

USAID/HONDURAS HURRICANE MITCH SPECIAL OBJECTIVE

Critical Hurricane Reconstruction Needs Met

This Special Objective is focused on helping Honduras take the critical steps needed to recover from the devastation of Hurricane Mitch and begin economic reactivation and reconstruction required to meet the needs of those most severely affected by the hurricane. USAID has requested \$291 million in supplemental funds to meet the emergency reconstruction needs of Honduras. The program of assistance utilizing these funds for the Honduran reconstruction program is outlined in this Special Objective which will serve as the organizing and funding vehicle for supplemental funding. The USAID hurricane reconstruction program will also draw on regional efforts and funds funneled through other U.S. agencies to meet these objectives and results.

I. Background and Overview

Damage assessment - In late October, 1998, Honduras suffered the brunt of Hurricane Mitch as one of the largest category 5 hurricanes in recent memory stalled for more than 48 hours off the country's northern coast and then moved inland slowly cutting a swath across the country to a point just north of the capital, Tegucigalpa, and then west into Guatemala. The constant heavy rains for nearly a week created severe flooding throughout the country that caused whole towns, neighborhoods, and crops to be washed away or covered with water and mud. Hurricane Mitch caused staggering levels of destruction and dislocation throughout Honduras and has been termed by many as the largest natural disaster ever to hit the Western Hemisphere. The Government of Honduras (GOH) estimates that more than 5,000 people died due to the storm. Up to a third of Honduras' six million people were dislocated and over one million were at least temporarily uprooted from their homes or livelihood. Honduran President Carlos Flores put the damage in historical perspective, "Overall, what was destroyed over several days took us 50 years to build."

The damage and losses caused by Hurricane Mitch in Honduras have set the country back years in its development efforts. The transportation and productive infrastructure that served as the foundation for development was severely damaged and an economy that was headed toward sustained vigorous growth suffered huge losses. Estimates of total economic losses range beyond \$4 billion. Agricultural losses, which amount to eight percent of GDP and 70% of Honduran exports, are estimated at nearly \$1 billion. Growth projections for 1999 have been revised downward to negative 2-3% from a projected figure of five percent to reflect the loss of production caused by hurricane damage; growth will hopefully return to around five percent per year in 2000-2001 if progress is made in addressing the effects of the hurricane. The transportation and productive infrastructure loss must be replaced, requiring medium-term financial resources to finance reconstruction and spur economic growth. Much of the nation's social infrastructure (water and sanitation systems, schools and some health facilities) was also

damaged and must be replaced to prevent the spread of disease and contribute to a healthy, well-educated workforce and citizenry. The process of reconstruction will test Hondurans' commitment to democracy in maintaining transparency and accountability to prevent corruption associated with major international assistance.

Before Hurricane Mitch, Honduras was making significant progress in addressing its daunting development challenges: severe poverty, protectionist economic tendencies, archaic judicial practices, weak local governments, inadequate education and health care systems, and widespread environmental degradation. Honduras is the fourth poorest country in Latin America with per capita annual income below \$750 and a poverty rate above 65%. To get back on track in addressing its structural development problems, Honduras must address the immediate crises created by Hurricane Mitch. At the same time, the Honduran government has recognized that the reconstruction process offers an opportunity not just to return to the pre-Mitch status quo but to transform the country and create the foundation for a new and better society.

Government of Honduras Response - The GOH and municipal governments responded immediately to the hurricane by evacuating people from areas at risk from flooding and other damage. With major assistance from the U.S. and other donors, the GOH helped mount immediate rescue operations and an airlift of food and supplies. This was coordinated by the National Emergency Committee and the Honduran emergency management organization (COPECO) and its regional and municipal branches. Over one million dislocated persons were sheltered in schools, churches, and other public buildings. Government stocks of food, municipal budgets, and community donations were used to meet the needs of dislocated people in shelters until other donor resources became available.

The GOH also mounted an immediate effort to restore critical transportation and communication lines. Private contractors, working under the promise of payment from the GOH with direction from the government public works agencies, quickly moved to provide temporary repairs to infrastructure. The major highways were back in service with temporary fixes within a few weeks and (thanks to U.S. assistance) stop-gap repairs to water systems brought potable water back to much of the country within the first two months. Private companies and non-government organizations (NGOs) with heavy equipment also played an important role in opening roads. Through donor assistance to these same organizations, the most severely affected municipalities were able to begin clean-up operations soon after the disaster. The GOH also took immediate action to deal with a potential health crisis in the aftermath of the hurricane by taking measures to control vectors, repairing lines to water treatment plants, mounting a public information campaign, and sending brigades of student volunteers out to communities to address health issues and help clean up after the storm. NGOs played a major role in the effort to control disease at the community level.

President Flores immediately assigned various cabinet ministers responsibility for different regions of the country to assure that relief efforts were meeting priority needs and to oversee the assessment process working with major donor groups. He appointed a Reconstruction Cabinet, led by the Ministry of the Presidency, with responsibility for ongoing reconstruction efforts and planning.

Recovery and Reconstruction Progress - Most of the major highways and many secondary roads have been brought back into service, albeit with temporary repairs. Major epidemics thus far have been avoided and water service has resumed to 70-80% of urban areas, again with emergency repairs. Central and municipal governments took action to build temporary shelters for those dislocated people still in schools so that the school year could begin for all students by March 1. Food and other supplies have been provided to people who lost their homes and/or livelihood, and emergency seed distribution has permitted immediate replanting to mitigate lost agricultural production. NGOs have helped communities build transitional housing, open farm-to-market roads, repair rural water systems, replant crops, and repair schools.

U.S. Initial Contribution to Recovery and Reconstruction - U.S. humanitarian assistance through USAID and the U.S. military emergency response helped rescue people and assure that survivors received food and essential relief supplies (e.g. water storage containers, plastic sheeting for shelters) to prevent more deaths in the immediate aftermath of the storm. The Department of Defense drew down \$55 million in the first 30 days after the storm to provide ongoing airlift capability and troops that rescued 1,344 people; and delivered over 2 million pounds of food, over 115,000 pounds of medicines, over 97,000 gallons of water and over 600,000 pounds of other supplies. Military personnel also provided medical assistance to over 3,400 in 23 communities. After this relief phase, U.S. military personnel assisted in providing temporary repairs to roads and bridges, and to installing temporary bridges.

USAID provided over \$30 million in immediate relief and recovery assistance including P.L. 480 Title II assistance, disaster assistance, and funds for immediate repair of damaged water and sanitation systems and to support public health efforts to prevent disease. Most of the water and sanitation repairs undertaken since the hurricane have been financed by USAID. Assistance also was provided to help municipalities deal with housing and shelter issues. A network of non-government organizations (NGOs) was mobilized to address immediate food, housing, infrastructure, and economic needs. Using all available liquidity, USAID-financed micro-finance institutions quickly moved to refinance and restructure clients' loans to help many microenterprises get re-established quickly. Additional resources totaling nearly \$30 million from the Mission's fiscal year (FY) 1999 operational year budget (OYB), supplemental Child Survival funds, and a microenterprise recovery fund (to recapitalize micro-finance institutions) have been largely oriented toward hurricane reconstruction.

U.S. interests in helping Honduras at this time of severe needs are driven by its proximity to the United States, strong links between the U.S. and Honduran people, strong trade and investment ties, high levels of immigration, narcotics transit issues, global environmental and health threats and general foreign policy interests in building stable democracies that protect human rights. Rapid recovery and reconstruction after the hurricane will help reduce growing levels of illegal immigration to the United States and reduce possible social unrest in the country by restoring previously vigorous economic growth, expanding employment, and improving the quality of life. Rapid reconstruction after the hurricane is critical to the development goals outlined in USAID's general development strategy and the Mission Performance Plan.

USAID Niche in Honduran Reconstruction - The most visible infrastructure damage will be the focus of broad loans from the IDB and World Bank for reconstruction of major highways and bridges. Other bilateral donors with relatively little in-country management capacity will also be contributing to reconstruction of major infrastructure on a turn-key basis. USAID's role in the reconstruction process complements the activities of other donors by focusing on helping Honduras' poor majority - small and medium producers and entrepreneurs and their employees - regain access to their livelihoods, sources of employment, homes, and basic social services: education and health care. USAID's role focuses on building institutions while addressing immediate problems created by Mitch in ways that can have a long-term development impact. USAID's work on critical roads and bridges in rural areas needed to rebuild the agricultural sector will connect small and medium producers with major highways and bridges rebuilt by other donors. The USG through USAID, the USGS and other U.S. agencies will also provide the basic information on rivers, stream flows, reservoirs, landslides, and watersheds needed by the GOH, private business, and all other donors to rebuild highways, bridges, flood control infrastructure, water and sewage systems, and communities to specifications which will withstand future floods. USAID's work in supporting efforts to find permanent housing for displaced families will both complement and leverage other donor resources by filling gaps such as water and sanitation infrastructure, land, or construction of houses to complete housing solution packages assembled in coordination with municipal authorities. USAID will continue to play the leading role in helping municipalities and rural communities reestablish basic water and sanitation services and in protecting their citizens from post-Mitch related risks and future disasters. In general USAID works where it has experienced and dedicated partners and builds on prior successes and lessons learned.

II. Special Objective Description - Critical Hurricane Reconstruction Needs Met

USAID/Honduras requests approval of a Special Objective that focuses on activities that produce intermediate results in various sectors **to meet Honduras' most critical immediate hurricane reconstruction needs.**

The activities undertaken to achieve this special objective are focused on short-term reconstruction results and are distinct from USAID's ongoing development program in various ways:

- *New activities* - USAID's on-going program did not include programming for rural roads and bridges, agricultural credit, rural water and sanitation systems, watershed management and river valley development, disaster mitigation, housing, or a major program to build accountability. Though these kinds of activities have been financed by USAID/Honduras in the past, those programs had ended and achieved some important success. The impact of Hurricane Mitch has created new needs that must be addressed by these kinds of programs.

- *Expanded coverage* - In some cases, such as health, education, and micro-enterprise support, supplemental funds will be used to expand the geographic area of USAID-supported programs to reach those most affected by the hurricane.
- *Intensified effort* - In some cases supplemental funds will be used to accelerate and jump-start programs that respond to immediate needs. While USAID may have had plans to carry out similar programs under its ongoing program, the dramatic increase in the level of need and the impact of Mitch on various social and political issues require that additional resources be focused on achieving results much more quickly than planned. For example, needs in the education, health and microenterprise sectors now require a rapidly accelerated and intense effort to develop programs already underway.

When the activities described below are completed, Honduras will have made rapid progress toward reconstruction and there should be tangible evidence of improvement in the economic situation of most Hondurans. Those most affected by the hurricane should be well on their way toward rebuilding their lives and the worst potential post-hurricane problems that could claim new victims (e.g. losses from new flooding, landslides, epidemics) will have been avoided or overcome. Though the reconstruction process in Honduras is a longer term process than the activities outlined here, and will require additional resources for the USAID/Honduras program in subsequent years, these activities will start and accelerate a process of transformation in Honduras that will develop the potential for improved conditions and more rapid development and create a vision for a new and better society.

The funding level for this Special Objective represents a dramatic increase over recent annual budgets for USAID/Honduras programming. The basic justification for articulating a Special Objective for the reconstruction program is the need to focus supplemental funds on emergency needs that by definition involve a limited time frame and track the use of supplemental funds for reporting to Congress. Because of the breadth of this Special Objective, indicators at the Special Objective level are not proposed; the intermediate results stated below contribute to the achievement of this Special Objective targeted toward short-term reconstruction needs and indicators for achievement of these results are proposed.

