliando la base de financiamiento interno que complementa los fondos de la iniciativa HIPC. ▪ Honduras debe construir y reforzar ventajas competitivas (infraestructura, calidad de la fuerza laboral, etc.) que potencien sus ventajas comparativas (localización geográfica, bajos costos laborales). ▪ Fortalecer el tejido económico local, especialmente en las zonas rurales, y propiciar el eslabonamiento y la ampliación de un mercado interno, mejorando las condiciones de infraestructura y servicios para la producción y el comercio. ▪ Fortalecer el tejido económico local, especialmente en las zonas rurales, y propiciar el eslabonamiento y la ampliación del mercado interno, mejorando las condiciones de infraestructura y de servicios para la producción y el comercio. ▪ Consolidar un marco jurídico institucional que garantice la seguridad individual y de los bienes para que las transacciones en la sociedad sean confiables y de menor costo, favoreciendo la captación y desarrollo de inversiones productivas. Igualmente, es necesario mejorar la captación de ingresos corrientes. ▪ Generar políticas sostenibles en materia de seguridad alimentaria, que implique el diseño de una estrategia intersectorial y un plan nacional de alimentación y nutrición. ▪ Orientar una política agroalimentaria que permita una coordinación interinstitucional con aquellas que ejecutan programas y proyectos de seguridad alimentaria y nutricional para complementar acciones y recursos 	Na
<p>6. Alcanzar la educación básica universal</p> <ul style="list-style-type: none"> ▪ Asegurar que todos los niños y niñas puedan terminar el ciclo completo de educación primaria 	<ul style="list-style-type: none"> • En las últimas décadas se ha mantenido un promedio de crecimiento anual superior al exigido para el cumplimiento de las metas. La proporción de niños y niñas de cinco a seis años que ingresaron a la enseñanza preescolar paso de 14.1% en 1990 a 37.3% en 2001. Para 2001, la tasa de matrícula neta en la educación primaria fue de 88.3%. • El promedio de crecimiento en la tasa de matrícula neta de la educación primaria durante los años 90 fue de 0.94%. Si se mantienen las condiciones actuales se puede proyectar que para el 2014 se lograría el cien por ciento de cobertura neta. 	Probable	<ul style="list-style-type: none"> • Asegurar que el diseño de la política educativa contemple estrategias que integren tanto el acceso como la calidad de la educación, así como la equidad. • Mejorar la coordinación entre los actores que trabajan en el sector educación para optimizar los esfuerzos. • Aumentar los niveles de participación comunitaria para lograr una mayor apropiación y control en la gestión educativa. • Promover asistencia para el ingreso y permanencia de los niños y niñas pobres en la escuela, en particular las zonas rurales: merienda escolar, apoyo para comprar útiles, asistencia medico-odontológica. • Mejorar el sistema de incentivos y calificación profesional de los maestros en todos los niveles de la educación nacional, y en particular, la brecha de capacitación entre docentes del área urbana y rural. • Enfatizar a través de campanas la importancia y los 	Na

	<ul style="list-style-type: none"> • Sin embargo hay todavía grupos que no gozan de una educación de calidad, tales como los indígenas y los habitantes de zonas rurales. 		<ul style="list-style-type: none"> • beneficios de educar a los niños. • Impulsar el reordenamiento territorial y el desarrollo urbano con el fin de disminuir la fragmentación y dispersión de la población, que minimiza la eficiencia y encarece la provisión de servicios. • Mejorar la calidad de la enseñanza por medio del monitoreo y evaluación del rendimiento de los docentes. 	
<p>7. Promover la igualdad entre los sexos y la autonomía de la mujer.</p> <ul style="list-style-type: none"> ▪ Eliminar la disparidad de género en la educación primaria y secundaria hasta el 2005 y en todos los demás niveles hasta el 2015. 	<ul style="list-style-type: none"> • En el 2001 en la educación primaria había 101 niñas por cada 100 niños, y en la secundaria esta razón aumentaba a 132 por cada 100. • El que los niños del campo y de las zonas marginales tengan mayor presión que las niñas para salir a trabajar fuera del hogar es uno de los factores que incide en esta brecha. • Durante los 90 y hasta el 2001, la relación entre las tasas de alfabetización de las mujeres y los hombres entre 15 y 24 años de edad ha sido en promedio de 103 mujeres por cada 100 hombres. • La participación de las mujeres en el congreso nacional ha sido muy baja, solo un 5.5% de los diputados son mujeres, y nunca se ha logrado más de un 10.1% de representación de mujeres en la Asamblea Legislativa. <ul style="list-style-type: none"> ▪ La participación de la mujer en los gobiernos municipales es también baja. Solo un 8.1% de los alcaldes y un 4.7% de los vice-alcaldes son mujeres. 	Probable	<ul style="list-style-type: none"> ▪ Es necesario fortalecer técnica y financieramente las instituciones existentes, así como considerar la creación de nuevos instrumentos y entidades con el fin de garantizar un marco efectivo de regulación y protección de los derechos de las mujeres. ▪ Dentro de la política educativa, se necesita incluir un enfoque de género que favorezca en igualdad de condiciones la participación de los niños y niñas en los distintos campos de la sociedad, implementando un currículo sensible al género. ▪ Se deben implementar medidas educativas encaminadas a fomentar el respeto mutuo entre los hombres y mujeres, con el fin de eliminar el acoso y abuso sexual. ▪ Urge generar condiciones que eliminen el acceso desigual de las mujeres en el ámbito económico, político y social. Mejorar el ingreso de las mujeres que trabajan es una prioridad, ya que la mayoría de ellas son jefas de hogar. ▪ Realizar estudios e investigaciones sobre la participación de las mujeres en los distintos campos político, social, económico y cultural, a fin de contar con información cualitativa y cuantitativa desde el enfoque de género. Se precisa contar con estadísticas nacionales sensibles al género. ▪ Apoyar la instrumentación de la ley de igualdad de oportunidades y la ley contra la violencia doméstica. 	na
<p>4. Reducir en 2/3 la tasa mortalidad de menores de 5 años: Reducir en 2/3 la tasa mortalidad de menores de 5 años:</p>	<p>De 1986 a 1990 el promedio de mortalidad de niños y niñas menores de 5 años fue de 55 muertos por cada 100 mil nacidos vivos. De 1996 a 2001 la cifra bajó a 45. El ritmo anual de disminución de la tasa es de 1.8%, por lo cual en el 2015 la tasa sería de 35 decesos por 100 mil nacidos vivos, lo cual es superior a la meta del milenio establecida. Se destaca que la cobertura de inmunizaciones ha aumentado. El porcentaje de menores de cinco años adecuadamente vacunados para su edad era de 78.4% en 1996, subiendo a 93% en el 2001.</p>	Probable	<p>Debido a que la mortalidad neonatal representa la mayoría de los casos de mortalidad infantil, es prioritario mejorar la atención del embarazo, parto, posparto y puerperio, incorporando estos aspectos en la estrategia para reducir la mortalidad infantil.</p> <p>Se deben diseñar estrategias de comunicación y educación para promover prácticas de higiene y alimentación adecuadas, así como la enseñanza de los signos de alarma y de búsqueda de atención temprana. Para ello se debe continuar apoyando la estrategia de atención integrada de las enfermedades prevalentes de la infancia a nivel comunitario (AIEPI).</p> <p>Garantizar la seguridad alimentario-nutricional de los niños menores de 5 años, especialmente en las áreas rurales y pobres.</p> <p>Establecer un sistema de vigilancia alimentaria y nutricional con participación comunitaria.</p>	Na

			Fortalecer la capacidad de los servicios de salud de todos los niveles.	
<p>5. Mejorar la salud materna</p> <ul style="list-style-type: none"> Reducir la tasa de mortalidad materna en 3/4 partes 	<ul style="list-style-type: none"> En 1990, la mortalidad materna por cada 100 mil nacidos vivos fue de 182, y en 1997 de 108. Con base en los datos disponibles se espera que en el 2009 se cumpla anticipadamente con la meta. El porcentaje de partos atendidos en instituciones por personal de salud especializado ha aumentado, al pasar de 45.6% en 1990/91 a 61.7% en 2001. Existe una amplia brecha entre zonas rurales y urbanas. Para el 2001 un 82.4% de los partos en zonas urbanas fueron atendidos por personal especializado. En las zonas rurales este porcentaje fue de solo 37.5%. El 74% de las muertes maternas ocurridas en el 2002 están relacionadas directamente con el embarazo, el parto y el puerperio. 	Probable	<ul style="list-style-type: none"> Algunas de las medidas que se deben considerar para reducir la mortalidad materna son: <ol style="list-style-type: none"> Mejorar la capacidad de atención en los hospitales. Establecer un sistema de referencia temprana que incluya campanas para reconocer signos de peligro y mejorar el poder de decisión de la mujer para decidir sobre su propio bienestar. Incrementar el acceso y calidad a los servicios de salud. Es importante incorporar prioritariamente el tema de la salud reproductiva en las políticas, programas y proyectos de salud. Es necesario contar con una inversión social sostenida y localizada a los grupos poblacionales más desprovistos de servicios básicos. Se necesita concienciar a la juventud en temas de sexualidad y salud reproductiva, estableciendo centros de atención integral para adolescentes Es necesario promover la asistencia de todas las mujeres embarazadas a los controles prenatales oportunos y de calidad. 	Na
<p>6. Combatir el VIH/Sida, el paludismo y otras enfermedades graves.</p> <ul style="list-style-type: none"> Haber detenido e iniciado la reversión de la propagación del VIH/SIDA en el 2015. Reducir la incidencia del paludismo y otras enfermedades graves 	<ul style="list-style-type: none"> La epidemia del VIH/SIDA es un fenómeno creciente. El país cuenta con el número más alto de casos reportados de SIDA en Centro América, con un registro de 18.117 personas viviendo con VIH en 2002. Esta cifra representa el 43% de los casos de VIH/SIDA en la región Centroamericana. Se estima que existe entre un 30% y 50% de subregistro La tasa de crecimiento de la incidencia del VIH durante la última década fue de 22.7%, en tanto que la del SIDA fue de 2.1%. Desde 1997 el SIDA representa la segunda causa (después de la violencia) de hospitalización y de muerte en la población general, y la primera causa de muerte en mujeres en edad reproductiva. En Honduras se está reduciendo la incidencia de enfermedades graves como la malaria, tuberculosis y cólera, sin embargo la incidencia del dengue clásico y hemorrágico ha aumentado. La enfermedad grave más común es la 	<p>Poco Probable</p> <p>Probable</p>	<ul style="list-style-type: none"> Apoyar y lograr la ejecución del Plan Nacional del SIDA II que se encuentra vigente, sometiendo el plan a un proceso continuo de monitoreo y evaluación. Es imprescindible para ello la construcción de indicadores de proceso, de impacto y otros pertinentes a las diferentes fases del plan. Realizar un trabajo de prevención mediante la difusión de información adecuada sobre el VIH/SIDA en general, la sexualidad y métodos de protección, asegurándose que la información y los programas y proyectos sean adecuadamente diseñados para el contexto nacional y regional. Mejorar el acceso a la atención médica y al tratamiento, dirigido a los grupos más vulnerables. Mejorar el sistema de registro de la incidencia, prevalencia y muertes por VIH/SIDA, para desarrollar estrategias y medidas adecuadas a la dimensión real de la situación. Fortalecer los consensos y estrategias que existen entre los distintos actores de la sociedad en el combate del VIH/SIDA Enfocar la asistencia para la prevención de las enfermedades, mejorando los niveles de comunicación e información, haciendo énfasis en los grupos más pobres y vulnerables del país. Ampliar y fortalecer los programas de prevención de 	Na

	<p>malaria, para la cual se redujo su incidencia. En 1990 se reportaron 1.088 casos por cada 100.00 habitantes, mientras que en el 200 se registraron solo 685 casos.</p> <ul style="list-style-type: none"> Existe un limitado acceso de la población a servicios eficientes de salud. Por cada diez mil habitantes, solamente hay ocho médicos, que es la cifra más baja de la región centroamericana. 		<p>insectos y plagas, especialmente en temporadas de lluvia, para disminuir los casos de malaria y dengue.</p> <ul style="list-style-type: none"> Aplicar medidas que velen por el mejoramiento de las condiciones laborales que minimicen los riesgos de contraer enfermedades graves. Crear un sistema de registro oficial de estadísticas vitales que incluya la información proveniente de clínicas y hospitales privados y públicos, así como de todos los laboratorios del país. 	
<p>7. Asegurar un medio ambiente sostenible</p> <ul style="list-style-type: none"> Haber logrado en el 2015 que todas las políticas y programas del país hayan integrado los principios del desarrollo sostenible y se haya revertido la pérdida de recursos naturales (ambientales). Reducir en 2/3 la proporción de la población sin acceso al agua potable entre 1990 y 2015. Haber mejorado considerablemente, para el 2020, la vida de por lo menos 100 millones de habitantes de tugurios. 	<ul style="list-style-type: none"> Los principales problemas que afectan el entorno ecológico del país son la destrucción del recurso forestal, la degradación de las fuentes de agua y la contaminación atmosférica producida por las emisiones de gases industriales y vehiculares. Entre 1962 y 1990 el país perdió un 20% de su cubierta boscosa. El número de áreas protegidas aumento de 44 a 65 de 1990 a 2001. Las emisiones de dióxido de carbono se han duplicado de 5,200 en 1990 a casi 10,650 en el 2001. Se ha aumentado la proporción de población con acceso a mejores fuentes de abastecimiento de agua, del 65.5% en 1991 a 78.7% en el 2001, con una tasa de crecimiento de 1.7% anual. Sin embargo, se carece de una red de captación y distribución apropiada que reduzca el déficit de agua que se presenta en forma estacionaria a nivel nacional. La proporción de la población que cuenta con conexión pública o privada al servicio eléctrico paso de un 43.6% en 1991 a un 69% en el 2001. El acceso a servicios de saneamiento ha aumentado de un 63% en 1991 a un 78% en el 2001. El porcentaje de población que habita en viviendas propias era de 80.4% en 1990 y de 18.7% en el 2001. El porcentaje de población que reside en viviendas alquiladas era de 10.3% en 1990, y de 13% en el 2001. 	<p>Poco Probable</p> <p>Probable</p> <p>Probable</p>	<ul style="list-style-type: none"> Revertir la tendencia de destrucción de los bosques hondureños, en particular el latifoliado, por ser el que más se ha destruido, el que tarda más en regenerarse y alberga una mayor biodiversidad. Es prioritaria la aplicación de medidas que incidan en la reducción de los niveles de emisiones de gases por fuentes fijas y vehiculares. Aplicar y hacer efectivo el marco de políticas ambientales existentes: perfiles ambientales, planes de acción ambiental, estrategia de reducción de pobreza y el plan de gobierno. Agilizar la aprobación y aplicación de leyes sobre el manejo de recursos naturales y ambientales. Asegurar instrumentos y mecanismos que permitan el cumplimiento de la normativa existente. Es menester dotar a las instituciones de los recursos humanos y financieros para que cumplan tanto con el monitoreo y control de las normas técnicas como con los procedimientos fijados en las disposiciones legales. Asegurar la aplicación de la Ley Marco del Sector Agua y Saneamiento para contar con un instrumento regulador actualizado que señale con precisión los papeles y funciones de cada uno de los actores e instituciones relacionados con el tema Fortalecer técnica y legalmente a las Juntas de Agua para que tengan capacidad de realizar una gestión adecuada en sus comunidades. Procurar mayor continuidad y seguimiento a los proyectos que desarrollan los distintos actores que trabajan en el tema del agua. Desarrollar y ejecutar políticas y programas efectivos para el manejo integral de las cuencas, que revierta su situación de deterioro. Instrumentar un marco legal e institucional claro de reordenamiento territorial y un sistema moderno de registro de propiedad. Clarificar los roles y funciones institucionales en lo referente a legalización de tierras, creando un sistema estable de legislación e institucionalización. Organizar el manejo sostenible de la basura, que lleva a 	<p>Na</p>

			<p>altos niveles de contaminación.</p> <ul style="list-style-type: none">▪ Mejorar la calidad de las viviendas, reconociendo áreas marginales como prioridad.▪ Ampliar las oportunidades de financiamiento para la compra o refacción de viviendas.▪ Fomentar el acceso y participación igualitaria de las mujeres en los programas de viviendas de interés social, garantizando la aplicación de la ley de igualdad de oportunidades para la mujer en el sector de vivienda y tenencia de la tierra.	
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ANNEX 4

GENDER PROFILE

Living conditions for Honduran women are among the most difficult in Central America, especially since hurricane Mitch hit the area in 1998. While a few women play an important role in society, women generally in Honduras are often discriminated against both socially and economically. Although they carry most of the burden of providing for their families, they have little access to credit, technology, training, equal pay for equal work, and land. Moreover, Honduras is a country with a deep-rooted patriarchal society, where family pressures and traditional prejudices may impede the ambitions of girls who wish to attend secondary school, thus hindering their advancement. Furthermore, Honduran women have one of the highest maternal mortality rates in the region, while domestic violence remains high. Despite the discrimination that women face, their role took on a new public dimension after the devastation of Hurricane Mitch. More than ever before, women have become important players in the reconstruction and development process, a reality that has to be taken into consideration in any cooperation initiative.

