

EC DEVELOPMENT COOPERATION HONDURAS

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1. GENERAL CONTEXT AND RELATIONS WITH EU

Honduras is a lower middle income country (ranking 102 according to GDP, 147 according to GNI per capita¹ and 112 according to HDI²).

The main problems to be addressed were identified as: - High poverty, especially in rural areas and affecting women and children, as well as inequality levels.

- Polarisation and lack of trust between social groups following the coup d'état of 2009 and the subsequent election.
- Low efficiency of public administration, mismanagement of public finances, corruption. Lack of public planning or clear policies.
- High impact on the environment, inability to enforce environmental laws. Alarming rates of deforestation
- High crime and impunity rates. Strong presence of organised crime and drug traffic.
- Low quality of public services, mainly Education and Health.

During the last few years the successive Governments have issued several national development policies:

- Plan Maestro de Reconstrucción y Transformación Nacional (1999):

http://www.iadb.org/regions/re2/consultative_group/plans/honduras.htm

- Estrategia de Reducción de la Pobreza (2001):

<http://www.sierp.hn/sierp.web/Biblioteca/erp-001.pdf>

- Visión de País y Plan de Nación para Honduras:

La Gaceta – Diario Oficial de la República de Honduras, 2/2/2010, No. 32,129.

The earlier plans were widely criticised because of lack of clear link between public resources devoted to them and their impact on poverty, in particular poverty reduction. The Visión de País and Plan de Nación need to be made operational through the adoption of the medium term Government Plan.

Legal bases for EC cooperation:

- Framework Cooperation Agreement between the European Economic Community and the Republics of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama - 22/02/1993.
- Convenio marco relativo a la ejecución de la Ayuda Financiera, Técnica y de Cooperación Económica en Honduras en virtud al Reglamento "ALA" - 22/04/1999.
- Memorando de Entendimiento entre la Comunidad Europea y la República de Honduras

¹ World Bank, Gross domestic product 2008, World Development Indicators database, 15 September 2009

² UNDP, Human Development Report 2009

relativo a las orientaciones plurianuales para la puesta en marcha de la cooperación comunitaria - 26/03/2001.

- Political Dialogue and Cooperation Agreement between the European Community and its Member States, of the one part, and the Republics of Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and Panama -15/12/2003. However; this agreement has not completed the ratification process and will probably be superseded by the EU-CA Association Agreement, concluded in May 2010.

- Memorando de Entendimiento sobre la Cooperación entre la Comisión Europea y la República de Honduras relativo al Programa Nacional Indicativo de Cooperación para el período 2007-2013 - 4/7/2007.

Honduras is eligible to participate in programmes financed under the Development Cooperation Instrument (DCI) adopted in 2006³. The European Commission supports projects in Honduras by means of bilateral and regional cooperation, as well as through thematic programmes.

2. BILATERAL COOPERATION 2007-2013

The Development Cooperation Instrument (DCI) aims to eradicate poverty in partner countries and regions in the context of sustainable development, including pursuit of the Millennium Development Goals (MDGs), as well as the promotion of democracy, good governance and respect for human rights and for the rule of law. Honduras is declared eligible under Article 1(1).

2.1. Country Strategy Paper (CSP) 2007-2013

The priorities identified by the CSP 2007-2013 for Honduras for which an allocation of € 223 M was made, are the following:

1. Reinforcement of Social Cohesion through human capital investment

In the National Indicative Programme (NIP) 1, 2007-2010, this has been implemented through Global Budget support in the Framework of the Poverty Reduction Strategy, focusing specifically on Health and Education. Following the Mid-Term Review (MTR) of the CSP undertaken in 2010, it is expected that this is to be continued under NIP 2 through support to water and sanitation and to quality systems and small, medium and micro-enterprises (SMMEs).

2. Sustainable Management of Natural Resources, focusing on Forestry

Reinforcing the sector's governance and promoting the sustainable management of the natural resources coupled with economic development.

Under the MTR, in NIP 2 this priority is also to cover sustainable energy.

3. Development of a policy to prevent crime and reduce criminality and social marginalisation, especially among the youngest population.