A. Cross-cutting themes

Funds for hurricane reconstruction from the supplemental appropriation will be used to respond directly to the most critical hurricane reconstruction needs and will focus largely on economic reactivation, public health, education, shelter, environmental management, disaster mitigation, local government, and accountability. In addressing emergency reconstruction needs in these areas, six primary themes cut across the program and determine the nature of activities supported with supplemental funds:

- **Poverty Reduction** - The reconstruction program continues USAID/Honduras' focus on the overall development problem of poverty and targets its activities toward those most in need. Poverty reduction is also a cross-cutting theme in the GOH Master Plan. Supplemental resources allow USAID to play a major role in spurring economic reactivation of small and medium entrepreneurs and agricultural producers by providing

the necessary access to financial and technical assistance. Expert assistance will be provided to policymakers who must deal with the complex issues of post-Mitch economic recovery that are critical to poverty reduction. Recognizing that much of the poverty in Honduras is in rural areas, many USAID reconstruction programs have a rural emphasis. Technology transfer programs will focus on the needs of small and medium farms. USAID/Honduras will also finance rapid rehabilitation of rural roads and bridges to spur rural economic recovery and provide employment in rural areas. Expanded support for NGO environmental programs will help small farmers use proven technologies for hillside agriculture that prevent the kind of erosion and landslides caused by Hurricane Mitch. Expansion of alternative delivery systems for basic education will help meet the needs of dislocated populations that are mostly poor and housing efforts are largely focused on those without resources to finance their own shelter needs.

- **Participation and Self-Help** - In line with the GOH Master Plan cross-cutting theme of democratic participation, the USAID reconstruction program recognizes that Hondurans need to be the agents of their own reconstruction and focuses on activities that enable Hondurans to rebuild their country and participate in reconstruction decisions. Support for accelerated development of vocational education opportunities will provide skills for reconstruction. Housing programs will provide the basic foundation for a home with the expectation that families can help in putting up a structure. Reconstruction of rural water systems will involve communities directly in the process as will efforts to rehabilitate schools. Food assistance that helps meet nutritional needs in the aftermath of Mitch also provide support for reconstruction efforts through food-for-work programs. Expansion of especially medium-term credit provides resources for Hondurans to invest in rebuilding their lives and their farms or businesses. Support for municipal governments will focus on citizen participation and all programs will be designed to assure that citizens have a role in key decisions. USAID designs and programs will continue to seek substantial input from citizens organizations that reflect the diversity of social and political opinion in Honduran society regarding reconstruction, with special emphasis on the participation of women and minority ethnic groups.
- **Improving the Environment** - The USAID/Honduras hurricane reconstruction program echoes the GOH Master Plan cross-cutting theme of environment in its overall concern for water resources and watershed management, community clean-up, environmental considerations in infrastructure development (e.g. preventive landscaping and planting of vegetation to reduce landslides along rehabilitated roadways), and land use planning. All programs will be developed with a commitment to protecting and enhancing the environment in Honduras and many will contribute to broader goals related to USAID global climate change initiatives.
- **Strengthening the Role of Municipal Government** - Municipalities will be the focus of much of USAID's reconstruction efforts due to their proven responsiveness to citizen needs. Major funding for rehabilitation of municipal and rural water and sanitation systems, plus new systems for dislocated populations, will strengthen the ability of municipalities to meet the basic needs of their citizens and reduce the potential for the

spread of disease. USAID will work directly with municipalities in support of targeted efforts to meet the shelter needs of dislocated people. Rural road and bridge rehabilitation and other infrastructure work focused on economic reactivation will be coordinated with municipal governments. Municipalities also have an important role to play in improving the management of key watersheds and in coordinating and initiating essential public health and disaster mitigation measures. They will play a key role in preparing for and managing any future disasters. And finally, as stated above, they play a critical role in assuring the participation of Honduran citizens in reconstruction decision-making and implementation.

- **Accountability and Transparency** - Recognizing the importance to Honduras of preventing waste, fraud, and corruption in the management of the reconstruction effort, USAID will assist the GOH by supporting mechanisms to constantly monitor and oversee the process of reconstruction implementation and provide checks that limit the potential for corruption at any level. USAID's own programs will also be over-designed to assure accountability and transparency in all activities.
- **Rebuilding Better** - The USAID/Honduras reconstruction program embodies the spirit of statements by both President Flores and President Clinton that the reconstruction process should do more than just replace what was lost, it should be an opportunity to transform the country into something better. From development of improved design specifications and use of new technologies in road rehabilitation, redesigning water and sewer infrastructure, upgrading technologies in formal and non-formal education programs, improving environmental management in handling water resources and rivers, to expanding the capabilities of municipalities, this Special Objective contributes to the building of a new Honduras out of the devastation and destruction of Hurricane Mitch.

B. Intermediate Results Contributing to Achievement of the Special Objective

This Special Objective will be achieved through activities proposed for funding that will accomplish the following intermediate results:

1. Economic Activity Reactivated

Problem Analysis - Hurricane Mitch took a devastating toll on a Honduran economy that was moving toward vigorous growth rates and making some progress in addressing poverty. Massive flooding and landslides swept away businesses, crops, and major infrastructure, damaging or destroying much of the productive capacity of the country - estimates of economic damages range from \$4 to \$5 billion. Those most severely affected were the poor majority already living a marginal existence. Financial sector intermediaries were dealt a severe blow as many borrowers--both agricultural and micro and small enterprises--became insolvent overnight. In the immediate aftermath of the hurricane, unemployment increased as many businesses collapsed, export industries were severely affected, and 70-80% of agricultural production was destroyed. Economic growth projections for 1999 suggest GDP will decline by 2-3% and the decline in agricultural (and forestry) exports expected in 1999 and 2000 will likely increase

unemployment and poverty. In this context, maintaining monetary and fiscal policies which are conducive to economic growth will be extremely difficult without balance of payments support and debt alleviation.

Agriculture - Agriculture, the backbone of the Honduran economy (24% of GDP in 1997, 37% of the work force, and the majority of exports) is the hardest hit economic sector. Many small farmers have lost everything and will be hard pressed financially to be able to replant. The banana industry, which produces the country's second largest export crop (\$212 million in 1997), suffered catastrophic losses from prolonged submersion. Most plantations will probably need to be replanted, with full recovery taking at least a year. However, major producers are unwilling to commit fully to reinvesting until they have some assurance that the flood control infrastructure needed to protect prime agricultural land and the roads and bridges required to get products to market will be rebuilt. The shrimp industry, the third most important export crop at \$179 million, lost substantial production and some capital stock but appears to be recovering. Coffee losses are high, estimated in value at 20%, due to a combination of transport problems and bean quality. A severe drop in world coffee prices only made the impact of Mitch worse. Melon production on the south coast, representing the most important non-traditional product, was eliminated in the first rains but quick replanting enabled some recovery in the winter markets. Reports of animal losses are high and milk production cannot reach traditional markets. Basic grain crops suffered heavy losses in some parts of the country though in the north immediate replanting allowed many farmers to reap a harvest before the end of the rainy season. The key to agricultural recovery is to replace key transport links to markets as soon as possible and make available medium-term credits to enable the necessary replacement of lost capital stock. In some areas, land reclamation will be required to return to production; some areas will have to be abandoned. Access to medium-term credit, not typically available in Honduran financial markets, will facilitate this process. Private reinvestment in rural infrastructure will also require complementary public investment in disaster mitigation infrastructure that will protect these investments from future flooding.

Financial sector - Before the disaster, the formal banking sector was experiencing liquidity problems, high interest rates on loans (average real interest rates were around 20%), excess concentration on short-term at the expense of long-term lending, and overexposure to risky loans by several banks. The sharp decrease in international coffee prices in early 1998 left many coffee processors and exporters unable to pay back their bank loans. With the Mitch disaster, these problems of bank loan defaults were compounded, although no banks have as yet gone under and depositor confidence in the banking system remains largely in tact. Of the \$241 million in the formal banking system's agricultural portfolio, 8 percent (\$18.4 million) is considered unrecoverable. Overall, the banks estimate total financial losses of around \$58.4 million (about 4% of the total loan portfolio of the formal banking system), which includes loan defaults in the industrial and commercial sectors and direct flood damage to the banks. However, actual economic losses of the formal banking system were greater than those estimates because

most of their clients are big businesses whose losses were covered by insurance. In this situation, the Honduran Association of Banking Institutions believes the formal banking system as a whole can handle this loss as long as sufficient insurance payments and new loans at reasonable interest rates are forthcoming from abroad.

The real problem, however, is how to provide medium-term loans (five to seven years) through financial intermediaries who serve small and medium-sized businesses and farms which had plant, inventory, equipment, and land washed away by the flooding. Many of these firms, which had no insurance to cover their losses, are unable to reschedule their outstanding loans. They do not have access to sufficient new capital to replace their asset losses and to cover their current operating expenses. Consequently, the increased default rate on the loan payments of these damaged small and medium firms has caused serious financial solvency problems for several producers' associations and cooperatives, such as FACACH, FINACCOOP, and FUNADEH. Financial intermediaries serving small and medium-sized firms in Honduras do not have the international borrowing capacity that the formal banks have and cannot write-off debt as easily without going into default themselves. These financial intermediaries and their clients, who normally employ from 10-100 workers, each desperately need financial and technical assistance to recapitalize their losses, increase production and employment, and contribute importantly to the reactivation of the Honduran economy.

Small and Micro-Enterprise - Hurricane damages to small and micro businesses had a significant negative impact on USAID-assisted micro-finance institutions. Of the combined \$15 million loan portfolio balance of these microfinance institutions at the time of the hurricane, approximately 28% (\$4.2 million) was classified as "affected". This situation has created serious problems for some 27,000 people in desperate need of new loans to rehabilitate their lives and businesses. Preliminary estimates by USAID-financed microfinance institutions (currently reaching a third of all micro-entrepreneurs) suggest that up to \$8 million will be required to enable them to continue to provide credit services to their existing clients and to a large emerging clientele. Micro-finance institutions also need to rapidly expand their reach to address the needs of other small and micro businesses in affected areas not currently covered by their programs.

Transportation Infrastructure - Of Honduras' 14,602 km total roads, 2,673 km are paved primary roads, of which 52% were in need of repair. Another 20% (2,386 km) of unpaved secondary roads and 1,750 km of tertiary farm-to-market roads will need repair, as will over 100 destroyed or damaged bridges. A USAID-financed comprehensive damage/needs assessment focused on employment generation needs in the five most affected departments concluded that lack of "durable reconstruction of roads and bridges...was still a constraint in some areas on marketing of existing produce, on local and transnational private sector reinvestment, and the chief concern of rural farming villages. Intransitable and unreliable roads were...a bottleneck to marketing available milk, palm oil, fish and pineapple and a constraint to the repair of productive infrastructure and equipment which might otherwise have been undertaken. Major agro-industries considering re-investment in areas where hundreds of millions of dollars of

losses had been suffered were questioning whether the principal roads and bridges required to get their products to markets and ports would be reconstructed in a timely and durable way. ...whether or not "temporary repairs" had opened their roads, small farmers and village improvement committees (patronatos), echoed by mayors and municipal secretaries, stressed that durable economic reactivation over the next decade - and employment and income - all depend on more weather-resistant reconstruction of transport links. This was considered the top priority of the overwhelming majority of those consulted - from captains of industry to campesinos."

Employment Generation - The employment generation assessment contracted by USAID/Honduras concluded that, "a large-scale employment generation program would not be an appropriate priority response to Honduras' reconstruction needs" given the time it would take to develop a program that would not be carried out until later this year and the many food-for-work programs meeting the need for immediate employment. Rather, the team recommended a program of durable reconstruction of roads and bridges as the top priority for the most-affected departments, noting that "durable reconstruction of roads, bridges, streets and local retaining walls would generate jobs for unskilled laborers. Some of these activities could be concentrated in specific pockets where the disaster has caused medium- or longer-term employment deficits."

USAID Strategic Approach - The largest portion of supplemental funds for Honduras will be targeted toward economic reactivation since economic recovery is critical to reconstruction in all sectors. The USAID reconstruction program will contribute significantly to the intermediate result of **economic activity reactivated** through activities focused on the following sub-objectives:

- **Expansion of medium-term credit** - Through a variety of intermediaries, USAID will help fill a critical gap in the Honduran financial sector by providing the medium-term credit that is needed for recapitalizing productive enterprise. The use of various intermediaries, from private banks to credit cooperatives and NGOs, will allow USAID to target these resources to specific beneficiaries. Much of this medium-term lending will be focused on small and medium producers in the agricultural sector and on small and medium businesses.
- **Recovery and reactivation of affected small & micro-enterprises** - USAID will provide funds to recapitalize mature micro-finance institutions so they can restructure loans to their former clientele while significantly expanding their business and financial services to meet the emergent needs of micro and small businesses in those secondary cities ravaged by Mitch. Based on previous experience, more than 75% of the beneficiaries of this initiative are expected to be women.
- **Recovery and reactivation of small and medium farms** - Through support to NGOs and other institutions with a proven track record of performance in providing agricultural extension services to small and medium sized farmers, USAID will help these producers respond to the losses caused by the hurricane in

areas such as land reclamation, alternative crops, agroforestry, improved agricultural technologies, and disaster mitigation.