General

Few countries have more men than women. In Honduras in 2001, there were 101 males per 100 females. The projected life expectancy for women is 69 years, whereas for men it is 63. The birth rate is 32 per 1,000 people, and the death rate is 5 per 1,000. There is a tendency towards the feminization of poverty: 80% of the population still lives in poverty, and more than half are women, as the number of female-headed households increases. With lower salaries and no direct access to land, women experience poverty more acutely, which in turn worsens the already high infant mortality and malnutrition rates. Another factor related to poverty is the high rate of underemployment in the female labour force. It is estimated that, of every 100 women in the work force, 35 work part-time because the labour market does not offer them another alternative or they work more than 8 hours per day to compensate for the inadequate income they earn. Faced with this situation and the need to earn more income, many women in the last few years have been integrating into the informal sector of the economy where 8 out of 10 working women are living below the poverty line.

Economic Profile

The market economy is based primarily on agriculture and, increasingly, on the maquila industry (assembly plants producing for export), which accounts for approximately 125,000 jobs, most of which are filled by young women aged between 18 and 24, earning on average US\$33 per week. Approximately 33% of the labour force works in agriculture, followed by 24% in commerce, and 15% in manufacturing. Women are present in small numbers in most professions, but cultural attitudes limit their career opportunities. Women make up 60% of the unemployed in Honduras and they often work in the low-status, low-pay, informal occupations, such as domestic help. The law requires employers to pay women equal wages for equivalent work, but employers often classify women's jobs as less demanding than those of men to justify paying them lower salaries. In 1998, the national per capita income per woman was 47.3% of men's national per capita income. The average salary per urban woman is 45.4% of the average

salary per urban man with 0 to 3 years of education. Women are mainly concentrated in the Wholesale, Retail Trade, Restaurants and Hotels sector as well as in the Social and Personal Services and Manufacturing sectors. 33% of total urban households were female-headed

Women are allowed 10 weeks maternity leave with 33% of their wages paid by the employer and 67% paid by the Social Security. Labour unions, women's groups, and human rights groups receive complaints from workers in textile export industries that include: illegal pre-employment pregnancy tests, severely limited access to medical services, verbal abuse, no freedom to organize unions, forced and unpaid overtime (US Department of State). Although some maquilas are unionized, employees in non-unionized maquilas face numerous obstacles when trying to organize a union or in the process of applying for the union status. Although the law prohibits sexual harassment, this continues to be a problem in the workplace.

The law prohibits trafficking in persons, but trafficking in women and children for sexual exploitation and debt bondage is a problem

Living Conditions

Access to safe water and adequate sanitation is good in urban areas, but poorer in rural areas. The government started privatizing health care in the past few years, with a resulting decline in access for some people living in the most backward areas. Even state-run hospitals require unofficial payment for childbirth services, ranging from US\$4.65 to US\$10.33. Most often, women cannot afford adequate care and necessary medication. Moreover, health care services are almost non-existent in the most isolated rural areas of the country such as the Misquita and Lenca regions. Honduras has the highest incidence of HIV/AIDS (1.9% of the population) in Central America. More women are contracting HIV than men. Women between 25 and 29 years old are the most affected (21.8%). The percentage of infected women rose from 30.3% of all cases in 1992 to 38% in 1996. Moreover, the number of cases diagnosed in children under 5 has been increasing - from 1.9% in 1987 to 4.8% in 1996. Violence against women is widespread. Since Hurricane Mitch in 1998, the level of domestic and sexual violence against women and girls has increased. In 2000, the UN Population Fund estimated that 8 of every 10 women suffer varying degrees of domestic violence. The 1997 Law Against Domestic Violence strengthened the rights of women and increased the penalties for crimes of domestic violence. Child prostitution is a problem in some tourist areas of the country, as is trafficking in children for the purpose of prostitution or for the sale of illicit narcotics.

Women in Politics

The percentage of parliamentary seats held by women barely increased between 1995 and 2001, going from 7% to 9% of the total seats. However, the 2005 general elections saw a higher percentage of female parliamentarians. Between 1994 and 1998, the number of women in decision-making positions in government increased, but women were still seriously lagging behind in 1998, with only 11% of the seats at ministerial level and 17% at sub-ministerial level. In contrast, a number of women play a prominent role in the judiciary and seem particularly active in the fight against corruption.

National Policies

Since 2002, the Gender policy ("National Policy for Women"), together with the national anti-poverty strategy (PRSP), is one of the two "State policies" developed in Honduras. Accordingly, a specific ministry has been established to lead and coordinate this policy, setting a good institutional practice at regional level. Its main objective is to mainstream gender priorities into every national policy. The Government established the National Women's

Institute in 1994 to coordinate all government policies, activities and plans of action aimed at improving the degree and quality of participation by women in Honduran society. Its main activities are coordinating policies between institutions; providing training and raising awareness from a gender standpoint both at the centre and in the regions; channelling technical and financial assistance to implement production projects and social projects, especially in rural areas and marginal urban districts; and campaigning against family violence and all forms of discrimination that affect women.

In 1997, the Law Against Domestic Violence was introduced to strengthen women's rights and increase the penalties for crimes of domestic violence. This law allows the Government to protect battered women through emergency measures, such as detaining an aggressor or barring him temporarily from the victim's home. The Government works with women's groups to provide specialized training to police officials on enforcing the Law Against Domestic Violence. Additionally, the Government funds special courts to hear only cases of domestic violence, which speeds up the processing and judging of many cases.

The 2000 Law on Gender Equality makes it mandatory for 30% of all candidates nominated for public office by recognized political parties to be women.

International

Conventions

In 1983, Honduras ratified the United Nations Convention on the Elimination of All Forms of Discrimination Against Women (CEDAW). Following the Fourth World Conference on Women in Beijing, Honduras presented to the UN Secretariat a plan to implement the Platform for Action.

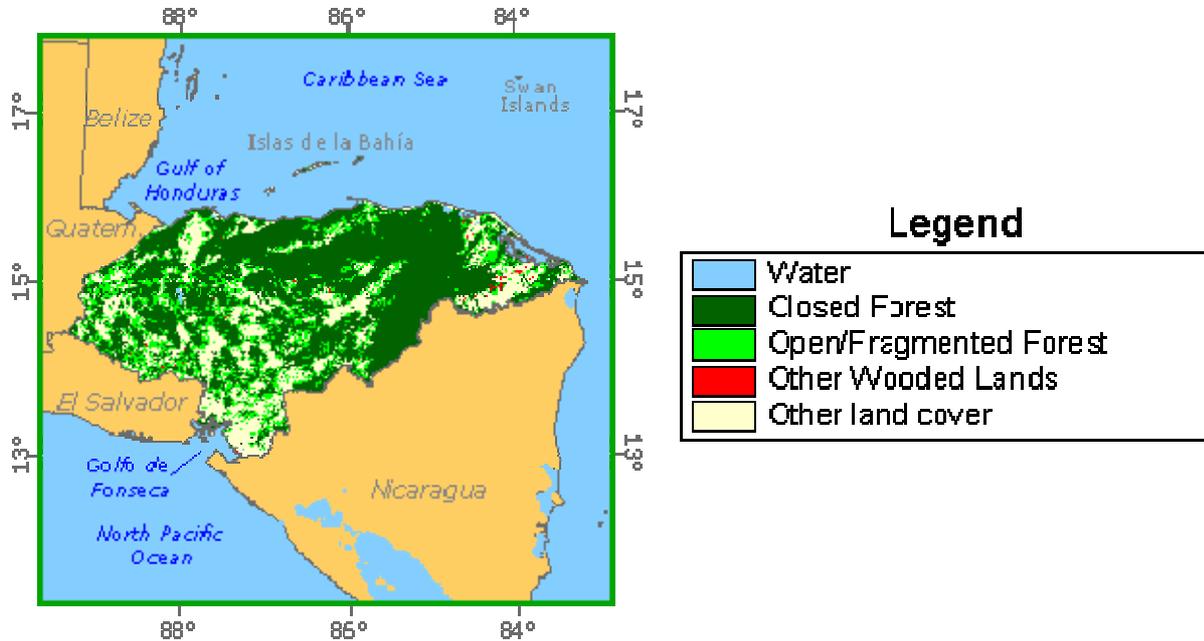
	Honduras				Latin America & the Caribbean		Low income	
	1980	1990	1995	2000	1980	2000	1980	2000
GNP per capita (US\$)	700	710	640	870	2,070	3,700	350	410
Population								
Total (millions)	3.6	4.9	5.6	6.5	356.4	510.0	1,561.8	2,406
Female (% of total)	49.8	49.7	49.6	49.7	50.0	50.7	49.1	49.3
Life expectancy at birth (years)								
Male	58	63	63	63	62	67	52	58
Female	62	67	68	69	67	74	53	60
Adult illiteracy rate								
Male	38.1	31.1	28.0	25.1	17.4	10.1	43.7	29.4
Female	42.0	32.7	28.6	25.0	22.8	12.1	67.9	48.5

LABOR FORCE PARTICIPATION								
Total labor force (millions)	1	2	2	2	129	220	683	1,088
Labor force, female (% of labor force)	25	28	30	32	28	35	37	38
Unemployment								
Total (% of total labor force)	7.3	4.8	3.2	3.7	NA	9.2	NA	NA
Female (% of female labor force)	6	6.2	3.4	3.8	NA	10.5	NA	NA
EDUCATION ACCESS AND ATTAINMENT								
Net primary school enrollment rate								
Male	78	NA	89	87	.96	NA	85	NA
Female	78	NA	91	88	NA	94	NA	74
Progression to grade 5 (% of cohort)								
Male	NA	NA	NA	NA	NA	NA	NA	66
Female	NA	NA	NA	NA	NA	NA	NA	68
Primary completion rates (% of relevant age group)								
Male	NA	68	66	68	NA	86	NA	79
Female	NA	63	74	71	NA	93	NA	68
Youth illiteracy Rate (% of people aged 15-24)								
Male	27.1	21.5	18.8	16.5	10.1	5.2	31.2	19.1
Female	26.7	19.2	16.1	13.4	11.1	4.7	52.4	31.6
HEALTH								
Total fertility rate (births per woman)	6.5	5.2	4.8	4.3	4.1	2.6	5.5	3.7
Contraceptive prevalence (% of women aged 15-49)	27	47	50	62	NA	NA	NA	NA
Births attended by health staff		NA	45	55	56	NA	NA	NA
NA								
Maternal mortality ratio (per 100,000 live births)	NA	NA	NA	110	NA	193	NA	657
Child malnutrition prevalence weight for age (% of children under 5)	NA	18	18	17	NA	NA	NA	42
HIV prevalence rate (% of people aged 15-24)								
Male	NA	NA	NA	1.4	NA	0.7	NA	1.2
Female	NA	NA	NA	1.7	NA	0.3	NA	2.2

Source: World Bank

ANNEX 5

HONDURAS ENVIRONMENTAL PROFILE



PHYSICAL ENVIRONMENT

Geography

Honduras covers a total area of 112,492 km², with a perimeter of 2 401 km, of which 1 597 km is border and 804 km coastline (IGN 1999). Insular land includes the archipelago of the Bay Islands, the Swan Islands, and the Half Moon Coral Reefs in the Caribbean; also the Zacate Grande and Tiger Islands of the Gulf of Fonseca.

Politically, the country is divided into 18 departments, including 298 municipalities, 3,740 towns and 19,937 villages (IGN 1999).

Geomorphology, Physiography and Topography

Continental Honduras has an extremely irregular morphology determined by a series of mountainous ramifications derived from the Sierra Madre, which crosses the Central American isthmus with its origin in Mexico. This mountain chain divides the country into three natural areas: i) lowlands of the Caribbean, ii) interior lands, and iii) lowlands of the Pacific. More than 40% of the territory has slopes greater than 30% and 70% of the territory has slopes greater than 15%.

Hydrology

The Honduran hydrology is constituted by 19 river systems rising in the national territory and draining into both oceans. In the Caribbean Province, there are 13 such systems ranging in length from 550 km to 25 km; these watersheds represent 82.72% of the national territory and the Pacific

Province through the Gulf of Fonseca drains 6 systems, which represent 17.28% of national land. Many large reservoirs are located in the second largest watershed, the Ulúa River. The only natural lentic system, Lake Yojoa, is 17 km long and 5 km wide and has a maximum depth of 27.5 m. The El Cajón Reservoir, an artificial lake, has a storage capacity of 7,085,000,000 m³ and its main purpose is to produce electricity for the country. Many small and medium-sized hydroelectric power projects are currently being developed.

Numerous swamps and coastal estuaries provide brackish waters ideal for the proliferation of marine biodiversity.

All of Honduras' surface water resources suffer from biological pollution due to municipal waste water. High rates of intestinal diseases and diarrhea are recorded in areas where there are no sanitation systems (water and waste water). Deforestation has significantly increased soil erosion and, hence, sedimentation of rivers and streams; this has critically reduced the storage capacity of reservoirs, particularly El Cajón, which after a decade of forest restoration projects and national initiatives still has a dangerous rate of sedimentation.

In the rural sector, the reduction of water availability is caused by deforestation, expansion of the borders of agricultural land, inadequate land use and overgrazing.

Accessibility of freshwater resources is usually limited. In the Caribbean lowlands and the interior highlands, the elevation bank can exceed 20m along medial and high riverbanks. Elevation banks of the Pacific lowlands are generally lower than 6 m. Flooding of the Chamelecón, Ulúa, and Aguán rivers is frequent.