This priority has been addressed through the approval of the PASS Programme (Support to

³ Regulation (EC) No 1905/2006 of the European Parliament and of the Council of 18 December 2006 establishing a financing instrument for development cooperation.

the Security Sector) which aims to:

- Support the modernisation and reform of the sector's institutions to improve their efficiency and independence- Reduce the impunity rate by strengthening the criminal investigation units.
- Support prevention and rehabilitation policies.

2.2 National Indicative Programme 2007-2010 (NIP I)

An indicative amount of € 127.5 Millions has been attributed to Honduras for the period 2007-2010. Amounts per year and per NIP sector are indicated in the following table.

Annual planning as foreseen by the CSP after revision following the Mid-Term Review

Honduras	NIP I (57,17 % CSP) 95.5 M€				NIP II (42,82% CSP) 127.5 M€
	2007	2008	2009	2010	2011-2013
Sector 1		65.5			45.5
Sector 2				21	47
Sector 3	9				35

2.3 Implementation of development cooperation

As established by the DCI, development cooperation is implemented through Annual Action Programmes (AAP).

AAP 2007

Annual Action Programme 2007 covered Sector 3 (Security and Justice), for an amount of 9.000.000 € EU contribution (and €230.000 Honduras contribution).

1. Programa de Apoyo al Sector Seguridad (PASS)

- Decision DCI-ALA/2007/019-235 (EU € 9 M€; 03/07/2008– 03/09/2014).
- The main objective of this project is to improve the security conditions in the country, supporting a SSR (Security Sector Reform) process that involves institutional modernisation and the setting up of prevention and rehabilitation policies. The project is currently implementing its first Programme Estimate and all of the foreseen services, supplies and grants have been contracted.

The project has been promoting the approval of a sectoral reform by means of the approval of the Justice and Security Public Policy.

AAP 2008

Annual Action Programme 2008 covered Sector 1 (Social Cohesion), for an amount of 65.500.000 €.

1. Apoyo al Plan de Nación (APN).

- Decision DCI-ALA/2008/019-893 (EU €60.5 M).
- Budget Support Programme, initially aimed chiefly at macroeconomic stabilisation with indicators in the Health and Education sectors.

The political conditions prevailing in Honduras during 2009 have made necessary the signature of an addendum to the financing agreement (FA) adapting where and how relevant the FA. The addendum was signed at the end of 2010. First fixed tranche of €14 M was disbursed at the end of 2010.

2. Proyecto de Apoyo a la Administración Pública y a la Integración Regional (PAAPIR).

- Decision DCI-ALA/2008/019-897 (EU €5 M)

- This continues the support to modernisation of the Public Administration begun in the PRAP project (which supported the Government's Poverty Reduction Strategy), while adding elements of the Regional Integration Facility foreseen as the non-focal sector in the CSP, which refers to legislative and regulatory framework and trade related technical assistance /private sector (see point 5.3.1. of the CSP). In addition, it aims at providing the government with technical assistance and capacity building for the management of the budget support mechanism (APN). The project started effectively September 1 with the arrival of the AT. The budget of PAAPIR should be increased up to 3.4 M € by an addendum in order to allow additional activities and AT to support the coming budget support PAPSAC (See AAP 2011) and the institutional strengthening of the Ministry of Finance.

AAP 2009

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AAP 2010

Annual Action Programme 2010 covers sector 2 (Sustainable Management of Natural Resources). After having passed all consultation stages in 2009, the financing decision and financial commitment were done in 2010.

1. Modernización del Sector Forestal (MOSEF)

- Decision DCI-ALA 2010/021-598 (EU €21 M)

- The objectives pursued by the Programme are to improve governance of the Forestry Sector in Honduras by supporting the actions of the new Ministry "Institute for Conservation and Development of Forests, Protected Areas and Wild Life (ICF)" to strengthen the local development of the forest sector through joint actions with central institutions, municipalities, associations of municipalities and local actors, as part of a productive and social development policy and of State decentralisation. The Financing agreement has been signed during the second quarter of 2011 and the AT has arrived in late August.

AAP 2011

In the AAP 2011 framework, two actions passed successfully the QSG II in June 2011 and were presented to DCI committee September 21: a sector budget support programme in the areas of Quality and Competitiveness, and Water and Sanitation (€ 42.1 M) and a project focusing on Human Rights (€ 5 M). The AAP is currently in written procedure.