- **Policies in place to promote economic reactivation** - Supplemental resources will be used to intensify technical assistance in policy areas specifically associated with hurricane reconstruction efforts. Examples of such policy issues include pricing, trade, fiscal, and monetary issues associated with shortages, financial sector dynamics, and economic disruption; institutional responsibility for watershed management and infrastructure maintenance; integrated river valley development; and institutional responsibility for disaster mitigation and response.
- **Rural roads and bridges rehabilitated** - USAID/Honduras is currently developing a program to rehabilitate and upgrade all secondary and tertiary roads, with associated bridges, in the six most-affected departments covering about one third of the country. The program will also undertake labor-intensive environmentally-sound disaster prevention work along these roads and will implement cobblestoning projects in those areas where some temporary employment generation is warranted.
- **Vulnerable agricultural land protected** - Inter-agency teams are analyzing key watersheds and river basins to determine the agricultural land most vulnerable to potential future flooding and landslides. This analysis will help determine where investment in flood control infrastructure is most needed and should be funded using either supplemental funds or resources from the multilateral banks.
- **Repair of transformers and cables at the El Cajón Dam** - If current efforts to repair damage caused by a February 11, 1999, fire in a major transformer at the El Cajón Dam have not been completed and additional resources are required at the time supplemental funds become available, USAID will provide assistance to this effort. At this point resources provided by other donors, especially the Canadians, and from national funds, plus USAID assistance to develop insurance claims, appear to be sufficient to resolve the El Cajón problems and efforts continue to bring the transformer back on line.

Results anticipated - The activities associated with the sub-objectives outlined above should produce results that can be measured by the following indicators:

- Return to positive agricultural GDP growth
- Increased number and value of medium-term loans to small and medium-sized enterprises and producers
- Increased investment in agriculture
- Return to pre-Mitch default levels in micro-finance institutions
- Increased number of loans to micro-entrepreneurs (in Mitch-affected areas)
- Restoration of pre-Mitch levels for basic grain production

- Reconstruction and improvement of 2,000 kilometers of unsurfaced farm to market roads and 1,400 linear meters of two-lane concrete bridges/fords

Linkages to Regional USAID Programs and Other U.S. Agency Plans - Local currency generated through USDA 416(b) food assistance may be a source of bridge funding for rural infrastructure. The Office of Transition Initiatives (OTI) has provided essential initial support to jump-start the development and initial implementation of the rural infrastructure program. The U.S. Department of Defense will help reconstruct some primary and secondary roads in the Aguan Valley. USAID-funded rehabilitation of secondary and tertiary roads will link with these efforts. Inter-agency teams have discussed some level of USDA programming for Honduras - the Mission will look to USDA for technical assistance in food safety and phyto-sanitary issues for food exports, forestry, watershed management, soil conservation, and rehabilitation of agricultural lands. OPIC has proposed a program focusing on promoting U.S. private investment in the region. The Ex-Im Bank's agreement with CABI for \$50 million in credit insurance may be increased and would help meet a portion of the medium-term credit needs associated with U.S. imports. While helpful in the overall goal of reactivating the economy, by its nature, OPIC and Ex-Im assistance will not reach the small and medium producers and enterprises which are the target of USAID assistance. Technical services of the Army Corps of Engineers will be used to review infrastructure needs and design appropriate interventions to protect vulnerable agricultural land.

Linkages to GOH Reconstruction Program and Other Donor Plans - Economic reactivation is the primary focus of the GOH Reconstruction Master Plan with special emphasis on rebuilding the transportation infrastructure and recapitalizing private industry and agriculture. Other donors (World Bank, IDB, Japan, and Sweden) have committed to providing assistance to rebuild the major highways and bridges. To date, the British and some NGOs are the only other donors focused on secondary and tertiary bridges in rural areas. Other donors, particularly the EU, CABI, and IDB will also be active in providing credit to small businesses and producers. The World Bank, IDB, and Kuwait will assist with construction of flood control infrastructure to protect agricultural lands.

Proposed Implementation and Management Mechanisms - The expansion of medium-term credit will likely be implemented through grants to various intermediaries. Micro-enterprise efforts will be handled through cooperative agreements with long-standing USAID partners. Agricultural extension programs with NGOs will probably be managed through an umbrella contract or lead NGO that can make subgrants to others. The rural roads program will be managed through an autonomous unit within the Honduran Social Investment Fund (FHIS) with delegated authority to administer a program of local contracts for packages of road and bridge work, and overdesigned accountability features. Policy expertise will be provided through an add-on to an existing Mission institutional contract. A proposed technical assistance arrangement with the Army Corps of Engineers (similar to IQC arrangements) will allow access to their

expertise in productive infrastructure as well as other areas of infrastructure rehabilitation and construction.

2. **Public Health Protected**

Problem Analysis - The impact of Hurricane Mitch threatens many of the gains made in addressing critical health issues in Honduras, especially in the following areas:

Water Supply and Sanitation - Since the 1980s, USAID had supported the construction of rural water supply and sanitation systems in Honduras through the National Water Authority (SANAA) and PVOs, resulting in completion of over 1500 systems before the construction phase of the program came to an end in 1997. As a result of the construction program, an estimated 62% of the rural population had access to safe water and sanitation. The widespread program of making safe water and sanitary facilities easily accessible to poor rural villagers also had a clear impact on the reduction of diarrheal disease mortality, which dropped from the first cause of child mortality to third during that period. Secondary cities expanded coverage of water and sanitation through assistance under USAID's Municipal Development Program and in most cities 96% of the population had access to water and sanitation through construction projects managed by FHIS or SANAA.

Hurricane Mitch set back much of this progress. An estimated 1,683 (40%) of the nation's almost 4,000 rural water supply and sanitation systems have been destroyed or damaged by the hurricane. In addition, 38 of the 46 urban systems that SANAA operates around the country and many of the water and sanitation systems owned and operated by municipalities were also damaged or destroyed. There have been at least temporary repairs to approximately 775 of these rural and urban systems, but many still need more permanent repairs or total reconstruction in some cases. The exact number of systems will be confirmed in further field surveys. Typical hurricane damage included total or partial destruction of water sources, damage to water lines and major pipelines, and washing away or collapsing of latrines and sewage lines. This has resulted in a decrease in the access of the rural population to safe water and sanitation facilities from the earlier 62% to an estimated post-Mitch level of 35%. In urban areas, temporary repairs have brought water to approximately 80% of residents who previously had piped water but these systems need to be durably repaired and sewer systems need to be rehabilitated in most cities to stop raw sewage from flowing in the streets or contaminating water supplies. The lack of access to safe water and sanitary facilities is clearly one of the major factors accounting for an estimated 40% increase in diarrheal disease in the period following the hurricane, greatly enhancing the risk to the already precarious health and nutritional status of rural children, as well as their families. Although cholera has not broken out, the potential for other outbreaks of water-borne diseases--in addition to the already-increased diarrheal diseases--remains high until a safe water supply and sanitary facilities can be restored. Honduras is currently battling a dysentery outbreak, clearly an indicator of the immediate need to address the water supply and sanitation problem.

Disease Surveillance - In the days and weeks immediately following Hurricane Mitch, it became evident that the system for tracking and reporting diseases could not provide accurate, timely data and analysis to enable health leaders to determine the nature and seriousness of the situation and plan action accordingly. There were large numbers of reported disease cases, some wildly inflated or misreported; huge numbers of cholera cases were reported, but none were confirmed; large numbers of dengue hemorrhagic fever cases were reported, but there was little capability to accurately confirm the diagnoses; the generally weak laboratory capability pre-Mitch was totally inadequate in face of the demand after the hurricane for rapid, accurate diagnostic/confirmatory tests critical to a reliable surveillance system. The lack of sufficient well-trained epidemiologists, coupled with a minimal field-based case finding capability, weak laboratory capacity, and inadequate data processing and analytical skills meant that the Ministry of Health was without an adequate information base and was lacking in skills needed to identify and control outbreaks of preventable diseases. The Ministry recognized this gap in its structure and has emphasized its desire to overhaul and strengthen its disease surveillance and health information systems urgently. Under a new program begun last year USAID/Honduras is providing support focused on surveillance for malaria, dengue and TB. This component will require additional support to broaden post-Mitch surveillance capability under the special objective.

Health of Mothers and Children - In the pre-hurricane period, 60% of households were consuming less than 80% of the calories needed for good health, almost 40% of children under age five were chronically malnourished, and over 20% suffered weight for age undernutrition. In the immediate hurricane aftermath, over a million people became victims displaced from their homes or living in damaged homes. In the areas most affected by the hurricane, the loss of homes, of access to safe water and sanitation, plus the loss of crops, family food resources and income, exacerbated the already poor nutritional status of children and their mothers. The post-hurricane increase in diarrheal and respiratory infections has further affected the health status of families--especially young children and their mothers already nutritionally deprived. In sum, children and mothers--especially those from poor, rural families--are at much higher risk in the areas most affected by the hurricane.

Damaged and Impaired Functioning of Health Centers - The extensive network of public health services--hospitals, health centers and community level providers--suffered hurricane damage, requiring repair, restoration and reequipping to enable their staffs to serve the needs of their clientele. Of the total 1100 health centers in the country, the MOH reported that 123 were damaged or destroyed, along with equipment, requiring a wide range of minor to major repair or new construction. In the areas identified by the Ministry where there has been damage to health facilities and their equipment, effective functioning of the health service providers is hampered. USAID/OFDA funds provided to PAHO have supported repairs to many centers, and FY98 supplemental child survival funds will be used to repair those remaining. A major unmet need is therefore to provide

new equipment to the damaged centers (which will have been repaired with existing USAID and OFDA funds).

USAID Strategic Approach - This intermediate result of protecting public health is focused on improving and protecting the health of hurricane-affected families and reducing the threat of disease through the following sub-objectives:

- **Restored Rural Access to Water and Sanitation** - With OFDA emergency funds and FY98 Child Survival supplemental funds, the Mission has already begun working with its long-time partner, SANAA (National Water Authority), to repair and rebuild damaged water and sanitation systems in the most affected areas throughout the country. With supplemental funds, the Mission will fund SANAA to repair or rebuild a large proportion of the 1,683 rural water supply and sanitation systems, utilizing the decentralized regional network that SANAA has established. Although a substantial proportion of systems have received temporary repairs to get them back in operation, the majority still require more permanent repair or total rebuilding. This work is expected to restore the proportion of rural families who have access to safe water and sanitation systems to at least 60%.

USAID funding will be used for procurement of pipe and other construction/repair materials, vehicles and equipment, skilled labor, and other costs of construction and repair. USAID funds will also be used for grants to PVOs who have played an important role in preparing communities to construct and manage water/sanitation systems, and for funding a full-time technical assistant to work in SANAA to support and monitor field implementation. With its counterpart funds, SANAA will provide all engineering design work, technical supervision and community preparation.

- **Rehabilitation of Municipal Urban Water and Sanitation Systems** - Using OFDA emergency funds, reprogrammed project resources and local currency, and FY-98 Child Survival supplemental funds, USAID/Honduras has already provided assistance for emergency repair of some 140 municipal-managed water and sewage systems (both rural and urban) and 33 urban systems managed by SANAA, including Tegucigalpa. Supplemental funds will be used to rehabilitate and reconstruct more than sixty major water systems and more than 30 sanitation systems in secondary cities and small towns throughout the country. This rehabilitation work will go beyond emergency repairs to rebuild systems to quality standards and assure their long-term viability. A high percentage of sewage systems are still filled with silt, severed, or washed out and will require very expensive repairs to rehabilitate. Many of the sewage and water systems repaired to date need additional investments to construct protective barriers or mitigation measures to assure they are not damaged or washed out in the next rains. USAID funds will cover design work and construction to rehabilitate these

systems. Technical assistance to municipal public works units will complement this work.