Based on the hydro-geological Map of Honduras, water abundance can only be identified in the lowlands of the northern area. In the highly populated southern coastal area (Gulf of Fonseca), most of the wells are close to the mangroves and beaches, and suffer saline intrusion due to overexploitation of the water table. Underground water is used mostly by rural and urban communities without access to water systems and urban industries, and by farmers during the dry seasons.

Soils

In 1995, the Inter-American Institute for Cooperation on Agriculture (IICA) stated that only 23% of Honduran land was suitable for agricultural development and intensive livestock, and 3% for extensive livestock, while 73% of the territory was suitable for forestry and perennial plantations. However, most productive land is, in practice, agricultural. As a consequence of this land use pattern, the main environmental problem is soil degradation from intensive deforestation, plantations and grazing on steep lands or in humid lowlands not suitable for this activity. It has been determined that 70% of annual plantations, 60% of perennial plantations and 40-45% of the existing extensive livestock are established in forest areas.

The ongoing demographic explosion exerts severe pressure on all natural resources. The main economic activity of this population is centered on production for own consumption and for national consumption, with high production risks; this leads to expansion into new areas with the ensuing degradation of soil, forest and water resources. It is widely assumed that the loss of soil productive capacity affects a large sector of the population. The cyclical scarcity of basic foods and the population low daily calorie intake (63%), mainly in rural areas, are further evidence of these negative effects.

The absence of strategies and the lack of land planning have caused drastic changes in land resources. The principal areas of horticultural and grain plantations are found on land with slopes of 30%, lacking soil conservation measures, and causing a high level of water erosion and transport of suspended solid material, which is deposited in watercourses; this is becoming an important risk factor and causes sedimentation in reservoirs and other energy and irrigation infrastructures.

Watershed headwaters report high deforestation as a result of the agricultural activities and inappropriate land use. Deforestation rates contribute to the systematic alteration of the hydrological cycle, causing flooding, droughts, and high levels of erosion, with the resulting sedimentation of wetlands and the reduction of aquifer levels. While Honduras has limited access to resources for agricultural sustainable production, the continuous use of traditional production systems, combined with the fragmentation of land into small plots, has led to a rapid degradation of soil resources.

The low coverage and quality of public and private technical assistance, directed at small and medium-sized producers, has restricted the improvement in production systems. At the same time, limited access to credit restricts small producers in the application of environmentally and economically sustainable technological packages.

There is no law specifically regulating soil conservation and use. SERNA manages no fewer than 10 legal instruments related to soil resources.

Inappropriate methods of agrochemical use and application are causing soil contamination. Excessive use and inadequate management, especially in export products, is common. This contamination occurs by deposition in water bodies, by leaching and transport, lack of hygiene and safety measures and the dispersion through aerial spraying of particles, which are inhaled by the population living nearby. Many cases of intoxication have been reported due to this activity, most of them coinciding with the plantations in the north (producing bananas for export) and southern areas of the country (mainly cantaloupe).

The Law on Plant and Animal Health (Decree No. 157-94) and the general Environmental Law (Decree No. 104-93) provide for mandatory surveillance and control of all agrochemicals in the country. However, given the low operational capacity of the regulatory bodies, the presence of pesticides banned by WHO has been identified. Land pollution due to pesticides as well as solid wastes and other wastes of domestic, industrial and agro-industrial origin, has major indirect social and environmental impacts. During the last decade, the number of cases of people affected by pesticide intoxication increased, especially on the Atlantic coast, causing impairment of the nervous system and cancers, especially among children. In monocultures, which require large quantities of agrochemicals, the natural capacity for controlling diseases and plagues is disappearing due to the loss or elimination of biodiversity, loss of habitat and the gradual accumulation of agrochemicals at different levels in the food chain.

Climate

Precipitation in Honduras is affected directly and indirectly by the Intertropical Convergence Zone: storms in the westerlies of medial latitudes, tropical currents, low pressure systems at higher altitudes, sea breezes, mountain and valley breezes, cold fronts, cutting edges and tropical cyclones. In general, the country has both a humid and dry climate. Its mountainous nature prevents big temperature variations, which leads to a humid climate in most of the territory.

Given its latitude, Honduras should have a humid and hot climate. However, its climate is influenced by its irregular topography and, during the last decade, by the effects on forests and the climate disturbances produced by the phenomenon known as “El Niño”. The changes in climate in the country have been evidenced by catastrophic events such as Hurricane Mitch in 1998¹ and the heavy storms of 1999.

¹ According to the United Nations Organization, Hurricane Mitch was the worst natural disaster in Latin America in the last 200 years, leaving behind a toll of death and destruction comparable to a devastating war. The latest official figures register 5,657 deaths, 8,058 legally missing persons, 12,272 injured and 1.5 million hurt or displaced. According to the Economic Commission for Latin America and the Caribbean, (CEPAL), the total in damages in Honduras is US\$3.8 billion which is equivalent to 70% of the Gross Domestic Product. The estimated cost of repositioning is US\$5,000, almost 100% of the GDP.

The droughts in the dry zones areas of the country cause hunger, deaths, water-borne illnesses, cardiovascular and respiratory diseases, loss of harvests and forest fires. The climate vulnerability associated with the complex topographic conditions of the country, as well as the economic and social vulnerability have led to mitigation and adaptation measures to reduce vulnerability. Under the United Nations Framework Convention on Climate Change (UNFCCC) (adopted and signed by 162 countries in 1992 at the Rio Earth Summit), Honduras prepared in 1995 the first communication to the convention, reporting on emissions of “greenhouse gases”. The national plan currently being implemented includes measures related to biodiversity protection and coastal marine areas, forestry sector, agriculture, and hydrological resources.

Air

Tegucigalpa and other urban areas have poor air quality due to solid particulates and pollutants (Pb, NO_x, O₃) emitted by various sources. Between 1995 and 1999 monthly mean levels of indicators significantly exceeded the relevant World Health Organization norms.

Biodiversity, ecology and nature conservation

One of the main barriers to conservation and sustainable use of biodiversity is the limited knowledge about the presence, types and characteristics of flora and fauna species. Given the degree of ecosystem degradation, there is still a high risk of losing these valuable resources, without even knowing their properties and characteristics. Special interest has been paid to “emblematic” species, that are endangered or of commercial interest. Localized biodiversity studies are the product of protected area management plans managed by the Directorate for Protected Areas and Wild Life (DAPVS) of the Forestry Institute (AFE-COHDEFOR). Taking into consideration the relevance of the Mesoamerican region, its local endemism, the pressure on land use and the state of the wildlife population, AFE-COHDEFOR prepared a List of Wild Life Species of Special Concern in Honduras, made official by the Resolution GG-APVS-003-98, on 14 December 1998 (IUCN-WWF-SICA, 1999). Floral species have been extensively identified and catalogued by the National Autonomous University of Honduras (UNAH), in a collection that has described more than 30,000 specimens, including 8,000 species of vascular plants. Experts estimate the number of plant species at about 10 000 to 15 000. More than 400 deciduous tree species and 7 conifer species, with commercial potential, as well as more than 1000 tree and bush species with different uses, are reported. With respect to psychogenetic resources for agriculture, records indicate about 1,500 local varieties of 66 species of plants that are important for human nutrition and the food industry.

Knowledge of medicinal plants, their properties, active agents and traditional forms of use has notably increased in the past decade.

The Ecosystems Map of Honduras identifies 70 ecosystems, which it breaks down into forests, shrub-lands, savannahs and wetlands. Much of the territory forms part of the protected areas in conformity with the SINAPH, National Protected Areas System, created by the SERNA for institutional coordination and management. During the last decade the national list of vascular plants, mammals, birds, reptiles, amphibians and fishes of Honduras has gradually taken shape, as well as the lists of marine invertebrates for the Caribbean. With this expanded knowledge, the need has also arisen to update the list of species of special concern.

Many species in important bio-geographical regions and protected areas are being threatened as a result of the ever-expanding agricultural frontier and illegal wildlife extraction. A good example of this problem is the Río Plátano Reserve where massive extraction of valuable wood such as Caoba

(*Swietenia macrophylla*) is taking place. Uncontrolled commercial hunting of wild animals is also common. The introduction of exotic species is threatening to undermine the complex ecosystems of the reserve. The lack of any management plan and the fact that there are almost no park staff to manage the 525,100 ha reserve have compounded to problem.

Marine Environments

Continental Honduras has 804 km of coastline along the Pacific and Atlantic Oceans. Ecologically, the Caribbean coastline belongs to the Mesoamerican Caribbean Coral Reef (WWF 1999, PMAIB 2002) having four of the regional subdivisions: Gulf of Honduras, Honduran Coast, Bay Islands, and Deep Ocean. The Caribbean coastline has extensive plains and sandy beaches, coastal lagoons and mangroves (1,458 km²). It covers an approximate area of 53,500 km² and is characterized by the presence of 200 islands, among which the Cayos Cochinos and the Bay Islands, with extraordinary coral reefs (500 km²), sea grass banks (450 km²), and mangroves (150 km²), and high ecological integrity (PMAIB 2002).

On the Atlantic western coast, demographic, urban and industrial expansion has caused environmental degradation, deforestation, organic and chemical pollution and soil degradation, while the difficult access to the eastern coast (La Mosquitia) has allowed the the high plant cover and more favorable environmental conditions to be preserved.

The main ecosystems in the Pacific Coast are the estuaries with mangrove forests. These cover an area of about 500 km² drained by 5 main rivers. More than half of the original mangrove of this coast has been destroyed during the last 50 years, given the transformation in land use (aquaculture, livestock, and agriculture), wood extraction for fuel, sedimentation and other anthropogenic factors. Natural disasters such as hurricanes have also taken a toll on this system.

Marine resources are very important to the population on both the Pacific and Atlantic coasts. The Caribbean populations carry out both industrial and craft fishing activities and the industrial fisheries have the largest fishing fleet of the Central American Region. In the last two years, fishing banks have become scarce and efficiency has diminished drastically, leading to the closure of many processing plants and leaving many people unemployed, particularly in Roatan.

Fishing resources are the principal base of local economy, in the Caribbean and the Gulf of Fonseca. Additionally, fisheries contribute significantly to the national economy through profits on the export of products such as shrimp, conch, lobster and fish. Both oceans have marine resources and distinct use patterns and methods. On the Atlantic coast, the local income from shrimp, conch and lobsters is exceeded only by the income from tourism. Common problems encountered in fisheries are: overexploitation of all marine and freshwater resources, lack of order and regulation of marine resources, sedimentation and contamination of coastal ecosystems.

FORESTRY SECTOR

As in much of Central America, Honduras's once abundant forest resources have been badly squandered. In 1964, forests covered 6.8 million hectares, but by 1988 forested areas had declined to 5 million hectares. Honduras continued to lose about 3.6 percent of its remaining forests annually during the 1980s and early 2000s. The loss is attributable to several factors. Squatters have consistently used land suitable only for forests to grow scant-yield food crops; large tracts have been cleared for cattle ranches; and the country has gravely mismanaged its timber resources, focusing far more effort on logging than on forestry management.

In 1986 the Forestry map exhibited a deforestation rate of 80 000 ha/yr. The map prepared by the National Watershed Management Programme (OEA-COHDEFOR) in 1990 showed and

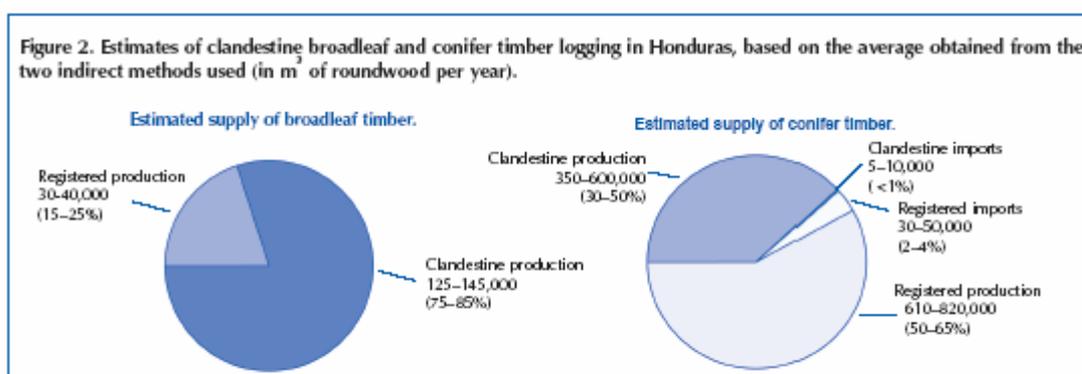
deforestation rate of 87 596 ha/yr. In 1996, the deforestation rate officially established by the Forestry Action Plan (PLANFOR-AFE-COHDEFOR) was of 108 000 ha/yr.

The major forest cover exists in the departments of Olancho and Gracias a Dios, showing a higher density in the department of Gracias a Dios (72% of total area) and a greater extension in the department of Olancho.

Deficient and poorly updated forestry inventories make it impossible to determine forest density or to establish logging categories based on the existence of areas of minor, medium, and high productivity. However, AFE-COHDEFOR determined that the productive potential of conifer forests was 245,360 ha (21.9%) and 153,120 ha (13.7%) for deciduous forest.

AFE-COHDEFOR established that, of the total volume of wood extracted from Honduran forests between 1996 and 1999, only 8% (3,001,700 m³) was utilized for industrial production; 12% (14,341,600 m³) was consumed as fuel by small and large local industries and the other 80% (28,930,900 m³) were utilized as leña for domestic uses.

Forestry exports are mainly constituted by: serrated wood 47.2%, processed wood 44.1%, resin 84%, and seeds 0.4%. The concentration on the US market, the world recession and the entrance of China into the market have limited the expansion of forestry exports. In 2001 exports were less than 50% of the exported value of 1997. Pressures such as illegal logging (mostly in Olancho) for precious woods, forest fires, inappropriate agricultural practices, political and administrative aspects, plagues and diseases (Pine beetle), and lack of a land register have also had a negative impact.



Note: Neither authorized nor undocumented imports of cut broadleaf timber have been included. Such marginal imports doubtless exist, but for the purposes of these estimates, the quantities involved are assumed to be relatively small and unlikely to involve any necessary adjustment to the overall figures used to estimate the quantity of timber offered for sale.

Loss	Amount
• State taxes on production and extraction	6.1 – 8.7
• Local taxes on production and extraction	1.0 – 1.6
• Income tax	0.8 – 2.1
• Public expenditure 'wasted' on sustainable forest management initiatives	3.0 – 6.0
TOTAL	10.9 – 18.4
ESTIMATED RANGE	11 – 18

ENVIRONMENTAL POLICY, LEGISLATIVE AND INSTITUTIONAL FRAMEWORK

The General Environmental Law, drawn up and approved in 1993, is the only body of legislation regulating natural resources management and the environment at the nation level. It is a framework law, setting out the legal principles of the environmental law of the country and is supplemented by a General Act which sets out detailed procedures and norms. This law states three fundamental doctrines for the promulgation of other regulations: 1) declaration of the public profit from natural resources protection, conservation, and their restoration, which should be performed in accordance with ecological, economic, and social functions in a sustainable manner; 2) Social participation of the country's environmental management, the establishment of links between national and local authorities to promote conservation and sustainable use of all natural resources and the environment.