2.4. Mid-term review (MTR) and NIP II

Given the political instability and the economic situation that occurred in Honduras since

June 2009, with the consequent freeze of the cooperation till March 2010, important changes to the CSP were proposed, while retaining the three priorities and the overall amounts dedicated to them. The main proposals for the revision of the CSP for NIP 2011-2013 were the following:

- use Budget Support as the preferential method in case of a stable macroeconomic environment and in well defined sectors with well established indicators and well defined goals in a well defined budget framework; and, reinforce Technical Assistance;
- no need for changing priorities and sectors; however additional areas are to be added within the sectors to reinforce the impact of our cooperation such as 1. *reinforcement of quality and support to SMMEs* and, at the request of the Government, *water and sanitation for Sector 1 (Poverty Reduction)*, 2. Renewable energy for *Sector 2 (Environment)*. *Support to Sector 3 (Security and justice)* will also continue.

3. BILATERAL COOPERATION 2002-2006

3.1 Country Strategy Paper 2002-2006

In the context of the ALA Regulation on development cooperation with Latin America and Asia⁴, the CSP 2002-2006 allocated an amount of € 147 Millions for bilateral cooperation, over the following sectors: 1) Sustainable Management of Natural Resources (45%); 2) Support to local Development and Decentralisation (26%); 3) Education (21%) + Reserve (10%) + 16M€ of projects already committed (in € M):

Honduras	2002	2003	2004	2005	2006
Sector 1	34				25
Sector 2			34		
Sector 3		28			

3.2 Closed projects

1. Apoyo a la Modernización de la Administración Pública en Honduras

- Decision ALA/1998/002-395 (EU 4 M€; 27/02/2002-30/09/2009).
- This programme provided Technical Assistance support to key government ministries and agencies involved in implementation of EU projects and programmes. This programme has provided a significant support to governmental efforts in Harmonisation and Alignment, and the execution of the PRS. About to be formally closed.

2. Apoyo a la educación media en Honduras (PRAEMHO)

- Decision ALA/2003/005-747 (EC 28 M€ 09/12/2003-09/09/2008)
- This programme of project-mode sector support, now in its closure phase, was oriented towards secondary education and to the professional training of students between 15 and 18.

⁴ Council Regulation (EEC) No 443/92 of 25 February 1992 on financial and technical assistance to, and economic cooperation with, the developing countries in Asia and Latin America.

It placed special emphasis on improving the quality of teaching and the attention paid to the most vulnerable groups of students. The programme built and equipped 40 workshops and 62 labs in 19 secondary institutes. In the process towards formal closure.

3.3. On going projects

1. PROADES - Support to Decentralisation Programme

- Decision 2004/016-807 (EU: 34M€ 02/02/2005-31/12/2010 with extension until 31/12/2013).

- This programme, mostly consisting of budget support (32M€), provides assistance to the Government's decentralisation programme, covering three main aspects: (1) strengthening the institutions of central and municipal government; (2) an increase in citizen participation in the decentralised public administration; and (3) local social and economic development. Out of the total of €34M for the 4 years (2005-2009), 16.4 M has been disbursed so far. An extension of the programme until 2013 has been awarded in order to disburse some remaining funds (15,6M€) on the basis of the new Government's plan to give impetus to the decentralisation process

2. FORCUENCAS – Project for Strengthening Capacities for Local Management of Natural Resources in the Patuca, Choluteca and Negro Watersheds

- Decision 2001/005-827 (EU: 34M€ 21/11/2006-31/12/2010)

- This programme aims to strengthen local management of natural resources within a framework of sustainable development based on town and country planning and the integral management of hydrographical basins with a focus on decentralisation and broad community participation. Implementation suffered serious difficulties for some years, but execution has greatly accelerated in the last year. A 2-year extension has been approved. The new stage of the project has been launched with a special focus through the municipalities.

3. PROCORREDOR – Programme for the Management of the Natural Resources and the Mesoamerican Biological Corridor in the Honduran Atlantic Coast

- Decision: (EU: 25M€ 13/12/2006-23/12/2012)

- The objective of the project is to contribute to the improvement of the life quality of the population through the maintenance and restoration of the ecological and economic functions of the Biological Corridor of the Honduran Caribbean as an integral part of the Mesoamerican Biological Corridor (MBC) along the northern coast of the country.