- **Improved Infectious Disease Surveillance** - USAID will enhance the Ministry of Health's capability to monitor and assess the epidemiologic situation in Honduras by strengthening its overall disease surveillance and health information systems. This will be accomplished by: (a) providing technical assistance to the MOH to establish systems for gathering, storing, processing and interpreting epidemiological data to enable health authorities to make decisions; (b) enhancing diagnostic and laboratory capability to generate reliable data; (c) providing hardware and software for computerizing data; and (d) providing training to health authorities in decision-making positions. Under their proposal for supplemental funding, the Department of Health and Human Services/Center for Disease Control is planning a substantial range of support for strengthening disease surveillance, complementing what has already been started with their support under the Mission's ongoing health programs.
- **Expanded Community-Level Maternal/Child Health Care Services** -In its ongoing bilateral Health Sector II project, USAID has been implementing a program of expanded and improved maternal and child health services in nine areas of three health regions in the central corridor from the north coast to the southern part the country. These programs include immunization, growth monitoring and health promotion, primary care of diarrhea and respiratory diseases, prenatal, delivery and emergency obstetric care for mothers, as well as other primary health care services. These services have had a proven impact on reducing the high levels of infant and maternal mortality in recent years in the areas where USAID support has been provided. The Ministry of Health (MOH) has proposed that USAID support the introduction and expansion of similar types of activities in new areas, outside of those supported by USAID, where hurricane damage has been most extensive, thus making them the highest priority for attention. To address the needs of the women and children in these areas, the Ministry needs to train and equip health providers at the community level and in its health centers serving those communities. A public education campaign focused on essential child survival health practices will also be developed. To further expand and implement the activities of the MOH, USAID will also provide grants to established NGOs to expand their rural maternal and child health programs in hurricane-damaged areas where they are already operating.
- **Damaged Health Centers Re-equipped and Restored to Operational Effectiveness** - The MOH has identified 123 health centers that were damaged, and had equipment destroyed or damaged as a result of the hurricane, and USAID has already programmed existing funds to make the needed repairs. However, USAID has also agreed to fund the required replacement of equipment in the damaged centers with the additional funds as they become available. Upgrading and equipping of community-based Maternal and Infant Centers will be carried

out as a key mechanism to complement the expansion of community level services and referrals for mothers and children.

Results Anticipated- The activities described above should produce results that can be measured by the following indicators:

- Number of urban water supply and sanitation systems completed of the total planned.
- Rural population with restored access to water and sanitation
- Estimated number of families reached by the health communication campaign.
- Number of centers strengthened for child survival (AIEPI) services, and number of providers trained.
- Number of communities with integrated child health and nutrition interventions (AIN) implemented through NGOs
- Number of health centers re-equipped.
- Number of laboratories with improved diagnostic capabilities.

Linkages to Regional USAID Programs and Other U.S. Agency Plans - LAC/RSD has supported PAHO's efforts to re-establish the cold chain for Honduras' continuing immunization efforts, following a regional grant from OFDA funds for PAHO's initial work in repairing health facilities and undertaking assessments. LAC/HPN is also considering a potential regional program of support for reconstruction but this is only in the planning stages. HHS/CDC has proposed a program financed by supplemental funding for support to the region, including strengthening of disease surveillance, laboratory systems, and epidemiology training. These resources will be used to complement USAID/Honduras managed funds. The Corps of Engineers may be asked to provide technical assistance on difficult and complex water or sanitation system designs where deemed necessary and the USGS will provide assistance as needed to address ground water problems in reconstructing municipal water systems.

Linkages to GOH Reconstruction Program and Other Donor Plans - The GOH Reconstruction Master Plan makes rehabilitation of water and sanitation infrastructure a high priority. Other donors, particularly UNICEF, are participating in strengthening various complementary aspects of mother and child health. USAID is currently the major donor in restoring water supply, although the Spanish, Swiss, and Canadian Development Agencies and UNICEF support water supply in selected areas. The European Union (EU) is currently planning substantial support for health activities, including water supply, but this assistance will be focussed only in specific departments and probably will not begin before CY 2000. Various NGOs have been involved in helping to restore rural and small urban water supplies. For larger urban water and sanitation systems such as Tegucigalpa and San Pedro Sula, World Bank and IDB financing is expected.

Proposed Implementation and Management Plans - A private sector professional communications firm will be contracted to serve the MOH, funded directly by USAID, to design, implement and evaluate the public health campaign over a period of a year. Expansion of existing USAID/sponsored health programs in maternal/child health and disease surveillance will use the same mechanism currently employed - funds are managed by a financial management, accounting, and audit firm. SANAA will use the same approach it developed over the past decade in implementing USAID-supported community water and sanitation systems. This approach includes organizing community participation in construction, maintenance and management of the system, which has proven very effective in maintaining operational status of the systems. It also includes close collaboration with and grants to PVOs to implement the program. Urban water and sanitation systems owned by municipalities will be rehabilitated through an agreement with the Employment Generation Unit of FHIS which has managed USAID's ongoing program of water and sewage system construction and the process of emergency repair via contracts with local construction firms. Where systems are managed by SANAA, USAID will work with SANAA and municipalities in arranging for repair and rehabilitation. USAID/Honduras has worked for many years with both FHIS and SANAA, has worked closely with them to build up their systems of control and accountability, and regularly audited their operations. Both institutions have well-developed computerized tracking capabilities and inventory control systems and a good track record in project implementation. In managing these programs, USAID/Honduras will provide additional staff to supplement the oversight of USAID engineers working with each institution and carry out a concurrent audit.

3. **Permanent Housing Developed for Dislocated Families**

Problem Analysis - The unprecedented amount of rainfall from Hurricane Mitch in the northern part of the country caused rivers to overflow onto low-lying cities such as La Lima and El Progreso, flooding major portions of them, destroying homes and filling the houses that remained with mud. In other parts of the country, the high levels of rain, in combination with landslides and debris flows, combined to cause rivers to rise quickly and with unimaginable force, washing away thousands of homes in a matter of hours. The landslides themselves also destroyed many homes. Initial estimates indicated that 33,000 houses were completely destroyed and 50,000 were damaged by Mitch, affecting around 662,000 people. Immediately after the hurricane, most of these people moved into emergency shelters, principally schools, churches, and other public buildings. Early estimates were that 200,000-280,000 were living in shelters nationwide. Within two months, the shelter population had declined dramatically, as people continued to move in with other family members, found other solutions, or moved back to their former neighborhoods, either into their old homes as they were cleaned up and repaired, or into rebuilt shelters (often shacks or temporary shelters), frequently still located in dangerous areas. The International Organization for Migration (IOM) carried out a census which established that 30,000 people nationwide were still residing in shelters in early January; 10,000 of those people were located in Tegucigalpa.

Target population - The target population in need of housing includes several layers including 1) dislocated families currently residing in shelters (currently estimated at 30,000 people, or 6000 families), 2) dislocated families not residing in shelters - generally living in precarious conditions, either in crowded homes with relatives, or in temporary shacks in areas that have been declared uninhabitable; many of these people registered their loss with the municipality but opted not to go into shelters, finding another temporary solution, 3) families living in high risk areas that require immediate attention because they are at severe risk of landslides or flooding during future rains and should be relocated, or other actions should be taken to mitigate these dangers, and 4) families living in high risk areas that are not in immediate danger - some families living in risky areas do not need immediate attention, but their situation should be addressed to avoid the potential for future tragedy.

Initial efforts to address housing needs - Various NGOs have been active in helping to address the housing needs of dislocated people. Some of these initial solutions were temporary housing (e.g. plastic sheeting over minimal structures) to meet immediate shelter needs. Many NGOs have gathered private donations to develop housing programs and have actively begun the steps necessary to start a program in response to current needs but lack some critical aspect of a complete housing solution - often land or water and sanitation infrastructure.

Municipalities mobilized immediately to begin addressing the need for permanent housing solutions for the displaced population. However, in late December the focus on shelter shifted as it became apparent that in most cases permanent solutions could not be found or concluded in order to vacate the hundreds of schools being used as emergency shelters in time for the scheduled beginning of the school year on February 1, 1999.

In order to solve this immediate problem, at the GOH's request, UNDP partially funded an agreement with IOM whereby IOM agreed to build "transitional shelters" in the eight cities in which the majority of displaced residents were found: Tegucigalpa, San Pedro Sula, Choluteca, El Progreso, La Ceiba, Trujillo, Puerto Cortes and Tocoa. These transitional shelters will house 25,000 of the 30,000 still remaining in shelters. The remaining 5,000 are located in dispersed areas where local solutions are more viable. IOM began construction in mid-January with the initial \$600,000 provided by UNDP for Tegucigalpa. On February 10, USAID signed an agreement with IOM to provide an additional \$4,073,649 in OFDA funds, which will allow completion of construction (\$2,000,000) plus administration of the shelters for six months (though the project provided for the shelters to remain open for up to 13 months - the longest period such a solution would be politically viable). Construction of some shelters was completed in time to open most schools by March 1 but some transitional shelters are still under construction. At the same time, municipalities have continued along a parallel track to identify permanent housing solutions. USAID's Office of Transition Initiatives (OTI) recently signed a \$2 million grant to IOM to help accelerate the process of developing permanent solutions for those in Tegucigalpa's transitional shelters.

Constraints to housing solutions - Local governments, NGOs, and donors addressing the housing needs of dislocated and at-risk families face the following constraints:

- **The cost of land, infrastructure and housing is beyond what most affected families can pay.** Most are very low-income families and can afford payments to finance no more than one-half of a total housing solution. Many of these are single-parent families with women at the head of the household.
- **Land is the major limiting factor in devising solutions.** In most cases, because of the nature of the destruction and topography of Honduras, families will not be able to return to their land and will have to be relocated. Land availability varies widely from municipality to municipality. Some municipalities own their own land that they can use for housing, others can extend their urban perimeters to obtain more land, while others have to try to either purchase the land directly from private owners or get the central government to cede national lands. Many have found that their only option is to purchase land, for which they do not have financing. Mayors have faced mounting pressure from early on to find land under the threat that people would begin to "invade" private land to solve their housing problems. "Professional" invaders have jumped on this opportunity to portray themselves as part of the displaced population, further complicating the political problem the mayors face.
- **Access to basic infrastructure - water, sewage, and roads - is a serious limitation to housing reconstruction.** Basic infrastructure in many cases was destroyed, or, in cases where people are being relocated, is non-existent. Local governments in Honduras over the last eight years have begun to take over responsibility for these services and in secondary cities have nearly doubled basic service coverage. However, they do not have access to long-term credit or grant funds to make these new huge infrastructure investments all at once. Without water and sewage, relocation efforts will create serious sanitation problems that are likely to result in long-term health problems, or they simply won't take place at all.
- **Rapid movement to permanent housing solutions is a matter of political urgency.** The transitional housing solution of macro-shelters has already been driven by the need to get dislocated families out of schools so that the school year can begin on time. These macro-shelters and other temporary shelter solutions have, in many cases, already been politically controversial and they could become even more politically sensitive issues if solutions are not found to move people out of them into permanent solutions relatively quickly. Delays in addressing immediate housing needs also increase the possibility of land invasions.

USAID Strategic Approach - The immediate goal of the U.S. government approach to housing and shelter needs in Honduras after Hurricane Mitch should be ***to ensure that those people who lost their homes as a result of Hurricane Mitch are reestablished in new homes***. The second goal should be to ensure that those populations in clear and

immediate danger of losing their homes during the next rainy season through landslides or flooding are protected through relocation, mitigation measures, or warning systems. Activities addressing mitigation and warning measures are discussed in the section on municipal disaster mitigation.

Guiding principles - The following factors should orient the development and implementation of a U.S. government strategy to address Honduran housing issues in the aftermath of Hurricane Mitch and achieve the above goals:

- **Local governments must be a key partner** - The problem of post-Mitch housing has become one for municipal governments to solve. The central government, after some initial strategy sessions and discussions with donors, has not taken an active role. As citizens of these communities, the displaced populations themselves are looking to their municipal governments to resolve the problem. Furthermore, housing is intimately related to basic municipal services such as water and sanitation.
- **The housing problem is not amenable to one "national solution"**. Because the impact of Hurricane Mitch varied widely by city, because the resources and solutions each city has to offer also vary widely, and because many NGOs and other donors are ready to work in different geographical areas with distinct programs, the best approach is to work on a city-to-city basis.
- **NGOs offer significant resources and expertise for housing solutions, are already actively engaged in the sector, and must be a part of overall permanent housing solutions.** The NGO community, both international and Honduran, quickly mobilized to begin addressing the housing problem. Many have offered to construct houses, either with their own funds or with those of other donors, that will take care of a large part of the actual structure need. However, many are asking the municipalities to provide the land and basic infrastructure.
- **Dislocated families not currently in shelters must be included in local housing solution programs.** It is not politically possible for the municipalities to find a solution for the shelter inhabitants and not the others who lost their homes. This would put municipal governments in an untenable position, undermining rather than supporting their credibility, and damaging long-term municipal development and democracy goals.
- **Successful housing solutions will require attention to important social factors such as the desire of communities to remain together, access to employment, and personal security.** The maintenance or development of a sense of community will be critical to the success of housing solutions as will attention to key social factors such as access to community services, employment opportunity, and a sense of security in a new environment. Fairness and consistency in the solutions offered to dislocated families will also be important.