As of 1996, the principal responsibility for enforcing the Environmental Law is delegated to the Natural Resources and Environment Ministry (SERNA), which is responsible for developing the institutional and administrative structure for this purpose. Laws, Acts, agreements, resolutions etc. that regulate the various aspects relating to management of natural resources and the environment and the various related laws, comply with the Río Declaration on the Environment and Development and the provisions of Agenda 21.

The main government institutions delegated to enforce these regulations are the Ministry for Natural Resources and the Environment Ministry (SERNA), the Agriculture and Livestock Ministry (SAG), the Honduran Forestry Development Corporation (AFE-COHDEFOR) and the Health Secretariat.

However, limitations and obstacles tend to appear such as: 1) the existence of a disparate legal framework, which creates conflicts between the responsible institutions; 2) the application of a regulatory framework for natural resources according to a sector-based approach (forestry, water, soils, climate, wildlife, and minerals), which causes some ambiguity with respect to environmental topics and creates problems of an integral and systemic nature.

Two of the most important laws on natural resources management were approved in 2003. These laws were the Land Planning and Human Settlement Act (November 2003) and the Water and Sanitation Law.

Between 1997 and 2000, the Republic of Honduras acceded to and ratified the following international treaties: United Nations Convention on the Desertification (Legislative Decree 35-97 of the 28th of April 1997); The Kyoto Protocol on Clean Development (Decree No. 37-00 of the April of 2000); The Inter-American Convention for the Protection and Conservation of Marine Turtles (Legislative Decree 101-99 of the 13th of July 1999; Agreement on the International Program for the Dolphin Conservation (Decree No. 535-99 of the 6th of April of 1999; The Biological Diversity Agreement ratified by Honduras on the 21st of February of 1995; The United Nations Desertification Convention ratified by a Legislative Decree 35-97, of the 28th April 1997, Convention of the World, Natural, and Cultural Patrimony ratified by Honduras by Decree-Law 673. Progress in the implementation process of all these agreements and conventions has been

hampered by the multiplicity of institutions responsible for each of them and the inconsistency of the legal framework, in particular in the forestry sector (see table below).

Table 1. Obstacles to legal compliance in the Honduras forestry sector

Factors	Problems
Confusion and uncertainty surrounding land tenure	The ownership and usufruct rights over land and forest resources often overlap, are disputed, or simply ignored. In such cases a tendency to behave illegally is quite understandable.
'Faults' in the legislative framework	The legal framework is 'unviable'. That is, the proliferation of regulations and requirements is such that full compliance is impossible. The legislation is confused and contradictory. The law is seen as inappropriate and/or unfair (not justified).
Institutional weakness	Shortage of staff and money. Staff untrained and unmotivated.
Shortage of information	Insufficient knowledge about forest resources (database) and, more importantly, about how these evolve over time (monitoring). Insufficient exchange of information within and between government agencies, leading to decisions that often conflict. Insufficient dissemination of information among the actual users of forest resources.
Economic factors	The costs of production are lower for illegal timber than for legal timber, creating an unlevel playing field. This could be seen as a variation on the problem of the economic unsustainability of compliance with the existing legal framework.

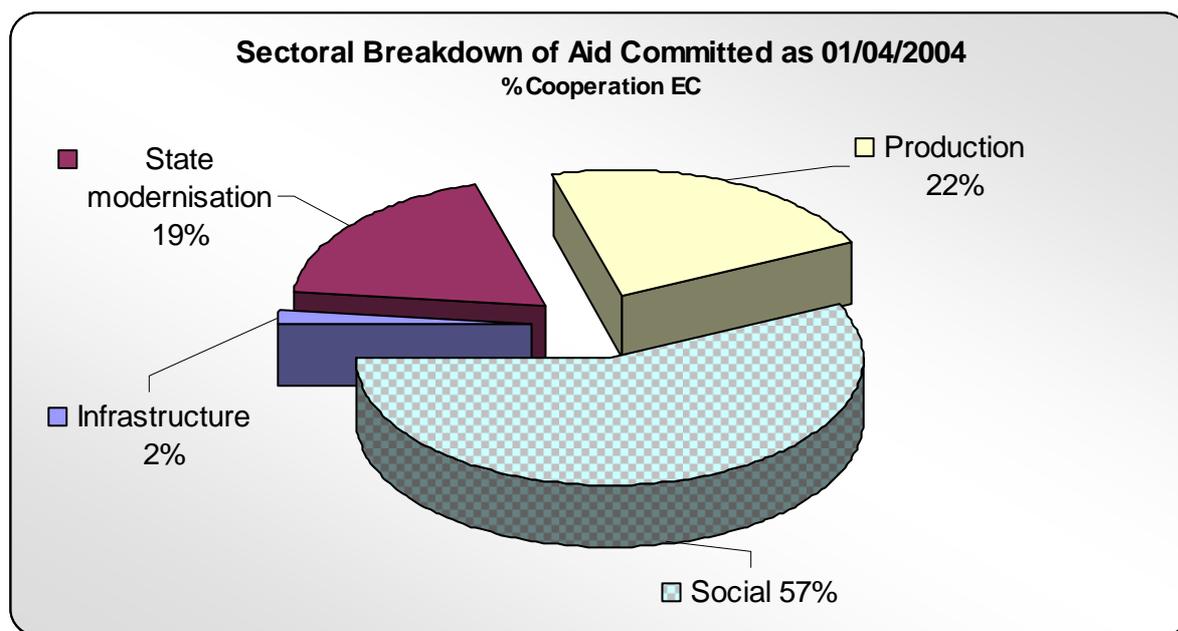
Honduras: Key Environmental Indicators

	Honduras	Latin America & Carib.	Low-income
Population (millions), 2000	6.4	516	2,048
Urban population (% of total), 2000	48.9	75.4	42.0
GDP (\$ billions), 2000	6	2,001	2,347
GNI per capita, Atlas method (\$), 2000	860	3,670	1,130
Environmental strategy / action plan (year prepared)	1993		
Agriculture			
Land area (1,000 sq. km)	112	20,062	43,596
Agricultural land (% land area)	29.8	37.9	33.4
Irrigated land (% of crop land)	4.3	14.0	24.1
Fertilizer consumption (100 grams/ ha arable land)	1,082	856	1,204
Food production index (1989-91=100)	116.2	133.5	155.9
Population density, rural (people/ sq. km arable land)	229	252	642
Forests			
Forest area (1,000 sq. km)	54	9,440	13,881
Forest area (% total land area)	48.1	47.1	31.8
Annual deforestation (% , 1990-2000)	1.0	0.5	-0.1
Biodiversity			
Mammal species, total known	173	..	..
Mammal species, threatened	9	..	..
Bird species, total known	422	..	..
Bird species, threatened	5	..	..
Nationally protected area (% land area)	6.0	7.4	4.9
Energy			
GDP per unit of energy use (PPP\$ / kg oil equiv)	4.5	6.0	3.7
Commercial energy use per capita (kg oil equiv)	522	1,171	1,146
Traditional fuel use (% total energy use)	55	16	6
Energy imports, net (% commercial energy use)	44	-39	-28
Electric power consumption per capita (kWh)	449	1,470	1,065
Share of electricity generated by coal (%)	..	5.2	42.9
Emissions and pollution			
CO ₂ emissions per unit of GDP (kg per PPP \$ of GDP)	0.3	0.4	0.8
Total CO ₂ emissions, industrial (,000 kt)	5.1	1,308.3	6,140.7
CO ₂ emissions per capita (mt)	0.8	2.6	3.1
Suspended particulate in largest city (microgr/m3)	..	..	..
Passenger cars (per 1,000 people)	52	119	24
Water & Sanitation			
Access to improved water source (% total population)	90	85	80
Access to improved water source (% rural population)	82	62	69
Access to improved water source (% urban population)	97	93	95
Freshwater resources per capita (cubic meters)	14,976	32,905	7,836
Total freshwater withdrawal (% total water resources)	1.6	..	..
Agriculture withdrawal (% total freshwater withdrawal)	91	74	76
Access to sanitation in urban areas (% urban population)	94	87	79
Access to sanitation in rural areas (% rural population)	57	48	35
Under-5 mortality rate (per 1,000 live births)	44	37	41
National accounting aggregates - 2000			
Gross national savings (% of GNI)	31.3	17.0	32.4
Consumption of fixed capital (% of GNI)	5.6	10.6	9.7
Net national savings (% of GNI)	25.8	6.4	22.7
Education expenditure (% of GNI)	3.5	4.2	2.9
Energy depletion (% of GNI)	0.0	5.1	10.1
Mineral depletion (% of GNI)	0.2	0.6	0.2
Net forest depletion (% of GNI)	0.0	0.0	0.1
CO ₂ damage (% of GNI)	0.5	0.4	2.0
Adjusted net savings (% of GNI)	28.6	4.4	13.1

ANNEX 6

COOPERATION WITH HONDURAS

EC COOPERATION PER SECTOR



Global External Cooperation **BREAKDOWN PER DONOR**

Contracted amounts in M€

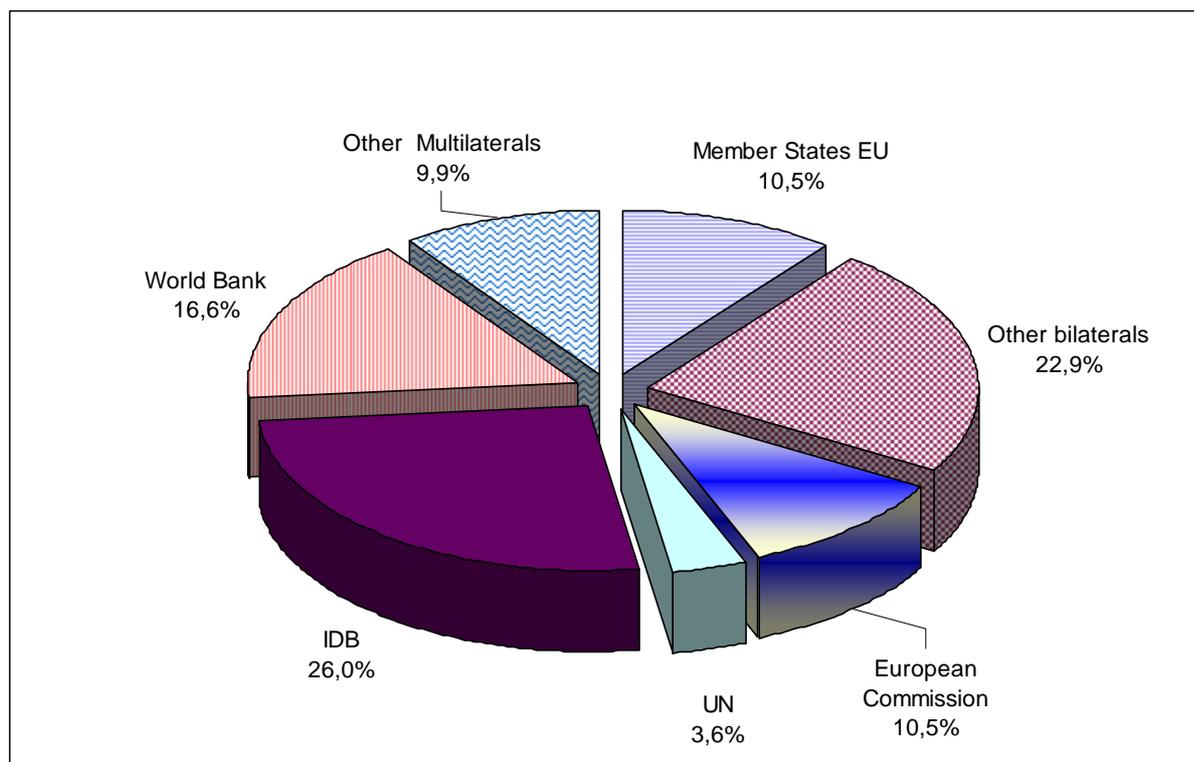
Exch. Rate USD/EUR 1,2943 €

COUNTRY/INSTITUTION	Contracted amount		Total	Total %	sub-tot %
	No Reimbolsable	Reimbolsable			
KUWAIT		34,30	34,30	1,5%	4,3%
KOREA		4,64	4,64	0,2%	0,6%
BELGIUM		13,98	13,98	0,6%	1,8%
USA	403,71		403,71	17,1%	51,1%
SWITZERLAND	8,44		8,44	0,4%	1,1%
SWEDEN	50,62		50,62	2,1%	6,4%
UK	4,38		4,38	0,2%	0,6%
JAPAN	30,31		30,31	1,3%	3,8%

IRELAND	2,36		2,36	0,1%	0,3%
ITALIA	2,59	35,17	37,76	1,6%	4,8%
NETHERLANDS	8,93		8,93	0,4%	1,1%
France	0,55		0,55	0,0%	0,1%
FINLAND	4,97		4,97	0,2%	0,6%
SPAIN	3,75	60,03	63,78	2,7%	8,1%
CHINA	8,53	7,78	16,31	0,7%	2,1%
CANADA	42,83		42,83	1,8%	5,4%
GERMANY	54,24	7,51	61,75	2,6%	7,8%
BILATERALS	626,20	163,41	789,61	33%	100%
OPEC		11,59	11,59	0,5%	0,7%
FIDA		54,01	54,01	2,3%	3,4%
NDF		27,84	27,84	1,2%	1,8%
EUROPEAN UNION	249,15		249,15	10,5%	15,8%
UNDP	22,37		22,37	0,9%	1,4%
CARE	0,99		0,99	0,0%	0,1%
VISION MUNDIAL	0,12		0,12	0,0%	0,0%
O.A.S	0,20		0,20	0,0%	0,0%
WFP	49,50		49,50	2,1%	3,1%
UNFPA	3,13		3,13	0,1%	0,2%
FAO	1,28		1,28	0,1%	0,1%
IDB	16,79	596,99	613,78	26,0%	39,0%
BCIE	0,89	137,41	138,30	5,9%	8,8%
WORLD BANK	64,24	328,49	392,73	16,6%	25,0%
UNICEF	9,09		9,09	0,4%	0,6%
MULTILATERALS	417,75	1.156,33	1.574,08	67%	100%
GRAN TOTAL	1.043,95	1.319,74	2.363,69	100%	

Ministry of Finances Donors April 2005

COOPERATION BY MAIN GROUP OF DONORS



COOPERATION OF EU MEMBER STATES AND EC (in USD)

Number of Projects	Country	Non reimbursable	Reimbursable	Total	% total aid HND	% total EU aid
1	Belgium		18.088.752	18.088.752	0,59%	2,81%
22	Sweden	65.516.188		65.516.188	2,14%	10,16%
6	UK	5.670.114		5.670.114	0,19%	0,88%
7	Ireland	3.058.182		3.058.182	0,10%	0,47%
8	Italy	3.350.110	45.522.360	48.872.470	1,60%	7,58%
10	Netherlands	11.522.398		11.522.398	0,38%	1,79%
1	France	713.075		713.075	0,02%	0,11%
2	Finland	6.430.643		6.430.643	0,21%	1,00%
66	Spain	4.853.718	77.695.718	82.549.436	2,70%	12,80%
17	Germany	70.199.195	9.723.754	79.922.950	2,61%	12,39%
36	EC	322.468.517		322.468.517	10,54%	50,01%
176	TOTAL	493.782.144	151.030.585	644.812.730	21,08%	100,00%