The specific objective is to improve environmental management at institutional and local level, concerning the sustainable management of protected areas and interconnection zones of the Honduran MBC, thereby contributing to its conservation and recovery. This project is ongoing and all the activities on the ground have begun.

4. GAUREE 2 - Autonomous generation and rational usage of Electric Energy Project

- Decision 1999/002-418 (EU: 5M€ 25/09/2007- 30/09/2011)

- The overall objective is to promote the execution of specific actions based on the results in the previous phase of the programme which enable the technical and economic viability of

projects for rationalising electricity consumption, using indigenous renewable generation resources and providing local added value. This project is in its final phase.

4. REGIONAL AND SUB-REGIONAL DEVELOPMENT COOPERATION

In the framework of the Central America regional MoU (2002/2006), one project in particular interest to Honduras is the Programme for the Development of Border Zones in Central America (ZONAF) involving an EU contribution of €40.5M.

The ZONAF (Development Programme for border zones in CA) is executed by the Central American Bank of Economic Integration (BCIE) and it aims at enhancing local planning and capacity building in vulnerable border zones, focussing on improving watershed management and the application of environmentally friendly technologies. The action is aiming to conclusion of its operational phase (July 2011).

Honduras takes part in the regional programmes with particular emphasis on – EUROsociAL II, URBAL, EUROSOLAR (one of the eight Latin America countries benefiting from this regional programme), ALFA, AL-INVEST and @LIS. In the context of an action approved for the Central America region, Honduras is also participating in the Latin America Investment Facility (LAIF).

5. DEVELOPMENT COOPERATION UNDER THEMATIC PROGRAMMES

The amount of funds allocated under thematic programmes is approx. €34.35 M for 34 projects.

- Food security: 5 projects for a total of EU contribution of €22.5M
- NGOs Cofinancing: 2 projects for a total of EU contribution of some €1.4 million.
- Non state actors and local authorities: 17 projects for a total EU contribution of some €3.1 million.
- European Instrument for Democracy and Human Rights: 7 projects for a total EU contribution of €1.3M
- Environment and tropical forests: 1 project for a total EU contribution of some €2.7 M
- Education: 1 project for a total EU contribution of €2.2 M.

- Instrument for Stability: Promoting Democratic Governance and reconciliation in Honduras (IFS/RRM/2010/247-408) €1,15 M.

6. COORDINATION AND AID EFFECTIVENESS

Donor coordination is managed through the G16 group, which is responsible for the follow up of the Stockholm and Paris Declarations, framework for the donor coordination. The G16 has three levels: Political, Technical and Sector. From January to June 2011, the EU Delegation held the Pro tempore Presidency of the G16 group.

Some experiences on joint financing are the contributions to the PRSP multi-donor fund and the EFA-FTI initiative, which have provided mixed results.

In April 2011, Honduras hosted the Latin American workshop of the EU fast-track initiative on Division of Labour.

A Budget Support Workshop with government staff involved in budget support follow-up duties as well as donors, is foreseen to be carried out in October with the participation of colleagues from DEVCO G1.

7. OTHER RELEVANT ISSUES

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8. SENSITIVE ISSUES

- The political situation in 2009 resulted in the suspension of European Commission aid, which affected the absorption of commitment and payment credits available under Budget line 19 09 01. The suspension was lifted in March 2010.
- The EU is supporting the reconciliation process and in particular the Truth and Reconciliation Commission which launched its report with many recommendations to improve governance in July 2011. Despite these efforts, the political and social situation is still complicated and tension should remain high till the 2013 general elections.
- Honduras is the second largest recipient of bi-lateral Community Aid in Latin America, with a € 223 M allocation under the 2007-2013 programming.
- A series of missions from the IMF were carried out since March 2010. A standby agreement was approved in early October 2010. There is close coordination between the Delegation, the IMF, the WB, the IDB and the KfW on this topic to maintain a common position on measures the Government must take to ensure macro-economic stability, good public finance management and a poverty focus (with common sectoral indicators).