- **Participation by affected communities and families will be important to the success of housing solutions.** Affected communities and families must have input into decisions about the housing solutions that involve them. Program designs should maximize their participation at all stages of design and decision-making.
- **Cost recovery and self-help solutions should be an integral part of U.S.-financed housing programs.** Recognizing that the target population has limited resources and will require some degree of subsidy, U.S. assistance should not create expectations of free housing or contribute to dependency on outside resources and efforts. Appropriate levels and principles (e.g. payment for municipal services) for cost recovery should be identified and programs should encourage the active involvement of beneficiaries in development of their own housing solutions.

Sub-objectives - The above factors will orient activities designed to accomplish the following sub-objectives:

- **Sites and services developed for dislocated families** - The solution to the housing problem basically revolves around four essential components being in place: land, basic infrastructure, a "house" or structure per se, and a viable financing package. The most immediate and highest priority objective in addressing post-Mitch housing needs is to develop sites and services that address the first two of these components through:

Filling gaps and bringing together resources - There are many different entities working to resolve the housing crisis, especially the municipalities and the NGO community. However, often the solutions have broken down for lack of one or more of the essential elements. Most frequently the missing elements have been the land and/or basic infrastructure. Many other donors -- NGOs and governments -- are offering housing, and are willing and able to manage the financial package, but do not have the resources or are unwilling to finance the land and basic infrastructure.

USAID/Honduras will help fill in the gaps in housing solution packages, whatever they are. The most likely missing ingredients will be land, water and sanitation services, coordination and information sharing, and community services such as schools, health clinics, community centers/ recreation areas, and public transportation systems. As noted above, USAID's Office of Transition Initiatives (OTI) has begun a program in Tegucigalpa focused on moving people out of transitional

shelters by bringing together various actors and sharing information. USAID/Honduras is working in a similar way in other municipalities. Completion of these efforts will require supplemental funds when they become available.

- **Houses constructed for dislocated families** - Many of the solutions already underway include the construction of a house and ultimately some kind of structure is required for a permanent housing solution. While the primary focus of U.S. efforts will be on providing basic sites and services (based on the expectation that other donors and private sources of financing will provide resources for constructing a "house" on a serviced site), equity issues, political urgency, or other circumstances may create a compelling rationale for U.S. involvement in the construction of houses. This involvement could involve grants to NGOs for provision of basic materials for self-help construction, development of complete package solutions, financing to purchase materials needed, or some kind of voucher system for dislocated families to identify their own solutions. USAID will work with partners to assure that the specific needs of women head-of-households are addressed.
- **New communities developed in resettled areas** - Housing solutions are not complete unless various social issues are considered, including the need to develop a sense of community in resettled areas. The provision of key community services such as primary schools and kindergartens, health clinics, community centers/recreation areas help to create a community identity, but additional efforts to create community organizations may be required. Some further analysis of the social/psychological process of building communities in resettled areas may be required to identify appropriate activities and implementing mechanisms.

Results Anticipated- The activities described above should produce results that can be measured by the following indicators:

- Permanent housing solutions developed for all residents of transitional shelters (estimated at 5,000 families)
- Permanent housing solutions developed for other displaced families (estimated 5,000 families)
- Water and sanitation services provided to newly resettled communities
- Community development services provided to newly resettled communities

Linkages to Regional USAID Programs and Other U.S. Agency Plans - The strengths and resources of the various U.S. agencies seeking supplemental funds for housing-related activities should be integrated into this overall strategic approach and coordinated through clear mechanisms for information sharing and decision-making. The assessment process and development of this strategic approach has involved various U.S. agencies (USAID, HUD, USGS, Corps of Engineers, USDA). Each agency has relative strengths and resources that can contribute to successful implementation of this strategy that will

be optimized if their contributions are carefully coordinated in relation to the activities of the other cooperating agencies. HUD has proposed a program that focuses on housing finance and improved housing construction. The USGS and Army Corps of Engineers have helped review proposed sites for housing developments and provided technical expertise to resolve water and sanitation problems for new communities. Both Agencies will be called on to continue providing this type of assistance on an as-needed basis. The Army Corps of Engineers may review complex design issues for infrastructure development.

Linkages to GOH Reconstruction Program and Other Donor Plans - Housing issues are a very high political priority for both the central government and municipalities because of the visibility of the problem. Other donors, particularly Taiwan, Sweden, Canada, Spain, and Germany, are actively involved in various housing programs, generally through support to NGOs. However, few other donors are willing or able to address the need for land and water and sanitation services, which will be the focus of the USAID contribution to housing needs. The IDB and USAID have worked closely in developing a strategy for the housing sector. An IDB shelter team completed an initial assessment in December and a \$10 million loan proposal for a post-hurricane housing program has been developed that complements the U.S. government strategy outlined above. Coordination of donors and NGOs in the shelter sector is being done largely at the municipal level.

Proposed Implementation and Management Plans - In most cases, the U.S. can continue to work through FHIS for rehabilitation and reconstruction of water and sanitation infrastructure, in collaboration with SANAA (the state water authority) where the work involves extending a SANAA system. USAID's Office of Transition Initiatives has already signed an agreement with the International Organization for Migration (IOM) to implement a program to help move residents of Tegucigalpa's transitional shelters rapidly into permanent housing solutions. USAID will probably also make a limited number of direct grants to NGOs for housing solutions which would include the potential for subgrants to other (primarily local) NGOs. USAID is currently using the Tegucigalpa experience as a pilot to test potential mechanisms.

4. **Educational Opportunities Provided for Hurricane-Affected Students**

Problem Analysis - Hurricane Mitch destroyed the Ministry of Education's central building in Tegucigalpa and washed away all student records, destroyed and damaged thousands of classrooms throughout the country, and damaged or carried away many school supplies. In addition, many schools were used as temporary shelters by dislocated families and need to be rehabilitated for school use. The dislocation of thousands of families has created other challenges for the educational system as many students are relocated to shelter areas or resettlement areas. This family dislocation will likely increase drop-out rates and exacerbates issues such as the lack of educational opportunity for teenage youth that creates incentives to migrate to the U.S. Thus the hurricane has dealt a major setback to education efforts in a country where a major cross-cutting

development problem is that most Hondurans do not have a sufficient level of education to contribute significantly to the process of economic development, nor the solid educational foundation that would bring increased income, wider use of improved health and family planning practices, better care for natural resources, and greater participation in democratic decision-making.

Potential for further erosion of the quality of basic education and increased repetition and drop-outs - The formal education system will be most affected by dislocation of students and teachers and the loss or damage to school facilities and supplies. The steady improvement in access to primary education will be set back and the already problematic quality of primary schools, as evidenced by repetition and drop-out rates, will suffer further due to teacher absences and lack of facilities. Efficiency of the system, though it has improved to 74% of entering first graders finishing sixth grade, is still a major problem. Repetition rates in the primary education system are relatively high (10-15%) with most of the repetition taking place in the first two grades. An average of eight years is required to finish the six years of primary school. Rural children generally drop out of school when they reach adolescence. Rapid, concerted effort will be required to prevent these problems from becoming worse in the aftermath of the hurricane.

Lack of educational opportunity for teenagers, exacerbated by Mitch, contributes to social problems - Only a third of the primary school graduates can find places in middle school (grades 7-9), which have gross enrollment rates of only 37%. Urban areas enroll more than 90% of the students while there is a complete lack of access to middle schools in many rural municipalities. This situation, combined with the scarcity of vocational schools in the country, leaves students, particularly in rural areas, with few options for continuing education after primary school. Thus there are many out-of-school youth and young adults ages 14-45 who have not completed grades 7-9 and have few opportunities to do so. This contributes to growing social problems among Honduran teenagers and young adults that include growing involvement in gangs, drug addiction, and street crime. Loss of facilities and dislocation of teachers and students caused by Hurricane Mitch will further exacerbate this situation. Young men between the ages of 18-44 with little employment potential or educational opportunity are the largest group of Hondurans attempting to emigrate to the U.S.

USAID Strategic Approach - The USAID/Honduras response to education problems created by Hurricane Mitch is oriented by the Mission's experience in the education field over the last 20 years. This orientation is expressed in the following guiding principles:

- **Where possible, find alternatives that complement formal Ministry programs**
- The presence of other major donors and the intransigence of many institutional problems has led USAID to focus on programs that work outside most of the formal education structures. This includes a focus on the potential role of NGOs and the private sector in providing vocational education, expanding middle schools, and developing a network of pre-schools. USAID focuses on building public-private partnerships that will address critical education needs.

- **Augment teacher skills through technological means** - Since the process of teacher training is long-term, USAID has focused on using technology - especially radio and TV - to quickly bring improved teaching techniques into the classroom.
- **Focus attention on rural needs** - Recognizing the disparities in educational achievement associated with rural areas and the constraints associated with rural education programs, USAID will focus attention on the specific needs of rural students in developing its programming.
- **Focus on key policy issues** - The hurricane has brought to the fore many key policy issues and the loss of central facilities and records focuses attention on needed reorganization and decentralization efforts. The Ministry of Education will need expert technical assistance in dealing with many of the policy issues created by Hurricane Mitch. USAID began this process by helping the Ministry develop its "100-day Plan" to assure that schools would reopen on time for the next school year. Further technical assistance is needed as the Ministry responds to the challenges created by Mitch.

Following these basic principles USAID will use supplemental funds to support a series of activities that address specific needs created by the hurricane:

- **Replacing damaged school facilities** - USAID will finance the repair and rehabilitation of schools damaged by the hurricane or prolonged use as shelters. Other donors have helped begin the process of school reconstruction and rehabilitation but some 400 schools still require repairs. Where relocation and resettling of families creates needs for expanded or new facilities, USAID may also fund new construction. USAID will also fund replacement of lost and damaged supplies.
- **Meeting the needs of dislocated students** - USAID will finance the rapid expansion of EDUCATODOS programs to those departments most affected by the hurricane. The "EDUCATODOS" or "Education-For-All" program currently provides out-of-school youth and adults an accelerated program for grades 1-6 through alternative delivery systems. EDUCATODOS is radio-based and uses a local facilitator and printed materials to work through a basic education program. The program currently operates in only 10 of 18 Departments. USAID will promote the expansion of this program through NGOs, private businesses, and other organizations to departments where hurricane dislocations were greatest. A major push will be to expand the program into more businesses and to use NGOs to expand into secondary cities, smaller towns, and rural areas. In addition, USAID will help upgrade the technology used in the EDUCATODOS program by providing more radios and tape recorders.

To expand educational opportunities for the age group most likely to contribute to social problems and immigrate to the United States, USAID/Honduras will use

supplemental funds to finance the rapid expansion of EDUCATODOS through grades 7-9 including the simultaneous development of the curriculum for these grades, training of promoters and facilitators, and establishment of local centers in key locations with access for potential students. Technology upgrades will also be developed for these programs by providing TVs and VCRs, as well as computers with internet access, to EDUCATODOS centers focused on teaching grades 7-9 to out-of-school youth and young adults, including the population of 18-44 year-olds most likely to migrate illegally to the United States.

- **Accelerated incorporation of distance learning methodologies** - To help address the needs of schools and teachers in the post-Mitch environment and address the problems created by loss of supplies and facilities, supplemental funds will be used to finance the rapid expansion of distance-learning programs within the formal system. This will include interactive radio instruction within the classroom through programs such as the "Family of Numbers" which has been successfully used in a number of Latin American countries and the Tele-Basica program pioneered in Mexico.
- **Rapid construction of new vocational facilities** - Given the importance of developing skills for economic reactivation and reconstruction and the need to address social issues such as gang activity and migration, USAID will use supplemental funds to finance a rapid construction program of new vocational education facilities and the mobilization of new programs in those facilities to reach a target population between the ages of 18-44.