COOPERATION OF MAIN OTHER DONORS (in USD)

Number of Projects	Country / institution	Non reimbursable	Reimbursable	Total	% of total aid to HND
21	USA	522.519.282		522.519.282	17,18%
11	Japan	39.235.781		39.235.781	1,28%
100	IDB	21.731.976	722.679.606	744.411.583	25,97%
34	World Bank	83.147.376	425.168.023	508.315.400	16,62%

BREAK DOWN OF COOPERATION PER SECTOR

CONTRACTED AMOUNTS In M€

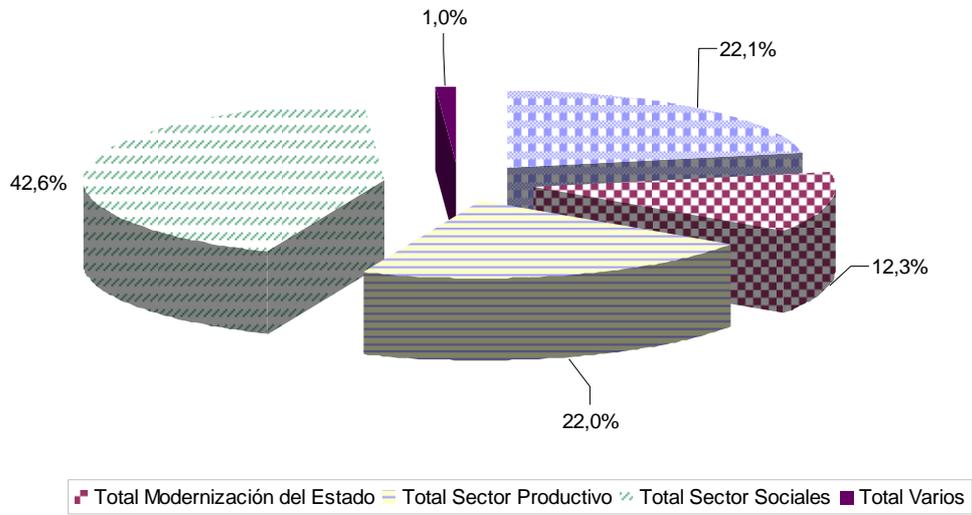
EXCH. RATE

USD/EUR 1,2943

Sector-sub Sector	CONTRACTED AMOUNT		Total Reimb. and Non Reimb.	%
	Non reimbursable	Reimbursable		
Communications				
Energy	10,28	78,58	88,87	3,8%
Hydro-electricity	18,77	-	18,77	0,8%
Bridges	0,11	-	0,11	0,0%
Transports	0,79	413,34	414,13	17,5%
Infrastructure sector	29,96	491,92	521,88	22,1%
Public administration	4,01	71,29	75,30	3,2%
Decentralisation	82,21	-	82,21	3,5%
Institutional strengthening	51,06	58,84	109,90	4,6%
Justice	23,29	-	23,29	1,0%

Transparency	1,08	-	1,08	0,0%
State Modernisation	161,65	130,14	291,79	12,3%
Agriculture	23,27	94,65	117,92	5,0%
Agro-industry	1,60	68,27	69,87	3,0%
Forestry	12,85	-	12,85	0,5%
Environment	128,07	75,16	203,24	8,6%
SMES	62,94	24,59	87,52	3,7%
Natural resources	6,44	-	6,44	0,3%
Tourism	1,16	20,96	22,12	0,9%
Productive sector	236,33	283,63	519,96	22,0%
Fight against poverty	1,08	43,50	44,58	1,9%
Culture	0,38	-	0,38	0,0%
Education	140,15	97,82	237,96	10,1%
Social promotion	85,19	93,24	178,43	7,5%
Health	150,11	74,24	224,35	9,5%
Basic sanitation	147,78	97,22	245,00	10,4%
Housing	59,81	8,03	67,84	2,9%
Others	8,06	-	8,06	0,3%
Social Sector	592,56	414,05	1.006,61	42,6%
Multi-sector programmes	23,45	-	23,45	1,0%
Others	23,45	-	23,45	1,0%
Grand Total	1.043,95	1.319,74	2.363,69	100%
Sources Ministry of Finances and Donors April 2005				

Global External Cooperation Contracted amount per Sector



Fuente: Base a información de Cooperantes y SEFIN a Abril 2005
Delegación de la Comisión Europea en Nicaragua

ANNEX 7 Global PRSP indicators

APPENDIX B1. GLOBAL PRSP INDICATORS																		
GOAL	INDICATOR (baseline year)	Base-line	2001 Rep.	2001 Goal ^{1,2}	Goal met in 2001 ¹⁷	2002 Rep.	2002 Goal ¹²	Goal met 2002 ¹⁷	2003 Rep.	2003 Goal ¹²	Goal met in 2003 ¹⁷	2004 Rep.	2004 Goal ¹²	Goal met in 2004 ¹⁷	2005 Goal	2006 Goal	2010 Goal	2015 Goal
Real GDP growth rate	% real GDP growth (2000) ¹	5.7	2.6	3.5	No	2.7	4.0	No	3.75	3.0	Yes	4.6 ¹⁹	3.75	Yes	4.2	4.5	4.5	4.5
Per capita GDP growth	% per-capita GDP growth (2000) ²	2.6	0.2	1.5	No	0.3	1.6	No	0.8	0.6	Yes	1.9 ¹⁹	1.1	n.a.	1.6	2.1	2.4	2.4
Social spending	Poverty spending as % of GDP (2000) ³	7.0	8.8	n.a.	n.a.	7.5	n.a.	n.a.	7.8	7.5	Yes	8.4 ¹⁹	8.1	Yes	8.7	9.4	9.7	9.7
Reduce poverty by 24 percentage points	Poverty rate (1999) ⁴	66.0	64.4	63.0	No	63.3	61.5	No	63.5	62.1	No	64.2 ¹⁹	60.2	No	58.4	57.3	50.0	42.0
Double net preschool coverage through 5 years	Extreme poverty rate (1999) ⁴	49.0	47.4	47.0	Yes	45.2	45.0	Yes	44.7	43.4	No	44.6 ¹⁹	41.5	No	39.7	38.5	32.2	25.0
95% net coverage for the first 2 cycles of primary education	Preschool education coverage rate (1999) ⁴	32.9	31.9	33.5	No	32.5	36.0	No	37.7	34.9	Yes	36.0 ¹⁹	35.7	Yes	36.5	38.6	42.0	60.0
70% net coverage for the 3 rd cycle (middle school) of primary education	Net coverage rate (excl. Over-age) for 1 st and 2 nd cycles (1999) ⁴	39.8	31.7	37.0	Yes	38.9	38.0	Yes	38.1	30.7	No	38.3 ¹⁹	31.2	No	31.7	32.5	33.2	35.0
50% of the emerging population completes secondary education	Coverage rate (excl. over-age) for the 3 rd cycle of primary education (middle school) (1999) ⁴	24.2	31.0	26.0	Yes	30.9	27.9	Yes	31.2	32.9	Yes	38.2 ¹⁹	35	Yes	37.3	39.7	51.1	70
Reduce infant and Under 5 mortality rate by half	Net coverage (excl. over-age) of Diversified Secondary cycle (10-12 grade) (1999) ⁴	12.4	12.0	13.6	No	17.5	14.9	Yes	18.9	19.0	Yes	21.3 ¹⁹	20.6	Yes	22.3	24.2	33.4	50.0
Achieve 80% coverage of electricity services	Infant mortality rate/1,000 live births (1996) ⁵	36.0	34.0	32.0	No	n.a.	31.0	n.a.	n.a.	32.0	n.a.	n.a.	30.0	n.a.	29.0	27.0	22.0	18.0
Triple the nation's telephone density	Under 5 mortality rate (per 1,000 lb.) (1996) ⁵	48.0	46.0	44.0	No	n.a.	43.0	n.a.	n.a.	43.0	n.a.	n.a.	41.0	n.a.	39.0	37.0	30.0	24.0
95% access to potable water and sanitation	Infant malnutrition rate (1996) ⁵	37.8	32.9	38.0	Yes	n.a.	36.0	n.a.	n.a.	30.9	n.a.	n.a.	29.9	n.a.	28.9	27.0	22.0	18.0
Reduce maternal mortality by half	Maternal mortality rate per 100,000 live births (1996) ⁶	147.0	108.0	143.0	Yes	n.a.	138.0	n.a.	n.a.	102.0	n.a.	n.a.	98.0	n.a.	95.0	93.0	82.0	70.0
Achieve 80% coverage of electricity services	Electricity coverage rate (1999) ⁷	54.9	57.5	n.a.	n.a.	60.1	n.a.	n.a.	62.1	61.7	Yes	63.7 ¹⁹	63.30	Yes	64.9	66.5	72.8	80.0
Triple the nation's telephone density	Fixed line density x 100 inhabitants (2000) ⁸	4.8	4.8	n.a.	n.a.	4.8	n.a.	n.a.	4.9	5.0	Yes	5.18 ¹⁴	5.2	Yes	5.4	6.1	9.7	14.1
95% access to potable water and sanitation	Mobile telephone penetration (users per 100 inhabitants) ⁸	2.5	3.6	n.a.	n.a.	4.9	n.a.	n.a.	5.6	5.5	Yes	8.85 ¹⁴	6.4	Yes	7.2	8.1	11.5	15.7
Reduce maternal mortality by half	% of population with access to potable water (1999) ⁴	81	n.a.	82.0	n.a.	81.3	84.0	No	81	82.1	No	82.2 ¹⁵	82.6	Yes	83.4	85.0	90.0	95.0
Achieve 80% coverage of electricity services	% of population with access to excreta elimination systems (1999) ⁴	70.2	69.4	71.0	No	67.6	72.0	No	68.6	70.7	No	76.7 ¹⁵	71.9	Yes	73.0	76.0	85.0	95.0
Raise human development index among women by 20%	HDI related to gender (1999) ⁹	0.6	0.62	0.65	No	0.6	0.7	No	0.65	0.65	Yes	n.a.	0.66	n.a.	0.7	0.7	0.7	0.8
	Gender empowerment index (1999) ⁹	0.5	0.45	0.46	No	0.5	0.5	No	0.43	0.47	No	n.a.	0.48	n.a.	0.5	0.5	0.6	0.6

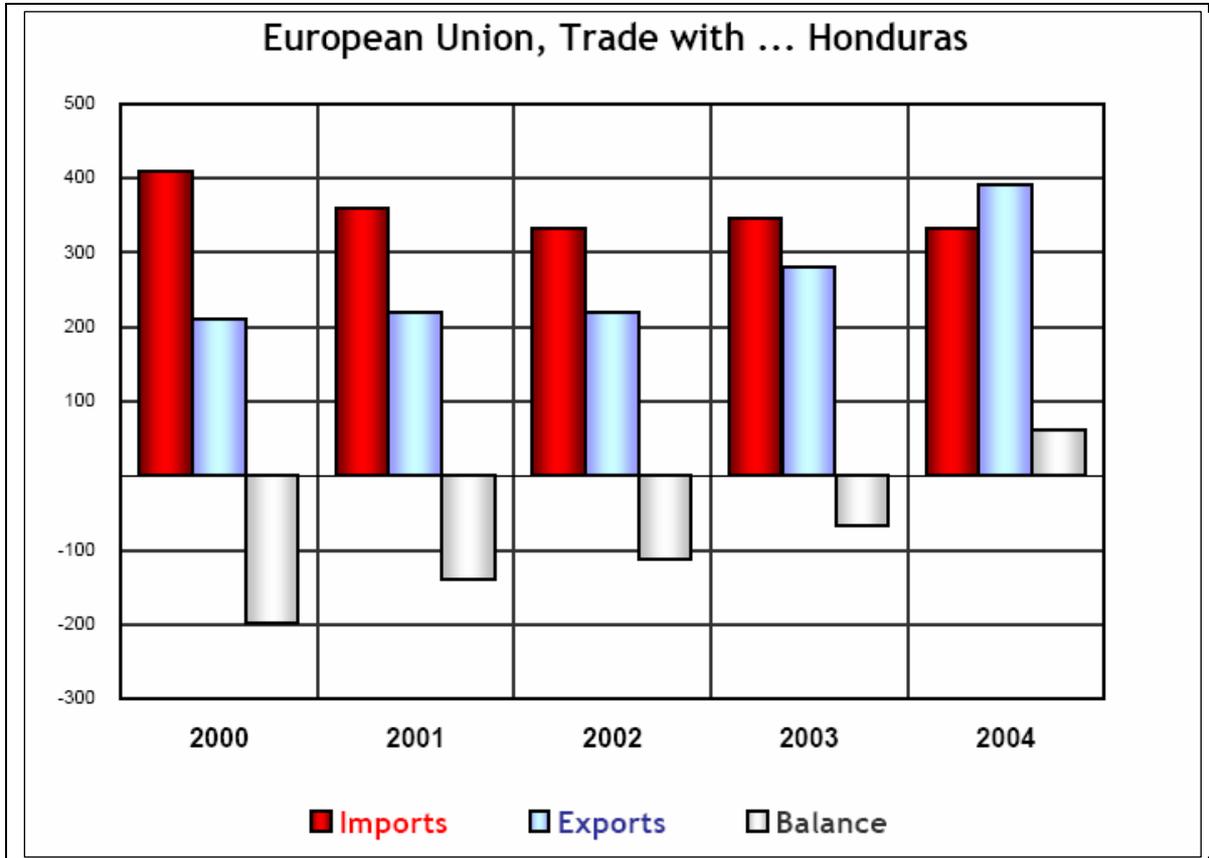
APPENDIX B1. GLOBAL PRSP INDICATORS

GOAL	INDICATOR (baseline year)	Base-line	2001 Rep.	2001 Goal ¹²	Goal met in 2001? ¹⁷	2002 Rep.	2002 Goal ¹²	Goal met 2002? ¹⁷	2003 Rep.	2003 Goal ¹²	Goal met in 2003? ¹⁷	2004 Rep.	2004 Goal ¹²	Goal met in 2004? ¹⁷	2005 Goal	2010 Goal	2015 Goal
Reduce the nation's environmental vulnerability	Number of priority protected areas (PPAs) with management plans (2000) ¹⁰	5.0	5.0	n.a	n.a	12.0	n.a	n.a	15.0	15.0	Yes	23 ¹⁴	23.0	Yes	31.0	39.0	39.0
	% of total surface area covered by priority protected areas (PPAs) with management plans (2000) ¹⁰	12.5	12.5	30.0	No	30.0	40.0	No	37.5	60.0	No	57.5 ¹⁴	75.0	No	79.5	100.0	100.0
	Air pollution in urban centers (ug/m ³ de PTS) (2000) ¹¹	668.7	739.2	618.8	No	n.a	583.9	n.a	708.0	n.a	n.a	n.a	n.a	n.a	n.a	n.a	n.a

1. BCH; 2. UNAT, with BCH and INE data; 3. SEFIN based on the new definition of poverty spending; 4. Estimates based on EPHIM; 5. ENESF; 6. Secretariat of Health; Research about maternal mortality and women of childbearing age in Honduras, 1997; 7. ENEE registries; 8. HONDUTEL/CONATEL registries; 9. Human Development Report (UNDP); 10. COHDEFOR yearly statistics; 11. SERNA (Center for the Study and Control of Contaminants CESCO); there was no monitoring in 2002 and monitoring for 2004 will be through December; 12. Data for this year are the revised goals, according to the First Progress Report; 13. For 2004, the estimate is based on the May 2004 EPHIM; 14. For 2004, the estimate is through September, according to the registries of the respective Secretariat; 15. The real GDP growth rate is a BCH projection and the per-capita GDP also uses INE population projections; 16. The data observed corresponds to PRSP Spending programmed and approved for 2004. It is worth mentioning that implementation had reached 7.2% of the GDP by September; 17. The goal is considered met if the difference between the value observed and the goal is no greater than 0.5%.