USAID will also explore the possible need to cover costs for transportation, books, supplies, and other incidental costs that often become a constraint for participation by rural students in vocational education or in the more center-based EDUCATODOS programs teaching grades 7-9 to out-of-school youth and young adults.

Results Anticipated - The activities described above should produce results that can be measured by the following indicators:

- Rehabilitation/construction of 400 schools
- Construction of 15 vocational education centers
- Creation of new EDUCATODOS centers to teach grades 7-9 to out-of-school youth and young adults
- Training and equipping of EDUCATODOS facilitators in departments affected by Hurricane Mitch
- Establishment of EDUCATODOS programs in private businesses and community-based NGO programs.
- Incorporation of distance learning techniques in classrooms throughout the country

Linkages to Regional USAID Programs and Other U.S. Agency Plans - LAC/RSD manages the PERA Program (Partnership for Educational Revitalization in the Americas) and works with PREAL on this activity (Programa de Promoción de la Reforma Educativa en America Latina y El Caribe). PERA helps build public and private sector support for educational reform, strengthens public and private organizations working for education improvement, and identifies and disseminates best education policies and practices. This activity complements the Mission's proposed educational activities and their underlying principles and is a potential resource for assistance in fostering greater public/private involvement and support for improvements in the education system.

The Center for Human Capacity Development in the Global Bureau (G/HCD) has mechanisms to provide technical assistance and support under the LearnLink Project in the areas of Interactive Radio Instruction (IRI), education applications of information and communication technologies, and distance learning. In addition, technical assistance is available under G/HCD's Advancing Basic Education and Literacy II (ABEL II) Project in a variety of complementary areas including community participation and alternative primary school systems.

Linkages to the GOH Reconstruction Plan and Other Donor Programs - The GOH Reconstruction Master Plan targets education as a central focus and includes greater community involvement in schools as a priority. The World Bank has a major program addressing formal primary education which includes textbooks, teacher training, ministry reorganization, student evaluation standards, reform of employment and salary regimes, and community involvement. This program, focused almost entirely on the formal education system, has moved very little over the past few years and has been almost entirely ineffective because of poor management of the project. The program is currently being restructured. The IDB has begun a program focused on middle school education that has also moved very slowly. The German government has financed the purchase of textbooks to replace those lost due to the storm and has offered to build a new building for the Ministry. The Spanish have an alternative delivery program called PRALEBAH (Programa de Alfabetización y Educación Basica de Jovenes y Adultos de Honduras) which works in the Departments of Olancho, Colon, and El Paraiso. They are also planning a new program related to community involvement in pre-school. A donor's coordination group in education was formed shortly after the hurricane (Nov. 1998) to provide a forum to share information on who was planning to do what in response to reconstruction needs. Members include representatives from UNDP, IDB, GTZ/World Bank, UNESCO, UNICEF, PREAL, and USAID.

Implementation and Management Plans - New school construction and major reconstruction will probably be most efficiently accomplished through an agreement with the Honduran Social Investment Fund (FHIS). Other school rehabilitation efforts will be financed through NGOs who can use the opportunity to build community involvement in local schools and education issues. These NGOs will be funded through an umbrella agreement with an institutional contractor or lead NGO that will also manage grants for the rapid expansion of EDUCATODOS and development of programs to expand distance

learning methodologies. An institutional contractor will be responsible for rapid construction of vocational schools and developing the initial management of those facilities through agreements with NGOs.

5. **Environmental and Disaster Mitigation Needs Addressed**

Problem Analysis - Poor management of protected areas, watersheds, reservoirs, and flood control systems contributed to the level of damage and destruction caused by Hurricane Mitch as deforested hillsides became landslides or failed to hold water, reservoirs breached, and levees gave way, thereby contributing to flash floods. In urban areas, squatter settlements and other unplanned developments contributed to loss of life as houses and businesses located in vulnerable areas were lost to landslides and flooding. Moreover, Hurricane Mitch highlighted major weaknesses in Honduras' ability to manage a major disaster that require action to prevent loss of life and property in the future. The landscape has literally changed because of Hurricane Mitch and created new potential for further flooding and landslides during upcoming rainy seasons. Honduras must clearly identify where the risks to people and property are most acute and take action to reduce those risks and protect the country's citizens and resources.

Watershed Management - Experience with sustainable environmental management in Honduras is limited but rapidly growing based on a nucleus of trained professionals from previous USAID involvement in this field. Many hillside farmers and even some foresters are not familiar with soil and water conservation methods, though Honduras has gained significant experience in this area over the last 16 years - particularly through USAID's Land Use and Productivity (LUPE) and predecessor Natural Resource Management projects and spin-off programs funded by other donors. Environmental groups are still relatively weak, though their number and strength are growing. The Government of Honduras (GOH) is taking some steps; for example, numerous "protected areas" have been declared, but budget resources to actually manage these areas is lacking because environmental protection is still a low government priority. The flooding and mudslide devastation was amplified by deforested watersheds and unsound hillside agricultural practices. This was clearly demonstrated during Mitch at the site of a USAID-funded demonstration plot showing the effectiveness of environmentally sound hillside agriculture technologies. The steep slope micro-watershed test plot treated with the "complete" soil/water conservation package (mulching, stabilizing grass barriers and agroforestry) underwent virtually no erosion, while the adjoining test plot with only mulching suffered massive mudslides.

Municipalities have some responsibility for management of watersheds in their jurisdiction through their mandated "Environmental Units". However many municipalities do not have the resources or experience to adequately carry out this responsibility and many are subject to strong private interests. Larger watersheds require broader levels of responsibilities which are only beginning to emerge. The Sula Valley Executive Commission (CEVS) is an initial attempt at creating a river valley authority to deal with overall watershed and river basin issues (along the lines of the Tennessee

Valley Authority). Municipalities in the El Cajon watershed have formed an association to work together on issues affecting that watershed. The state forestry agency, AFE-COHDEFOR, has jurisdiction over national forests that are a major element of watershed management in some areas and has been coordinating with municipalities over the management of micro-watersheds which produce community drinking water. Development of effective institutions and/or coordination mechanisms for dealing with watersheds and river basins will be an important step in rehabilitating deteriorated watersheds, developing and sustaining early-warning systems for flood control and timely evacuation, and building and maintaining appropriate disaster mitigation infrastructure in upper and lower watersheds and river basin flood plains.

Disaster Mitigation - Hurricane Mitch left the geographic face of the country substantially changed and probably much more vulnerable to future flooding and landslides. Due to the instability of the soil in some areas as a result of erosion, and to the raised beds of rivers, many areas of the country are in danger of suffering flooding or landslides in the next rainy season, if certain mitigation efforts are not undertaken in the short term. While the long-term answer to these problems lies in adequate watershed management and reforestation, there is an immediate need to understand the characteristics of post-Mitch river systems and basins, to identify those high-risk areas that are most vulnerable to future flooding and landslides, and to design the mitigation actions that need to be taken: relocation of people, dredging of rivers, construction of levees, installation of warning systems, etc. Much of the planning for reconstruction - identification of flood plains, design and location of bridges and roads, location of resettled populations, decisions on investment in agricultural infrastructure, business relocation decisions - depend on this information and its wide dissemination and use.

Disaster Preparedness and Management - The Honduran disaster preparedness network and emergency plans were overwhelmed by the scope and magnitude of Hurricane Mitch. Central level institutions did not react quickly and effectively, delaying important response efforts and creating confusion in the immediate post-hurricane period. Municipalities were much more effective in meeting local needs but lacked resources or training to carry out important functions. The loss of key transportation and communication infrastructure created additional problems for the disaster response effort. While few natural disasters are likely to reach the level of Mitch, the hurricane highlighted the need to develop better plans, communications, and systems to respond to future disasters. It will be important to take action on these fronts now while the memory of their critical importance in a disaster situation is still fresh.

USAID Strategic Approach - Supplemental funds will be used to build on previous experience and accelerate improved watershed management applying proven technologies, address the immediate needs to identify vulnerable areas and respond appropriately, and help Honduras prepare for future disasters. Activities in these areas will contribute to the following sub-objectives:

- **Rehabilitation of Key Watersheds** - Supplemental funds will be used to develop activities to rehabilitate and protect several large key watersheds affected by Hurricane Mitch and accelerate early implementation of those activities. Many of these initiatives will also contribute to global climate change objectives. Activities will be focused in the following three areas:

Strengthened municipal regulatory capacity for watershed and river basin management - Training and technical assistance will be provided to municipal authorities, perhaps provided by local conservation consulting services, on the hows and whys of land use control in catchment areas of upper municipal watersheds. This effort will be channeled through the municipality's "Environmental Unit" which will be established and/or strengthened as necessary. Specific topics may include delineation of zones to prohibit selected practices (traditional basic grain cultivation, extensive cattle grazing, burning, cutting of timber, etc.), reforestation, a municipal decree to establish parts of the local watershed as a reserve, or even the purchase of parts of the core zone by municipalities. Training will be targeted to authorities from priority municipalities located within the most critically-deteriorated sections of watersheds and river basins, as determined by on-ground assessments and the Geographic Information Systems analyses carried out by an Inter-Agency Environmental Team (USGS/USACE/USDA/NOAA). Activities will be carried out at a much lower scale, mostly as a "refresher", in the Choluteca and Nacaome watersheds, where municipalities have already received this type of assistance through USAID's LUPE project in central and southern Honduras although work with associations of mayors will intensify in these watersheds.

An important element of this activity will be to support the efforts of affected municipalities to form small associations of municipalities around shared watershed and river basin issues as a step toward the development of river valley authorities. USAID/Honduras will provide financial support for these watershed and river basin associations of municipalities and some technical assistance in local watershed and river basin issues.

Implementation of municipal watershed management plans - Management plans for municipal watersheds (the

catchment area surrounding and/or under the jurisdiction of a community or municipality, generally in the range of 3,000-5,000 hectares) will be developed and implemented as an outcome of the above-mentioned assistance to municipalities. Initial small-scale management plans were developed through technical assistance to approximately 40 municipalities for municipal watersheds feeding the Choluteca, Nacaome, Guayape, and Ulua rivers during the final two years of the LUPE project. Only a few of these plans have been put into action. To implement new and already existing local watershed management plans USAID will use supplemental funds to provide grants to local NGOs for work in close coordination with the corresponding municipality to effectively and expeditiously carry out the recommended actions from each of these plans.

Expanded promotion of sustainable hillside agriculture technologies - Working through NGOs, supplemental funds will be used to expand the sustainable hillside agricultural activities, promoted by the LUPE Project in central and southern Honduras during the past nine years, to other geographic areas of the country located within critical watersheds. Groups of former LUPE technicians, some of whom have already formed consultancy firms, will be contracted by participating NGOs to select appropriate farmer leaders and provide them with intensive training in sustainable hillside technologies such as mulching, stabilizing grass barriers, and agroforestry, using the LUPE training materials. An important part of the training will be the adoption of the technologies by farmer leaders on their farm plots, in order to demonstrate their effectiveness to neighbors. The geographic coverage will be those mountainous areas of the country, within critically-deteriorated watersheds, not already reached by the LUPE project and other similar programs.

- **Development of Environmental and Disaster Mitigation Information** - Supplemental funds will be used to carry out environmental and geo-spatial mapping of key upper watersheds, lower river basins, and coastal areas and for flood plain and landslide risk-mapping covering urban and key agricultural areas. This environmental and risk mapping will build on the initial work of the USGS and Corps of Engineers and will be largely managed by the USGS.