ANNEX 8

EXTERNAL TRADE



(Mio euro)

European Union, Trade with ... Honduras

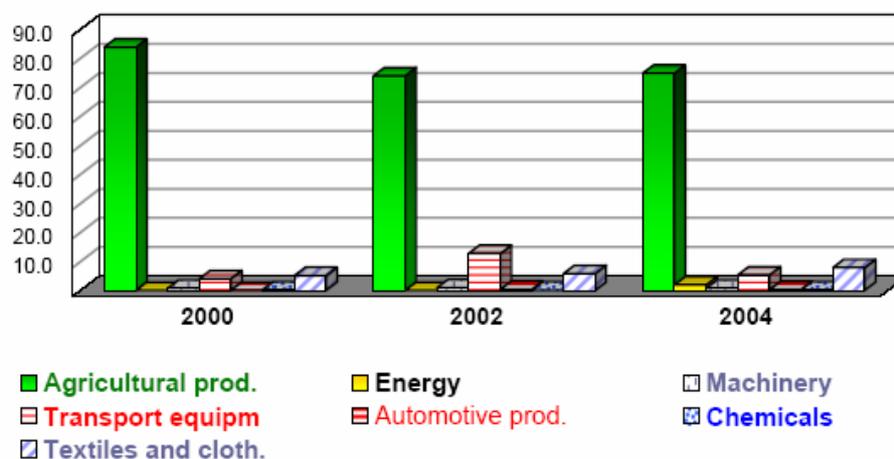
Year	Imports	Yearly % change	Share of total EU imports	Exports	Yearly % change	Share of total EU exports	Balance	Imports + Exports
2000	408		0.04	209		0.02	-199	618
2001	359	-12.0	0.04	219	4.7	0.02	-140	578
2002	332	-7.6	0.04	219	-0.1	0.02	-113	551
2003	347	4.4	0.04	279	27.7	0.03	-67	626
2004	331	-4.5	0.03	392	40.1	0.04	61	723
3m 2004	65		0.03	137		0.06	72	202
3m 2005	82	25.5	0.03	67	-50.8	0.03	-14	149
Average annual growth		-5.1			16.9			4.0

European Union, Imports from ... Honduras

SITC Rev.3 Product Groups	2000	%	2002	%	2004	%	Share of total EU imports
TOTAL	408	100.0	332	100.0	331	100.0	0.03
Primary Products	363	89.0	264	79.7	281	85.0	0.09
<i>of which:</i>							
Agricultural prod.	342	83.8	246	74.0	248	74.8	0.31
Energy				0.0	6	1.9	0.00
Manuf. Products	45	10.9	67	20.2	49	14.9	0.01
<i>of which:</i>							
Machinery	3	0.8	3	0.9	2	0.7	0.00
Transport equipm	17	4.1	42	12.7	18	5.4	0.02
<i>of which:</i>							
Automotive prod.		0.0	1	0.4	1	0.2	0.00
Chemicals		0.1		0.1		0.1	0.00
Textiles and cloth.	21	5.1	20	5.9	26	7.8	0.04

Imports (%)

from ... Honduras

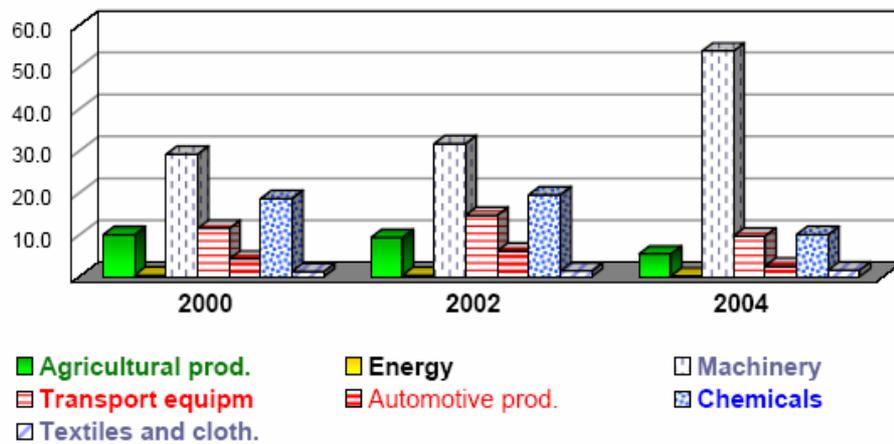


European Union, Exports to ... Honduras

SITC Rev.3 Product Groups	2000	%	2002	%	2004	%	Share of total EU exports
TOTAL	209	100.0	219	100.0	392	100.0	0.04
Primary Products	23	10.9	23	10.4	22	5.7	0.02
<i>of which:</i>							
Agricultural prod.	21	10.0	21	9.4	21	5.4	0.04
Energy	1	0.4	1	0.4		0.1	0.00
Manuf. Products	170	81.4	192	87.7	356	90.9	0.04
<i>of which:</i>							
Machinery	61	29.2	69	31.7	210	53.7	0.08
Transport equipm	24	11.5	32	14.7	38	9.7	0.02
<i>of which:</i>							
Automotive prod.	9	4.1	13	6.1	10	2.5	0.01
Chemicals	39	18.6	43	19.5	39	10.0	0.03
Textiles and cloth.	3	1.3	3	1.3	6	1.6	0.02

Exports (%)

to ... Honduras



The major trade partners

Partners	Mio euro	%
World	9 583	100.0
1 USA	5 457	56.9
2 EU	840	8.8
3 El Salvador	297	3.1
4 Mexico	198	2.1
5 Korea	136	1.4
6 Costa Rica	133	1.4
7 Guatemala	131	1.4
8 Japan	116	1.2
9 China	105	1.1
10 Venezuela	102	1.1
11 Canada	98	1.0
12 Hong Kong	73	0.8
13 Nicaragua	71	0.7
14 Brazil	68	0.7
15 Chile	51	0.5
16 Panama	48	0.5
17 Trinidad Tobago	47	0.5
18 Colombia	44	0.5
19 Russia	42	0.4
20 Dominican Republ	35	0.4

Imports + Exports

Partner regions	Mio euro	%
World	9 583	100.0
NAFTA	5 753	60.0
Latin America	1 210	12.6
EU Candidates	13	0.1
EFTA	24	0.3
Medit. Countries*	10	0.1
ASEAN	52	0.5

Source: European Commission, DG Trade

ANNEX 9

POLICY MIX MAIN DEVELOPMENT POLICIES AND OTHER INSTRUMENTS

To assess the coherence of Honduras CSP, this annex presents the relevant EU policies and guidelines affecting the country. All those policies have a link with the past and future EC development policy toward Honduras. For each, the different categories and levels of EU intervention are addressed, assessing their complementarity and coherence:

- cooperation instruments : bilateral, sub-regional and regional, with a special focus on the consistency of horizontal programmes and other financial instruments such as thematic programmes;
- regulatory instruments and international agreements
- policy dialogue and political dialogue (bilateral and regional)

Trade & development

Article 133 of the EU Treaty constitutes the legal basis for the EU's trade policy. It states that the objective of the Union's commercial policy is «*to contribute, in the common interest, to the harmonious development of world trade, the progressive abolition of restrictions on international trade and the lowering of customs barriers*». It covers all the main aspects of trade in agricultural and non-agricultural goods, services and also key aspects of trade related aspects of intellectual property, investment and competition.

The main objective of the Union's trade policy towards Central America is:

- to strengthen and expand bilateral trade relations between the EU and Central American countries on the basis of transparent and non-discriminatory multilateral rules, and notably by means of strengthening our cooperation through the WTO negotiations launched at Doha.
- to support the regional trade and economic integration process in Central America.
- to support Central America in fulfilling its international commitments in particular in the fight against drug trafficking, the promotion of international labour standards, Human Rights and environment protection, by autonomously granting market access to EU markets via the GSP scheme.
- to support the Central American countries' integration into the world economy through the implementation of their existing WTO commitments and by assisting them in the negotiations and implementation of new commitments resulting from the new WTO round (Doha Development Agenda).

The strategy set out in this CSP is in line with these overall objectives. While not specifically targeting trade-related assistance per se, it will contribute to improving the general business and investment climate by addressing security and governance issues, thus reinforcing Honduras's drive towards world and regional integration. In particular, it will support its efforts in two critical dimensions of the regional integration process: the sustainable

management of natural resources/prevention of natural disasters and combating public insecurity.

In addition, considerable support in trade-related matters is due to be provided as part of the EU Regional Strategy Paper for Central America and Latin America.

However, for the third item, Central America and Honduras in particular are seeking a deeper relationship notably through an association agreement, since Honduran authorities consider this to be a much more powerful tool to attract FDI.

Support in trade-related matters is provided by the RSP for Central America and Latin America.

Common Agriculture Policy (CAP)

The "*Common Agricultural Policy*" (CAP), created by the Treaty of Rome, sought to increase the productivity of European agriculture, ensure reasonable living standards for farmers, stabilise farm produce markets and guarantee a stable food supply at fair prices for consumers. Since then, many changes have been made to the CAP, modifying price policy (reduction of price support), restricting market intervention, regulating output and introducing a system to control spending on agriculture involving an adjustment of market management to restore market balance; more assistance is provided for social and environmental measures to stimulate development in rural areas. Those changes focussed on the changes in a global economy and the need to implement WTO commitments to reduce market distortions.

There are few agricultural commodities covered by the CAP which compete with Central American products. Bananas are a notable exception, since the EU is an important destination for Central American products, including from Honduras. Central American banana producers have voiced concerns about the impact that some recent EC decisions could have on their market access to the EU, and Honduras associated itself with other Latin American countries to present a common position against the EC recent trade initiatives in this field.

By improving the general business and investment climate and boosting Honduran exports in the field of forestry, this strategy should alleviate Honduras's dependence on traditional exports like bananas, and thus cushion the possible effects of international trade fluctuations in this field.

Sanitary and phytosanitary control Policy – consumers protection

In its external dimension, the Community policy in this sector aims to ensure a high level of protection of health, the safety and economic interests of the consumers, as well as the protection of public health in the EU. The implementation of this principle may sometimes be perceived, by some economic sectors of some third countries, as a measure of non-tariff trade protection that prevents the access of some products – mainly agricultural, but also meat - to the European markets, even if the same principles and standards are applied to European-made products.

At the same time, some Central American countries have raised concerns about non-reciprocal treatment by the EC in the implementation of certain Community principles of health inspection, such as that of regionalisation but also the approval of control institutions. The differences between the US and the European SPS systems cause further confusion .

In the field of SPS requirements (Sanitary and Phytosanitary Measures); Honduran experts are benefiting, like other developing countries, from specific EU training.

Following the settlement of the case regarding shrimp exports, there have been no reports of trade disputes in this field between Honduras and the EU. The lack of information and the relative weakness of SPS controls and bodies in Honduras would justify, however, the provision of specific technical assistance on a case-by-case basis, should new cases occur in the future.

Internal market

The principal aim of this policy is to strengthen the process of economic integration for a liberalisation of the markets as well as the development of a legislative framework compatible with that of the EC in order to ensure a suitable level of protection of industrial and intellectual property, prevent money laundering, protect personal data and guarantee minimum standards for public calls for tender, avoiding any kinds of restrictive measure of the markets.

Regulatory convergence is a factor of mutual benefit, by supplying trade and investment and favouring the investments of EU companies abroad.

Competition policy

The case for applying competition policy to EU relations with third countries, mainly in the negotiation of trade agreements, is based on the establishment of a stable and clear legal framework for the relations between economic operators, in order to prevent commercial conflicts.

At the same time, discriminatory treatment between companies of both parties is avoided with respect to direct investments or access to the services market. Likewise, the EU takes part in multilateral co-operation in this sector in the framework of the World Trade Organisation (WTO). The WTO working group on "trade and competence" examines the possibility of strengthening the convergence of policies, for which a multilateral horizontal action might be explored by the EC.

Honduras raises some concerns in terms of legal certainty, which is linked to the global governance problem. The issue of competition policy is particularly relevant in the context of a possible Association Agreement between the EU and CA.

Research and development policy

In the EU, international co-operation in this area is covered by the Research Framework Programmes through two principal axes:

- An international co-operation dimension for each thematic research programme and,
- a specific international S&T Co-operation programme that contributes to the solution of common or sustainable development problems in third countries and regions,

It should be noted that specific instruments of the EU Research Framework Programmes, that will be continued further under the 7th Research Framework Programme (2007-2013) also support research collaboration:

- Exchanges of researchers from third countries are highly encouraged at all stages of research careers in FP6 under the Marie Curie activities,

- under the ERA-NET scheme the coordination of the bi-lateral cooperation programmes between EU Member States and Third Countries will be further reinforced.

Moreover S&T Promotion Platforms recently launched with Latin-America will further develop other possibilities for Honduras widening our partnerships from a predominately bilateral to a bi-regional context.

In view of the traditionally weak R&D sector in Honduras, the continuation of this initiative and a higher participation of Honduras in it would be important for fostering cooperation in this field. Specific to Honduras, it should be noted that the field of renewable energies could prove of utmost interest in Honduras and should be further explored.

In addition, specific programmes developed in the Regional Strategy Paper for America Latina complement the R&D policy, especially in the area of higher education and cooperation between academic institutions (ALFA, AL AN). The R&D policy usefully complements the CSP in this field, by strengthening links between Honduras, Latin America and Europe. However, the participation of Honduras in such regional programmes has remained modest and should be further encouraged.

Governance, capacity building, rule of law

This is one of the decisive components for policies and reforms toward social cohesion. The level of social cohesion, economic development, environmental sustainability and human rights are depending on the quality of governance. Good governance is a critical factor for reaching the Millennium Development Goals even though there is no specific indicator related to it. The October 2006 conclusions of the Council and the Representatives of the Governments of the Member States, meeting within the Council, and the August 2006 communication of the Commission “*Governance on the European Consensus for the Development – Towards a harmonised approach within the European Union*” both propose a coordinated policy towards governance by: :

- using the external dimension of community policies,
- making use of political dialogue and development aid programming to encourage change and to adopt the requisite support measures,
- developing a common approach of the EU Member States, the Commission, the other donors and international organisations to support partner countries,
- developing a consistent common approach to promote all aspects of democratic governance.

The present strategy takes into account these recommendations. In the case of human rights and democracy, the EC mobilises support through the European Initiative for Democracy and Human Rights instrument ([see below](#)).

By targeting the social sectors, forestry and public security, this strategy will strongly reinforce social cohesion and governance, and is fully in line with all the above-mentioned orientations. In addition, it should be bolstered through the specific instrument IEDDH, which addresses more particularly the issues related to the protection of Human rights and democracy. The establishment of a proper EC delegation in Honduras will allow the EC to

monitor developments in these fields and play an active part in donor coordination. In terms of governance, the issue of checks-and-balances, the fight against corruption and the independence of the judiciary should assume a growing importance in the political dialogue between the EC and Honduras.