- **Development of a GIS Network** - The USGS will also develop a Geographic Information Service (GIS) network in Honduras linking academic, government, municipal, NGOs, and private sector users of geographic information by building computer nodes and internet links that connect with primary GIS centers established in the most appropriate and capable institutions. Stream flow, river topography, and precipitation data needed for the design of flood plain risk maps, flood control infrastructure, early warning systems, and roads and bridges will also be collected into this information base and network. GIS technologies allow base maps, aerial photography, data from landslide and flood risk assessments, hydrologic data, water-quality data, site-reports, engineering data, and other information to be integrated into comprehensive data bases that support activities in a variety of sectors (infrastructure design, municipal and urban planning, housing, disaster preparedness, economic investment decisions, health). GIS products provide tools to more effectively plan reconstruction activities, visualize options for rebuilding, relocation, and resource management, estimate material costs, and archive other relevant information. These products, which evolve and grow as more information becomes available, will also provide national and local government agencies and USAID with a management tool to track and monitor their operations. In-country counterpart participation costs will be covered by USAID/Honduras while USGS costs and equipment will be covered through the Regional USGS collaborative project.
- **Disaster Preparedness** - USAID/Honduras, with assistance from OFDA/FEMA, will use supplemental funds to 1) develop disaster plans in the larger municipalities throughout the country that include evacuation plans, development of safe havens, storage of supplies and food stocks, and assignment of responsibilities; 2) develop warning systems for timely evacuation from risky areas; 3) train municipal officials and other important community groups in risk assessment, risk management, disaster mitigation, disaster preparedness, early warning systems, estimating damages, and effective disaster management and response; 4) carry out and disseminate risk mapping of each municipality to guide land use planning, relocate at-risk populations, prioritize risk management actions, and identify infrastructure requirements; 5) support municipal public education campaigns to educate communities on risks and risk management/mitigation; 6) develop communication systems to assure dependable lines of communication in future disasters; and 7) finance critical disaster mitigation infrastructure - this will likely include a major program of storm drainage in the major cities of Honduras (such a system developed under the USAID Municipal Development Program in Puerto Cortes prevented major damage experienced in many other cities) and could include dikes and levees in either rural or urban environments, or other critical infrastructure identified by the USGS, Army Corps of Engineers, or other experts.

Anticipated Results - The activities outlined above should produce results that can be measured using the following indicators:

- Environmental risk maps prepared for 40 municipalities
- A GIS network formed to share information for land use planning, river system characterization, watershed and river basin management, infrastructure design, and disaster mitigation
- Municipal watershed management plans developed and implemented in target municipalities with watershed damage due to Mitch
- Local watersheds in Mitch-damaged areas totaling 350,000 hectares with management plans developed and implemented
- Farmer leaders trained in sustainable hillside conservation
- Disaster preparedness plans developed for 40 municipalities
- Local officials and community leaders trained in disaster preparedness
- A dependable communications system for disaster management developed
- Comprehensive storm drainage systems constructed in 18 primary and secondary cities

Linkages to Regional USAID Programs and Other U.S. Agency Plans - The USGS, supported through a regional agreement using supplemental funds, will play a critical role in the achievement of this objective - USGS has expertise in collection and compilation of key geographic and hydrologic data needed for infrastructure design, disaster mitigation, natural resource management in installation of flood-warning stream gage networks, and production of hazard (landslide and flood) maps. NOAA will work with the USGS on upgrading the hydro-meteorological data collection networks and on flood warning and river forecasting systems. The Army Corps of Engineers will provide assistance in developing appropriate recommendations for disaster mitigation infrastructure using the USGS-developed data. OFDA/FEMA will carry out a regional disaster preparedness program for national level institutions that will complement USAID/Honduras' focus on municipalities and disaster communications. The USDA will provide assistance in watershed management, forestry, and soil conservation efforts. G-CAP is proposing a regional program to address transnational watersheds and coastal areas which will complement USAID/Honduras efforts.

Linkages to GOH Reconstruction Program and Other Donor Plans - Disaster mitigation and improved watershed management are both highlighted in the GOH Reconstruction Master Plan as important elements of the reconstruction program. USAID efforts will complement the work of other donors involved in watershed management including the FAO's Lempira-Sur Project in the southwestern corner of the country, the Canadian program of watershed and forestry management in Olancho, and Atlantida and the IDB-financed El Cajón Watershed Management Program. Funds have been promised

by other donors for disaster mitigation infrastructure but no other efforts to identify, prioritize, and organize this effort are underway. UNDP proposes some involvement in disaster preparedness and USAID efforts will be coordinated with them and any other donors proposing similar assistance.

Proposed Implementation and Management Mechanisms - Most of the watershed management activities can probably be managed through subgrants to local or international NGOs through Fundación VIDA, the subgranting mechanism used for the Mission's current environmental program focused on protected areas. Some of VIDA's granting mechanisms will be modified to accommodate a broader program area and the need to identify local groups with links to various municipalities. The Honduran Association of Municipalities (AMHON) will be used to facilitate formation of associations of mayors to deal with common watershed and river basin issues. Geographic and disaster information sharing and dissemination will largely be managed through an inter-agency agreement with the USGS and through a cooperative agreement with UNITEC, a private Honduran university. Disaster preparedness activities will be managed through OFDA contracts with a possible contract with a private sector firm or consortium for development of a disaster communications system. Disaster mitigation infrastructure will likely be managed through the Employment Generation Unit of FHIS, which has carried out similar projects under the Mission's ongoing Municipal Development Project. Training of municipal officials and community leaders would be done through expansion of municipal training efforts now carried out by UNITEC and FUNDEMUN, with technical assistance and trainers provided through OFDA. All proposed local partners in implementation of activities under this intermediate result are presently receiving USAID assistance and have a proven track record in management and use of USAID funds, with certified audit and accounting systems. The Mission will draw on Corps of Engineers expertise for technical assistance in the more complex disaster mitigation infrastructure such as levees through a broad technical assistance agreement.

6. **Improved Local Government Response to Citizen Needs**

Problem Analysis - Hurricane Mitch had a devastating effect on municipal infrastructure, housing and finance. In spite of the considerable blow to municipalities, it is the local governments that are at the forefront of reconstruction efforts with the support of their communities. During the first ten days of the storm, all the municipalities were completely isolated, and, therefore, had to use their own resources to attend to those displaced, and to buy food, medicines and other emergency supplies. In many cases these costs amounted to all the cash they had available and included the monies needed for normal operating costs. Some municipalities have not been able to meet payroll and other operating costs since then as a result.

The costs to the municipalities continue to grow. On January 5th, President Flores announced that the central government would turn over all responsibility for displaced persons in shelters to municipal governments. The municipal governments continue doing what they can to clean up, open roads, rehabilitate local bridges, fix water systems,

locate and sometimes purchase land for resettlement, clean rivers, feed and house the displaced, and a multitude of reconstruction tasks. The community looks to the local government for solutions, and they are doing their best to respond with extremely limited resources.

Yet nearly all the international assistance to date has been channeled through the central government and NGOs. The central government has not made any special transfers to support municipalities in facing their financial burdens, nor has it indicated any intention to do so. Municipalities are by law entitled to a transfer of 5% of central government revenue but are now receiving no more than 1.5%. Municipalities have been very involved in programming food assistance and food-for-work programs but these programs have sometimes further stretched their staff and budgets (municipalities have been paying for local distribution of World Food Program food assistance). Many have also received critical clean-up and preliminary infrastructure repairs mostly funded by USAID and other donors through FHIS. Some central government resources have also been provided through FHIS.

The reconstruction process can provide a good opportunity for municipalities to strengthen their capacity over the long term, build their credibility, strengthen community participation in local government and reconstruction decisionmaking, and effectively reconstruct communities. Ultimately this effort involving local governments contributes to the strengthening of democracy in Honduras. As the preceding problem analyses show, however, municipalities must be able to address a number of major issues successfully during the post-Mitch period to build credibility and confidence: opening local farm-to-market roads, housing, restoration of major water and sanitation infrastructure, identification of high-risk areas and appropriate response (evaluation, land-use planning, disaster mitigation infrastructure, etc.), watershed and river basin management issues, and future disaster preparedness. This will continue to stretch their limited personnel and financial resources.

USAID Strategic Approach - As noted in the discussion of cross-cutting themes and the strategic approach to each of the preceding intermediate results, USAID sees a critical role for municipalities in the reconstruction process. Such a role is important because 1) it supports the process of decentralization, that in turn reduces the potential for return of centralized, authoritarian government and 2) investments based on local decision-making processes are likely to be more responsive to citizen needs.

Much of the USAID strategic approach to improving the responsiveness of local governments to citizen needs is embodied in the strategic approach to other intermediate objectives. This includes involvement of municipal officials in the rural road and bridge rehabilitation program and the subsequent maintenance of those roads; reconstruction of municipal and rural water, sewage, and solid waste infrastructure; municipal involvement in infectious disease control efforts; a major role for municipalities in finding permanent housing solutions for displaced families; local community involvement in both formal and non-formal education efforts; development and implementation of watershed

management plans; responding to identification of areas vulnerable to future flooding or landslides; and development of disaster preparedness and management plans.

Municipalities simply cannot take on all of these tasks without direct assistance in the form of technical assistance and additional resources - especially if they are to continue their efforts to expand community participation in decision-making. Therefore, in addition to the specific assistance to municipalities outlined above under other intermediate objectives, USAID will help strengthen municipal governments through activities associated with the following sub-objectives:

- **Restored Municipal Financial Health and Increased Income** - In addition to the ongoing technical assistance provided to target municipalities under USAID's ongoing municipal development program, supplemental funds will be used to address the critical financial needs facing most municipalities in the post-Mitch context. Technical assistance will be provided to participating municipalities to help them return to pre-Mitch levels of local income generation as soon as possible, and then continue to increase their real revenues. This will include assistance to modernize tax systems, public service units, and land cadastres that are elements of sound financial management. Supplemental funds may also be used to develop other sources of financing for municipal needs, including efforts to work with the central government and international donors to channel more resources to support municipal reconstruction efforts. Technical assistance will also be provided to continue strengthening municipalities' financial and administrative capacity so that they are equipped to manage reconstruction efforts.
- **Improved Accountability and Transparency in Local Government** - USAID-financed technical assistance to municipalities will continue to include assistance to modernize accounting systems and efforts to insure that participating municipalities continue to maintain functioning internal control systems and an efficient organizational structure. Budgets in USAID-supported municipalities are submitted for discussion at town meetings. Training on implementing internal controls is currently underway for municipal officials nationwide based on a manual produced with the help of the Controller General. Some funding for reconstruction projects managed by municipalities will help them develop experience in contract management and oversight, and will be used by technical assistance providers as a means of building workable, transparent, and accountable systems for project management. AMHON has contracted an audit firm to oversee use of OFDA resources flowing directly to selected municipalities. That firm is also providing assistance to individual municipalities in the context of its oversight functions. Any USAID funding directly through municipalities will be subject to a concurrent audit.
- **Incorporation of Disaster Mitigation Programming in Urban Development Strategies** - As a complement to the efforts made to identify land areas that are vulnerable to future disaster and provide disaster mitigation infrastructure as

outlined above, USAID will support efforts to incorporate this information in Urban Development Strategies in secondary cities that will contribute to better long term urban planning, definition of risk areas, definition of areas for growth/relocation, and better land use planning.

Supplemental funds may also be used to broaden the reach of USAID assistance to additional municipalities through development of regional municipal associations, pairing of smaller municipalities with secondary cities, improvement and expansion of UNITEC training modules providing training to municipal officials nation-wide, and through technical assistance through community-based NGOs.

USAID/Honduras will continue to promote improved citizen participation at the municipal level. One of the comparative advantages local governments have over national governments is their ability to mobilize local community resources, both human and financial, to support community development. This mobilization of the local community will be key to reconstruction efforts. Citizen participation in the local government decision making process has been one of the most important components of the USAID municipal development program since its onset and is a true indicator of democratic development in Honduras. USAID programs with target municipalities have focused on increasing the participation of women and ethnic minorities. Important project activities in the area of citizen participation contributing to post-Mitch recovery are:

- ***Municipal open town meetings*** regarding reconstruction projects and local revenue generation/recuperation. Community support is important in overseeing reconstruction, agreeing to pay tariffs that will allow the municipality to sustain basic services that are reconstructed, paying local taxes and participating in reconstruction projects.
- ***Activities of the Association of Municipalities (AMHON)*** to encourage its membership to work closely with communities in all aspects of reconstruction. AMHON will continue to represent municipal needs and concerns regarding the reconstruction process to the national government through fora in which they participate.
- ***NGO work*** directly with community based organizations, helping them to strengthen their ability to dialogue with the local government regarding reconstruction priorities.