Employment, Social Affairs and Equal Opportunities

Employment is a crucial factor to achieving a high level of social cohesion. In this respect the EC promotes decent work for all in line with the ILO agenda. Core Social Responsibility (CSR) is a concept whereby companies integrate social and environment concerns in their business operation and their interaction with stakeholders on a voluntary basis. Respect for fundamental labour rights is thus a key element of the EU policy. Socially responsible initiatives by entrepreneurs have a long tradition in Europe, but CSR has also a global nature, embracing issues of global governance and liberalisation, including the social and environmental dimensions.

This agenda is closely related to social cohesion and regional integration, with a convergence of policies and interest.

In the field of labour policy, Central America has recently reaffirmed its commitments to the ILO principles and fundamental labour rights through a declaration made on 30 June 2005 by labour ministers and representatives of employers and labour in support of the development of employment and “decent jobs”. The fundamental aims of this programme include promotion of international labour norms, employment creation, expansion of social protection and strengthening social dialogue.

The rationale of the current programming for Central America is to address social cohesion issues at country level on the grounds that improvements in this area should be mainly based on national efforts. Complementing this, the main objective of the 2007-2013 Regional Strategy for Central America will be to support the process of political, economic and social integration in the context of preparing an Association Agreement with the EU

Human rights, democracy, indigenous peoples and democracy

Democracy, the rule of Law, Human Rights and the fundamental freedoms are basic principles of the European Union, and national Governments are responsible for the respect of those principles. The EC has developed different instruments in this regard, and raised a number of thematic issues. The understanding of this transversal nature requires a considerable effort to ensure coherence. The EC has identified three main areas of action:

- Stimulate coherent support policies, seeking better coherence between cooperation and external relation, consistency between the EC and Member States, and integration of these issues as cross-cutting issues within other EU policies and actions.
- Give greater priority to Human Rights and democracy in relations with third countries,
- Have a more strategic focus when addressing the relevant programmes and projects.

These considerations are of particular relevance for Honduras. The present CSP will strongly support this policy by upholding human rights and democratic principles in each of its focal areas. Although Honduras was not a target country within the specific budget line dealing with this dimension (IEDDH - European Initiative for Democracy and Human Rights), the

revised IEDDH instrument should nonetheless continue to promote democracy and human rights in this country. Among the priorities to be pursued, one could mention the strengthening of the traditionally fragmented Honduran civil society and its inclusion in regional/international fora and institutions, with a view to achieving a more consistent and substantive policy dialogue between representative organisations of civil society and the relevant national authorities. This seems particularly important in the following fields:

- *The protection of children's rights and the fight against juvenile crime*
- *The protection of environment and the preservation of natural resources*

The existence of more structured, authoritative and influential civil society organisations in the above-mentioned fields would thus reinforce the synergy between the EC bilateral cooperation and the IEDDH.

In addition, the Andean and Central American countries have received special treatment within the framework of the Generalised System of Preferences linked to their international commitments in Human Rights.

Environmental policy

The priorities of the environmental policy for Central America are defined at three levels:

- Objectives and principles included in the 6th Community Environment Action Programme (6EAP, 2002-2011): climate change, biodiversity, health and quality of life, natural resources and waste.
- Mainstreaming the environmental dimension into development policy, stressing the links between environment and poverty, and between environment policy and disaster management;
- Pressing Central American countries to implement their international commitments under the multilateral environmental agreements.

Those objectives involve major changes which go beyond the competence of environmental organisations. They should address governance, education, economic policy and other sectoral policies. The integration of the environmental dimension into social cohesion is a principle that the EC is trying to raise through policy dialogue. In this context, the Andean and Central American countries have received special treatment within the framework of the Generalised System of Preferences, linked to their international environmental commitments.

Environment is also addressed by the regional strategy for Latin America and horizontal programmes (e.g. education/ALFA; trade and Investments/AL-INVEST; local management/URB-AL). A specific assessment has been carried out at the level of Central America to determine the environmental profile of the region.

The EC Communication on water management also constitutes a cross-cutting strategy, which should be articulated with the various policies to support social cohesion, regional integration, food security, and other crosscutting issues. The Communication suggests providing a framework for water security, both in terms of quality and quantity, for all developing countries, with a view to achieving sustainable development. Water management policy is linked to other policies: land use management, social policy such as health, disaster

prevention, economic development, food security, agriculture and rural development, regional integration and cooperation, good governance, trade, transport, gender equality. The communication suggests that donors must pool their efforts to assist partner countries, raising the issue on the political agenda and promote a shift in thinking in order to apply a genuinely integrated approach.

Obviously, the preservation of environmental resources – particularly forestry - remains an issue of the utmost concern for Honduras, and the paramount importance of environment justifies that this dimension be tackled, in a consistent fashion, with the whole range of available EU instruments (bilateral, thematic, regional and trade-related). The selection of this topic as one of three focal areas of this CSP is further proof of the continued priority attached to it by the EC. Moreover, environment is also addressed by the regional strategy for Latin America and horizontal programmes (e.g. education/ALFA; trade and Investments/AL-INVEST; local management/URB-AL). Finally, the Andean and Central American countries have received special treatment within the framework of the EU Generalised System of Preferences, taking into consideration their international commitments in this field.

Over recent years, two specific horizontal budget lines have addressed the environmental challenges. The 2004 evaluation concerning the Environment and Forest regulations concluded that “Forest issues [were] not adequately reflected in CSPs” and that these budget lines should be more closely in tune with the general objectives set by the EU, while some concerns were expressed about the sustainability of some specific projects and their consistency with the national policies. The inclusion of clearer, country-specific terms of references in the calls for proposals, in line with the political priorities of the EC, may help achieve a better focus. The general need expressed in the evaluation to reinforce the long-term sustainability of forest programmes arguably justifies the introduction of forestry as part of the geographical cooperation and, to the extent possible, the implementation of such programmes under the budget support procedure.

To ensure the widest possible coverage of the various EC interventions, and in view of the prominence given to forestry issues as part of the present CSP, the thematic budget lines could give priority to water-related projects in their selection of projects, bearing in mind that both dimensions (water and forestry) remain intimately intertwined. The Water management communication and the EU Water initiative should also constitute an important reference basis.

The importance and the political sensitivity of this sector, as well as the variety of cooperation instruments at the disposal of the EC, call for the development of a sustained, high-level policy dialogue in this field.

Health and poverty

Social cohesion is at the centre of EU-LA relations, and the EC health policy establishes the link between health and poverty, and between health and well-being and development, including a reference to AIDS and other contaminating diseases. There is a consensus to make assistance more efficient, with more ownership and participation by the recipient States. In Honduras, health is a sector largely financed by external assistance.

By firmly targeting the social sectors (Health and Education) as part of general budgetary support to the Honduran PRSP, the present strategy is perfectly in line with this orientation. The selection of the CSP priorities in health takes into consideration the fact that EC assistance specifically related to AIDS, tuberculosis and malaria has been essentially

provided through a different, multilateral channel (the Global Fund initiative). Recent developments in this respect indicate that the EC should continue contributing to this global initiative, while pressing for prevention issues to be given due priority in Honduras.

In view of the structural reforms needed in Honduras, the new regional programme “Euro-social” should also be used to support capacity-building projects in health.

Conflict prevention

In its communication on conflict prevention, the Commission stated its intention to focus its co-operation programmes more clearly on addressing the root-causes of conflict in an integrated manner. In this context, the Commission will seek to incorporate specific conflict prevention (or resolution) measures into its various sector programmes.

While Honduras is not involved in any open conflict, the increasingly worrying phenomenon of violent youth gangs operating in this country poses a growing challenge to both domestic and regional stability. From this viewpoint, the priority given in the present CSP to combating public insecurity and juvenile delinquency can arguably be seen as a contribution to the wider EC objective of “conflict prevention”, and is in line with the general EC policy aimed at tackling root-causes of potential conflicts before they assume greater proportions and run out of control. In a more general perspective, the strong emphasis put on “social cohesion” as part of the present strategy also constitutes a contribution to conflict prevention.

Linking emergency aid, rehabilitation and development

Emergency aid looks after the immediate needs of populations affected by crisis. Rehabilitation is geared to supporting the medium-term resumption of the development capacity of the affected populations. There is no standardised model for linking emergency to rehabilitation and rehabilitation to development.

The “sequencing” between emergency, rehabilitation and development has been of particular relevance for Honduras and Central America in the aftermath of hurricane Mitch. The Regional Programme for Rehabilitation and Reconstruction of Central America (PRRAC) has helped Honduras overcome the post-hurricane challenges and resume its development path. In practice, this programme has undergone a certain evolution and its thrust has gradually been shifted from post-emergency to more development-related projects. It is now drawing to a close, which means that the bulk of EC assistance to Honduras from now on will be channelled through geographical cooperation (CSP), thus probably raising expectations in terms of achievement.

In parallel, ECHO’s regional disaster preparedness programme (DIPECHO) offers assistance to vulnerable communities living in the most disaster-prone regions, in an attempt to reduce the impact of natural disasters. It has increased the response capacity at local level by incorporating and coordinating activities at local, national, and regional levels. However, the relative progress made at local and national level has yet to be matched by more coordinated response mechanisms at regional level, which should receive continued support in the coming years.

In view of Honduras’s persistent vulnerability to natural disasters, it is obvious that the means available under the abovementioned programme are not commensurate with the magnitude of the needs, hence the strong emphasis put on the forestry sector in the present strategy in order to enhance disaster prevention.

Migration, justice and home affairs:

The current policy on immigration could potentially be relevant to Honduras because of the ever-increasing importance of remittances for the Honduran economy. For the moment, however, the bulk of Honduran immigrants work in the US and only a very limited number have settled in the EU. Two issues seem of particular interest for Honduras

- *How to lower the cost of international money transfers*
- *How to channel remittances towards development-related projects.*

By strongly tackling social cohesion and trying to offer more employment and education opportunities to the youth, this strategy will contribute to lowering the emigration pressure in Honduras.

Information Society

The main co-operation objectives pursued with Latin America in the Information Society field are the following:

- Promoting social cohesion through the development of an inclusive Information Society, combating the digital divide within and between countries and regions and contributing to governance and to the economic and social development of Latin American countries;
- Fostering regional integration and the integration of Latin American countries in the global Information Society;
- Promoting investment and strengthening commercial exchanges with Latin America, by creating a favourable environment in the region, notably by promoting efficient regulatory and policy frameworks, as well as open and global standards;

These objectives are specifically addressed by the Latin American regional strategy and the @lis programme. It includes a regular high-level policy dialogue between Latin America and the European Union.

Food security, rural development and sustainable resource management

The European Commission recognises that rural poverty is a multi-dimensional problem, which includes low incomes, inequity of access to the production factors, low health and education standards, degradation of natural resources, vulnerability to natural disasters, and limited political power. Rural development strategies should tackle all these issues and incorporate rural poverty strategies such as food security and sustainable natural resources management.

At national level, the European Commission sets out a policy of adapting its actions to the specific national context and of encouraging political and sectoral dialogue which includes the private sector, civil society and NGOs.

All issues related to rural development are particularly acute in Honduras, which has traditionally benefited from EC assistance in Food security and rural development. The forestry component of the present strategy is fully in line with this long-standing policy, while extending its coverage to the relatively new dimension of sustainable management of forestry resources. By supporting the forestry sector, it will explore a potentially very promising dimension of rural development and increase food security while reducing the country's vulnerability to natural disasters. An adequate combination between the CSP and the new thematic programme for Food security appears necessary due to the persistent level of food insecurity in Honduras.

Integration of the gender factor

The Community's strategy on gender equality sets out a global framework to promote equality between men and women in five areas: economic life, equality of participation and representation, social rights, civil life and roles, gender stereotypes.

Gender issues remain an important concern in Honduras, especially in view of persistent domestic violence, increasing female participation in gang structures, and the ever-growing role played by women-led households in economic development as a result of male emigration. As a cross-cutting issue, the gender dimension has thus been duly incorporated in all the components of the present CSP. Besides, gender issues should continue to be addressed through dedicated budget lines dealing with NGOs and Human rights, so as to increase the profile of women's organisations in the civil society and better reflect their ever-growing role in family life as well as their contribution to the Honduran social and economic development.

Participation of Non-State Actors (NSAs) in development

The European Commission's policy is based on acknowledging that strategy ownership is key to the success of development policies. Therefore, the largest possible participation of all segments of the society must be encouraged and actively sought, respecting both the particular situation of each partner country and the central role of the Government and local authorities. Apart from involving NSAs in the present strategy, the Commission is providing direct financing to NSAs through thematic programmes.

In addition to the sector budget lines presented in other chapters, the Commission has been co-financing development activities proposed by NGOs for many years. Gradually, priority has been given to activities initiated by partner organisations and to larger projects. That financing was concentrated in two budget lines: the Co-Financing and Decentralised Co-operation. The aim of these budget lines and the new NSA and Local Authorities Programme is to add a specific dimension to EU development co-operation.

The present strategy is in line with the support traditionally offered by the EC to NSAs, while attempting to facilitate the involvement of NSAs at the core of development policies. As such, the sector-wide approaches advocated by the present strategy are predicated upon the existence of a functioning dialogue between State and non-State actors in designing sector strategies and monitoring their results ("sector round-tables"). It thus contributes to the empowerment of NSAs, enhancing their institutional profile and visibility while facilitating their recognition by the state authorities as worthwhile partners.

Obviously, this "indirect" contribution should not preclude in any way the continuation of dedicated support programmes in favour of NSAs and the co-financing of development

activities proposed by NGO. To the extent possible, this support should aim at coordinating the work of the traditionally highly fragmented community of Honduran NSAs, so as to help them team up and join forces around collective platforms, which could in turn make a valid contribution to every sectoral policy developed in Honduras. From this perspective, fostering, the coordination of those NSAs operating in the environment and crime prevention sectors, by means of dedicated projects, would reinforce the impact of this strategy.

The EU drug strategy

At the external level, the EU drug strategy is based on strengthening coordination in the fight against drugs and on supporting the development of relations between third countries and the EU. The EU action is guided by the principle of shared responsibility: that is, partnerships with third countries that address their overall social and economic development. This has been given concrete form by the EU-Latin American Action Plan of Panama adopted and ratified in 1999.

One should recall the special treatment received by the Andean and Central American countries, within the framework of the Generalised System of Preferences, to support their efforts in combating drugs.

The objectives of the present strategy are consistent with the instruments put in place by the EC in its relations with Central America to fight drug trafficking. The Latin American regional strategy includes a new specific provision between the EU and Latin America, in addition to the *ad hoc* policy dialogue.

Honduras is a transit country, in which drug trafficking can rapidly become a source of social and political destabilisation. There are clear indications that Honduras' role as a transit country to the US has been increasing over recent years. Drug traffickers increasingly use the services of youth gangs to deal drugs, engendering violent turf-fights among them and a loss of community cohesion and increasing drug abuse. Indeed, many gang members have become addicted to drugs as a result. The component of the present strategy aimed at fighting the gang phenomenon will thus contribute to the fight against drug trafficking. Moreover, the Latin American regional strategy will also address drug trafficking.

Education and training

The Commission recognizes the vital importance of education in reducing poverty. Education priorities for the Community are: basic education, in particular primary education and teacher training, work-related training, and higher education - especially at regional level.

At the level of primary education, the Commission is participating in the "Education-for-All" initiative (EFA-FTI). It is committed to improving the efficiency of the education system, emphasising both a qualitative and quantitative approach to education. At the level of higher education, the focus is on institutionalizing networks, exchanges of students, teachers and professors between Europe and the rest of the world.

In line with this general approach, the present strategy has made education one of the key priorities of the Commission's cooperation policy with Honduras, with a particular emphasis on secondary and technical education. At the level of higher education, Honduras is participating in the regional projects AL AN and ALFA while primary education is addressed through the Education for All initiative.

Economic and financial affairs

In its international policy on economic and financial affairs in relation to Latin America, the Commission has two main priorities underpinning the global agenda toward Latin America: to foster macro-economic stability and convergence, and to promote social cohesion.

In matters related to macro-economic convergence, the Commission participates in the policy dialogue among policy makers of Latin America, passing on its own experience.

This exchange of experience is crucial for supporting regional economic integration, and is significant in helping the Central American integration agenda. Activities are financed or will be financed at the level of the Latin American RES. Among other actions, the Commission contributes to supporting activities of the Economic Commission for Latin America and the Caribbean (ECLAC).

Fisheries and Maritime Affairs

The objective of the common fishery policy is to protect fishery resources by regulating catches, to help the fishing and aquaculture industries to adapt to the constraints of the market, and to maintain a common organisation of the market.

Regarding third countries, the objectives are to set up fisheries agreements and to negotiate common conservation measures in deep-sea fisheries, in order to guarantee both conservation and sustainable exploitation of fish resources. This includes close collaboration with developing countries and support for efforts to combat illegal and unregulated fishing

Transport

In the recent Communication on the Community's external aviation policy, one of the short-term priorities is to rectify the existing legal problems with third countries. At the same time, the relations between the EU and Honduras in air transport have highlighted the need to remove some outstanding legal problems. Currently, some flight restrictions concerning European air carriers are no longer compatible with EC law and dialogue needs to be initiated with a view to signing a Horizontal agreement on this issue.

ANNEX 10

SUMMARY OF REGIONAL STRATEGY FOR CENTRAL AMERICA

The guiding principles that will underpin the 2007-2013 regional strategy for Central America can be set out as follows:

- *Strengthening political and economic relations between the EU and Central America*, which is the main instrument for facilitating the negotiation and implementation of an Association Agreement based on the mutual interest of both regions;
- *Contributing to the sustainable socio-economic development of Central America*, which would be the key instrument for developing classical development cooperation activities as set out in the 1993 Framework Cooperation Agreement and the Cooperation Chapter of the 2002 Political Dialogue and Cooperation Agreement signed between the EU and Central America;
- *Supporting the consolidation of the process of regional integration in Central America*, for which the Commission would provide support to the Central American integration agenda, building on the current regional cooperation programme channelled through the SG-SICA, SIECA and other regional institutions and taking advantage of the comparative advantages and specialised knowledge of the Commission in the area of regional integration.

Regional integration is not only a means of promoting political stability and sustainable development, but also constitutes a fundamental element of the strategic objective that is common to the EU and Central America, namely the negotiation of an Association Agreement including a Free Trade Agreement. In this context, focusing cooperation on supporting the process of regional integration in Central America is fully in line with the Commission's priorities, reiterated in Guadalajara, and will enable the Commission to capitalise on the solid basis established under the current regional strategy. It is underlined that the Commission is essentially the key actor in supporting by means of grant funds the process of establishing a customs union, developing and implementing common policies and strengthening regional institutions.

In principle, support for increasing social cohesion - the other key challenge that confronts the Central American region - will be provided through the country-level strategies; this will also be the case for sectoral initiatives, including areas such as education, health, rural development and decentralisation.

Thus the main objective of the 2007-2013 Regional Strategy for Central America will be to support the process of political, economic and social integration in the context of the preparation of an Association Agreement with the EU. Within this objective, three groups of potential interventions can be considered.

The first group will include the **strengthening of the institutional system of the process of Central American integration**. In this context, cooperation may be directed to regional institutions, inter-governmental systems of coordination and national entities involved in the

integration process. It is stressed that this support will be limited to the involvement of these institutions in matters that are strictly related to regional integration. Specific provision will be made to include the participation of civil society in the preparation and implementation of programmes in support of the regional integration process.

ANNEX 11

PARTICIPATION IN REGIONAL COMMUNITY PROGRAMMES

Overall, Honduras's participation in regional programmes covering Latin America has been limited and Honduras does not play a leading role in any of the regional programmes.

Alβan - European Union Programme of High level Scholarships for Latin America

The percentage of scholarships awarded to Honduran nationals together in the 2003 and 2004 calls represents about **0.6 %** of the total number of scholarships awarded to all of the LA countries.

ALFA II - Latin America Academic Training

Eligible Higher Education Institutions (HEIs) from Honduras participate in **2** of the **208** approved projects of ALFA II in the context of the first 9 selection rounds (involvement in **just 1% of the projects**). The HEIs from **Honduras** do not co-ordinate any of the above-mentioned approved projects.

AL-INVEST enhancing trade and investment between SMEs

The current **Eurocentro from Honduras** is called **FIDE** (Foundation for Investment and Development of Exports). **Four** of the 250 cases where the principal operator of a project has been Latin-American have been led by Honduran Eurocentros (**approx. 2 %**). Hondurans have also collaborated in **58** of the 464 activities organised by AL-INVEST to date, involving **221 companies** and a participation rate of **approx 12.5 %**. The value of the contracts signed between European and Honduran enterprises amounts to **€3 118 075** including the production of coffee, sugar, confectionery and fruit and the manufacture of furniture. **Main AL-INVEST Events in Honduras in 2005_24 Feb, San Pedro de Sula: Business Meeting Renewable Energy in Central America**

@LIS - Alliance for Information Society

Horizontal Actions:

Like all of the Latin American countries, Honduras has one partner in the Network of Researchers (ALICE) **UNITEC** and one in the Network of Regulators, called **CONATEL**, the Consejo Nacional de Telecomunicaciones.

Demonstration Projects:

One Honduran partner participates in **1 of the 19 demonstration projects (5% of the projects)**. In total, 107 Latin American partners participate in @lis demonstration projects, so approx. **1% of the members are from Honduras**.

URB-AL - Urban Policy Coordination

The URB-AL programme consists of thirteen **thematic networks** co-ordinated by a single local authority. Although there are 6 cases of a thematic network being coordinated by a Latin American local authority, **Honduras does not coordinate any networks**. To date, **154 joint projects** have been selected, of which **5** involve Honduran local authorities. **No external members** from Honduras are taking part in Urb-Al joint projects. Of the 268 different Latin American local authorities who are active in joint projects, **4** are from **Honduras (1.5% of the total)**; however, none of these local authorities are joint project coordinators.

ANNEX 12

CONSULTATION PROCESS FOR HONDURAS 2007-2013 CSP

The preparation of the Honduras 2007-2013 CSP has unfolded in several stages. A fact-finding mission of consultants was sent in November last year to take stock of the situation on the ground, gather suggestions and produce a preliminary report. Parts of that report were subsequently taken on board and integrated in the EC Concept Note, which was published on the internet and served as a basis for an inclusive two-day seminar with all of the main local stakeholders and donors, held in Tegucigalpa in mid-April 2005. All major civil society organisations accepted this invitation and provided valuable and stimulating contributions, which largely corroborated the preliminary findings and recommendations of the Concept Note. Likewise, the authorities provided efficient technical back-up for the discussions and took an active part in them. The EU Member States were informed of the content of the Concept Note, attended the seminar, and their views were sought about the main orientations of the Concept Note. The organisation of the seminar was deliberately modelled on the structure of Honduras Poverty Reduction Strategy, which constitutes the backbone of the country's development and social cohesion agenda and covers the bulk of international assistance programmes to Honduras.

Consultation of the authorities

The Honduran authorities were consulted at two different stages: first, during the above mentioned seminar and subsequently as part of a political dialogue with the newly elected authorities in December 2005. Regular discussions have been held since the new government took office to make sure that the priorities identified in the CSP actually met the agenda of the new administration, which proved to be the case.

ANNEX 13

MAIN RELEVANT EC EVALUATIONS CONCERNING HONDURAS

EVALUATION OF THE EC COOPERATION POLICY WITH HONDURAS 2004

The 2003 work programme of the evaluation unit of EuropeAid – the cooperation Office of the Commission - included the evaluation of the European Commission's strategy of cooperation with Honduras between 1992 and 2002. The aim of this country strategy evaluation was to review the cooperation policy and the principal lessons to be drawn from the European Commission's past and present cooperation with Honduras.

Although the EC cooperation objectives were very relevant, their attainment and impact during the period were limited by a lack of consistency/synergies, a poor learning process, and insufficient dialogue with the local actors. The following actions are recommended: to redefine, strengthen and make more explicit the overall objective of the cooperation; to develop an integrated strategy in the environmental field; to contribute to the reinforcement of civil society and to set up follow-up mechanisms. For that purpose the opening of a delegation in Tegucigalpa is highly recommended.

Principal conclusions

In general, interventions are considered to have been relevant, but the impact of cooperation was limited. Cooperation during the period under review was directed towards topics that were highly relevant for that country. However, results in the attainment of the objectives and the impact of cooperation were limited by a lack of consistency, the fragmentation of actions, an absence of synergies, a poor learning process and insufficient dialogue with the local actors.

- The principle of the adoption of cooperation strategies represents major progress with a view to ensuring greater consistency and a greater impact of cooperation, even if the CSP under review only provided a partial answer to this objective and cooperation maintained only a rather loose link with the strategies contemplated in the CSP.
- The Commission played an active role in several innovative projects regarding the promotion of human rights, ethnic rights of indigenous populations, gender equality and environment protection.
- Nevertheless, the limited duration, or the premature completion of several major projects, combined with the lack of evaluation, political dialogue or complementary measures, threaten the sustainability of the results.

Recommendations

The principal recommendations arising from the above conclusions are to:

- Establish a visible and effective presence in Honduras. The Commission has to possess the means to carry on a better dialogue with the government and local actors, to know its partners and the institutions that it supports better and to monitor the interventions so as to have a better overview of the nature and impact of its own cooperation. The opening of a delegation in Tegucigalpa is highly recommended.

- Redefine, strengthen and make more explicit the overall objective of cooperation. The Commission has to design a real strategy, capable of directing cooperation, using all budget lines together towards an ultimate objective which combines poverty alleviation with democratisation and the defence of human rights. It has to manage activities for creating systems and to focus the interest on strategic topics.
- Strengthen human rights and civil society. The contribution to democratisation has to become a criterion in selecting and formulating the actions to be taken. Cooperation, while being directed towards sector support, has also to preserve a diversified partnership and pursue the parallel and explicit aim of strengthening civil society.
- Develop an integrated strategy on the environment. Given the serious deterioration and vulnerability of the environment in Honduras, and in view of its link with the problem of poverty, an integrated and sustainable strategy needs to be developed, which articulates both private and public aspects, i.e. the use of the productive resources and the management of the territory.
- Formulate strategic guidelines regarding support for regional integration. The Commission has to define an explicit strategy of regional cooperation, and regional integration has to be seen as a multi-sector process.
- Create follow-up mechanisms. Together with its partners, the Commission should develop evaluation and follow-up mechanisms in order to ascertain the impact of the interventions in relation to the planned objectives.

2004 EVALUATION OF THE EC FORESTRY REGULATION

Although this evaluation had general, worldwide coverage, some of its conclusions and recommendations seem particularly relevant for Honduras. These include the following:

Conclusions:

- Forest issues tend to be undervalued in the partner countries' strategic frameworks for development
- The impact of the Forestry Regulation materialises mainly at local level, although not necessarily during the implementation period of individual projects. This is because implementation in the field generally takes a long time to achieve measurable impact. The overall sustainable impact of projects under the Forestry Regulation depends on whether they are taken up and continued by either partner countries, other donors, or (geographical) EC financing instruments. The latter depends on forestry issues being adequately reflected in CSPs until the expiry of the Regulation in 2006. If this does not happen, there will be less likelihood of further promising and innovative measures under other (geographical) financing instruments.
- Complementarity with other EC financing instruments: Considering that forest-related development plays a negligible role under other financing instruments, the Forestry Regulation is forced into a complementary role.
- The complementarity of the Forestry Regulation with other financing instruments is largely coincidental, and is not the result of any strategic coordination of various financing instruments.

Recommendations:

- The Commission should allow more flexible thematic focusing and further emphasize the socioeconomic significance of forests {conclusion IV, V}, and also stress that the previous focus on tropical forests should be restored.
- It is further recommended that the Commission should enhance synergy between measures under the Forestry Regulation and those under other financing instruments, essentially through a process of inter-Service consultation and consensual definition of the intended advantages of B7-620 compared to other financing instruments. Administrative and procedural frameworks should be gradually adapted so as to better accommodate the characteristics and comparative advantages of the Forestry Regulation. The Commission should, where appropriate, integrate the development of the forestry sector into the CSP negotiations.
- The Commission should take steps to ensure the continuity and impact of promising projects, to better achieve measurable project success which is currently hampered by short implementation periods.

Evaluation of the cooperation of the European Union with Latin America in the field of health 2000

This report provides an analysis of the actions in Latin America (AL) in the area of health cooperation during the last two decades, and contributes information that is useful at the strategic and operational level in order to improve the formulation, implementation and results of the future actions. The following aspects seem particularly relevant in the case of Honduras and justify the approach adopted in the CSP - budgetary support for the social sector under the PRSP – so as to ensure viability and ownership

Principal conclusions

- Effectiveness: In general, projects are effective. Nevertheless, these results are almost never reached within the intended deadlines and projects generally require an extension.
- Impact: The major shortcomings in the national systems of health and demographic information, interactions with the other projects or other factors which intervene in health production, the duration of the projects and the parallel actions of other entities and agencies, make it practically impossible to measure the specific impact of the EC's health projects,
- Financial viability of the projects: In the majority of the cases, this depends on the government's commitment to finance current expenditure. The technical and administrative weakness of the beneficiary countries and the poor resources of the national health system do not guarantee the viability of the projects
- Approach to the "gender" issue: Despite the efforts on policy and standardisation and normative effort, there has been very little mainstreaming of the "gender" issue.
- Environmental impact: Few projects took account of this issue
- Social participation: One of the important aspects to improve the viability of the projects is the degree of social participation that they obtain. Decentralization and social participation are of particular importance.
- The strengthening of the institutions: Projects are increasingly concerned with strengthening the institutions with which they work, which is another reason to encourage decentralisation.

Recommendations

- Adopt a long-term vision on cooperation, by incorporating the actions into the national policies on health.
- Improve the quality of the local health system, by providing new resources and methods while avoiding the creation of parallel structures.
- Redefine the project approach as a programme approach and include a long-term vision.
- Incorporate the gender issue and social participation as factors for development and viability.
- Regard the transfer of knowledge as a change instrument which must systematically form part of the programmes.
- Support the processes of strengthening the institutions, by generating a momentum for the appropriation of the new resources and methods provided by the programmes.
- Accept that it is almost impossible to measure impact in terms of health indicators, and that the best measure of impact is the change in the level of development.