Anticipated Results - Many of the most important results of USAID's work with municipalities are cited above in relation to public health, housing, and disaster mitigation, etc. Other specific results from the activities outlined above and the continuing USAID municipal development program include:

- Participating municipalities return to September 1998 levels of local income generation
- Development of Urban Development Strategies in fifteen secondary cities

- Citizen participation in reconstruction decision-making

Linkages to Regional USAID Programs and Other U.S. Agency Plans - LAC/RSD's regional local government program will provide resources for training and technical assistance.

Linkages to GOH Reconstruction Program and Other Donor Plans - The GOH Reconstruction Master Plan recognizes the important role of local government in the reconstruction process though it doesn't develop mechanisms to address what they need to contribute effectively. The UNDP has a program of support to key municipalities and some municipalities have links to other bilateral or multilateral donors (Spanish, IDB) but none of them are specifically focused on municipal finance issues, urban development planning, or community participation.

Proposed Implementation and Management Mechanisms - Most of this work would be managed through the same implementing agencies used under the ongoing Municipal Development Program: FUNDEMUN, a local NGO providing technical assistance to municipalities; AMHON, the Honduran Association of Municipalities; and UNITEC, a local private university that has been providing training to municipal officials from all municipalities. USAID will explore the possibility of providing grants to other NGOs to provide assistance to smaller municipalities not currently reached by the USAID program. To provide additional resources for municipal accountability, USAID will continue to support the contracting of an audit firm by AMHON to help provide oversight of municipal activities.

7. **Improved GOH Reconstruction Accountability and Transparency**

Problem Analysis - Accountability and transparency in government are key elements to creating citizen and international confidence in the operations of the public sector. Honduras has the unfortunate reputation for being one of the most corrupt countries in the world. Whether that reputation is justified fully or not, there is significant concern about corruption in government operations. Furthermore, the perception of corruption can be just as damaging to the credibility of public sector operations as the reality. These problems undermine the confidence of citizens in its own government, and of the international community in the ability of the government to use effectively the resources made available for economic and social development. The challenge of this issue is exacerbated by the prospect of significant donor and national resources dedicated to the reconstruction effort, including those national resources expected to be available as a result of debt relief.

Accountability and transparency will require improved GOH systems in procuring and managing contracts for reconstruction work, strong oversight by GOH entities and independent firms reporting to donors directly, and also a more vigilant civil society. Development of these systems and programs could help create the institutional foundation to establish systems in both the GOH and civil society to assure enforcement of acceptable standards of accountability and transparency over the long term.

USAID Strategic Approach - The Mission, in collaboration with other partners, intends to negotiate implementation systems that support an integrated approach designed to improve accountability and transparency in the government's reconstruction effort. The program consists of two principal components with a potential role in a third depending upon the actions of other donors:

- **Independent Donor Oversight Established in Major GOH Implementing Agencies** - The first component consists of an implementation oversight function located within the executive branch. This mechanism will function analogous to an international observer operation in election support programs. The donors will form a commission and, in conjunction with the Reconstruction Cabinet, will establish a secretariat or Honduran Commission made up of carefully selected Hondurans to coordinate day-to-day operations. The combined Honduran/donor commission will function as an advisory body to the GOH, perhaps at the level of the Ministry of the Presidency or the Reconstruction Cabinet. It will be an independent body with broad powers to contract with firms or individuals to oversee the operations of the line ministries and independent GOH agencies in the implementation of the reconstruction program. The donors in the commission will establish common criteria for their operations and decide which of them will contract for the oversight of specific implementing entities. In each case, the firm selected will have broad, independent authority to monitor the entire range of functions of the implementing entity, from pre-contract, design, and execution through the close out and evaluation phases of the program. The oversight firm will provide reports simultaneously to the Honduran/donor commission, the GOH, and the funding organization for the program monitored. The oversight firm will also provide training to the implementing entity in internal controls and other aspects of oversight monitoring. This latter activity will help strengthen the institutions, and permit this reconstruction effort to segue into the broader IDB financed procurement reform program.
- **Strengthened Controller General Capacity** - The second component consists of strengthening the Controller General in its constitutional responsibility to conduct ex post facto and concurrent audits. Using supplemental funds, USAID will continue to provide support for the efforts of the Controller General to audit the reconstruction process, building on the Mission's past relationship with the Controller General and the recent agreement between USAID and the Controller General to use local currency funds to contract with an independent firm to audit reconstruction resources. Past USAID efforts to strengthen the Controller General's office focused initially on improving their capability to audit USAID projects. Over time, this effort produced additional accomplishments, including publication of norms and standards for programs financed with funds from other international donors. Past USAID assistance contributed directly to the Controller General's agreement with five other donors for it to audit the projects of those other donors. Given the legislative branch's responsibility through the Controller

General to conduct audits of GOH implementing entities, no program to improve transparency and accountability would be complete without a prominent role for the Controller General. The Mission, in collaboration with other donors, intends to negotiate an integrated and supportive role for the Controller General in the oversight plan.

- **Strengthened Civil Society Watchdog Capability** - The role of civil society in serving as a watchdog over governmental operations is important to a well-grounded accountability program. The Danish government is now providing assistance to the Human Rights Commission to develop a social auditing program. There are indications of early success with the publication of the first report that identified a number of instances of corruption. The Human Rights Commission turned over the report and supporting evidence to the Public Ministry for formal investigation for possible prosecution of the alleged perpetrators. The Citizen Forum recently published in local newspapers the outlines of a proposal for ensuring greater citizen oversight on reconstruction. Given the involvement of other donors and the importance of their participation in the area of accountability, the Mission will assess the need for additional support for civil society initiatives in light of other donor plans, including USAID support to NGOs and to other institutions, including the Office of the National Commissioner for Human Rights, in order to complement and reinforce other accountability efforts.

We intend to fund the bulk of the accountability and transparency in government operations activities with supplemental resources. We recognize, however, that if our work in this area is to lead to a true transformation of how the GOH operates, our program would most likely span beyond the timeframe for the implementation of the supplemental program. Consequently, we anticipate including a request for regular fiscal appropriated resources in our forthcoming resource request for FY 2001. Moreover, the ultimate effectiveness of the proposed program for transparency and accountability will depend in large measure on the proper functioning of the judicial system, which will be tasked with prosecuting alleged wrongdoing exposed by the three principal components described above. For this reason, a principal assumption of this program is that there is adequate GOH and donor support to the judicial system.

Anticipated Results - The activities outlined above should produce results that can be measured using the following indicators:

- Establishment of donor-funded oversight mechanisms in major GOH implementing agencies
- Regular independent reports monitoring procurement and reconstruction implementation going to the implementing agency, donors, and the Reconstruction Cabinet

- Regular publication of controller general audits and follow-up by the donor(s) and implementing agency involved

Linkages to Regional USAID Programs and Other U.S. Agency Plans - OTI is supporting the independent donor oversight effort and has offered additional assistance in promoting accountability.

Linkages to the GOH Reconstruction Program and Other Donor Plans - The Government of Honduras (GOH) is aware of the need to assure the world that it can manage the reconstruction effort with integrity. At the IDB donor meeting on Central American reconstruction in December 1998 in Washington, D.C., the GOH announced its intention to develop mechanisms that would ensure the accountability and transparency in the use of reconstruction resources. The GOH, in a letter from the Minister of the Presidency to the USAID Director, requested USAID assistance in helping the GOH establish a program that will ensure adequate oversight in the use of national and international reconstruction resources. The GOH proposal outlined in the letter raised questions regarding the strength and independence of the oversight entity.

Since receiving that request, USAID has discussed the GOH proposal with the IDB and the World Bank and reached an understanding with them on an alternative. Subsequently, both USAID and the IDB have met with the GOH, and the IDB presented the joint IDB/USAID/World Bank plan at the IDB meeting in Paris. GOH plans to address accountability apparently include the following elements: 1) reinforcement of the Controller General, including hiring an international firm, 2) creation of an Inspector General of Projects made up of the executing unit of the projects, a technical commission made up of national employees and an international firm contracted by the donor. (This appears to be similar to the IDB/USAID/WB suggested mechanism), 3) A special technical commission for contract award, 4) a monitoring unit made up of representatives of the Ministry of the Presidency, Finances, and SETCO, and 5) social audits.

The Danish government has been working with the Human Rights Commission to develop a social auditing system that involves civil society. The Citizens' Forum has produced its own reconstruction proposal that it recently presented to the GOH and which calls for greater civil society participation in the preparation and implementation of the country's reconstruction plan to be presented at Stockholm. We have had only preliminary discussions with the Danes at this writing, and we will continue to explore how USAID can play a role in strengthening the civil society role in oversight of the reconstruction effort.

Given the challenges the donors might face in ensuring that adequate systems are in place, the full support of the Agency and the donor community, especially at Stockholm, will be critical to permit us to negotiate an effective operational system for oversight.

Proposed Implementation and Management Mechanisms - USAID's contribution to the donor oversight program would probably involve an institutional contract with an appropriate firm for oversight of program implementation in one of the key ministries.

USAID will probably also fund the Honduran executive secretariat or Honduran commission working with the donor commission. Further assistance to the Controller General may also involve continued funding for assistance from an international firm.

C. Cross-Cutting Implementation Mechanisms

1. **Obligating mechanisms** - USAID/Honduras intends to obligate this special objective through a Special Objective Agreement with the Government of Honduras. As design work for each component of the special objective is completed, sub-agreements will be signed with relevant implementing entities to further specify the objectives and implementation arrangements in that component.
2. **Mission management plans** - The Mission will manage this special objective primarily through Strategic Objective teams corresponding to the six Strategic Objectives in the proposed post-Mitch strategic framework. For the most part, intermediate results under the Special Objective are an integral part of these longer-term Strategic Objectives and fit within a given sector program. Disaster mitigation activities will be divided between the municipal development, environment, and economic growth teams. Housing and municipal water and sanitation activities will be managed by the municipal development team and accountability activities by the rule of law team. As discussed below in the section on Resource Requirements, these teams will be supplemented by additional staff as needed to assure careful management of Special Objective activities
3. **Audits, monitoring, and evaluation** - During the process of activity design for programs under the Special Objective, USAID/Honduras will further develop the performance indicators and targets presented in this document and develop a performance monitoring plan. Where possible, much of the monitoring needed will be part of umbrella contracts to minimize the burden on direct-hire staff but monitoring the program will be a part of the direct-hire staff responsibility. USAID/Honduras will work closely with the USAID Inspector General Audit office to develop a program of concurrent audits to oversee program implementation and complement the recipient audit program. USAID/Honduras has developed an IQC-type arrangement with an international audit firm to assist in carrying out financial reviews and additional staff are being added to the Controller's Office. Given the limited time frame of the Special Objective, formal evaluations are not planned but will be utilized where required for management decisions.
4. **NGO umbrella mechanisms** - In reviewing implementation and management plans for each intermediate results it appears there may be opportunities to develop some implementation mechanisms that cut across results areas and would further streamline and facilitate implementation. For example, the work of the USGS cuts across various intermediate results and should be captured in one agreement. Likewise USAID plans to develop an agreement with the Army Corps of Engineers to easily access their planning, engineering, design, environmental, and technical capabilities. USAID plans to set aside funds for such an agreement (similar to an IQC mechanism) to support infrastructure development and planning efforts in various results areas as identified above. Since some

NGOs may be capable of working in support of a number of intermediate results because of their long-term involvement with affected communities or their expertise in a number of sectors, it may make sense to develop an umbrella NGO funding mechanism that could be used to develop programs and make grants to NGOs. USAID/Honduras will explore these options and develop those implementing mechanisms that will be most efficient and effective in programming supplemental resources.

5. **Environmental considerations** - The Mission will comply with USAID 22 CFR Part 216 Environmental Procedures for all supplemental funds under this special objective. Proposed activities in watershed management, municipal and rural water and sanitation, and construction of urban storm drains, have already been included and covered under the Initial Environmental Examinations (IEEs) and/or Environmental Assessments (EAs) from on-going projects. For the proposed activities in rural road rehabilitation and repair of existing schools or health clinics, the Mission will prepare documentation which will be submitted to the Bureau Environmental Officer (EO). Similarly, IEEs will be prepared and submitted for activities in construction of new schools and health clinics, and also of resettlement housing (if financed). In the area of disaster mitigation, the Mission is still undecided what types, if any, of flood-control infrastructure construction will be financed, but IEEs will be prepared and submitted once a decision is made.