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PRESENTATION

Honduras is on its feet, and its people as well as its government, elected democratically in 1997, working together to rehabilitate a country whose productive structure was devastated by the hurricane, which damaged a high percent of its crop and other economic activities and left thousands of people dead, disappeared or homeless.

In a short period of time, we have prepared, with the participation of representatives of civil-society organizations, the Master Plan for National Reconstruction and Transformation (MPNRT), whose essential goal is to build a new country, with economic, political and social characteristics better than those prevailing before the tragedy.

The main objectives of the MPNRT strategy are oriented toward economic reactivation with employment generation, through recovery and development of the productive and infrastructure sectors and the consolidation and eventual extension of macroeconomic reforms; combating poverty and promoting integral human development, with actions to reduce extreme poverty and improve the quality and coverage of basic social services; reduction of vulnerability, through sustained management of natural resources and the environment and an appropriate system for disaster prevention and mitigation; as well as promotion of democratic participation, with social equity in the various aspects of national life.

The government and people of Honduras express their deep appreciation to the international community for the support received in the aftermath of the tragedy caused by Hurricane Mitch, and reiterate the commitment we share to make our best efforts to implement this Plan, as the best way to construct a promising future for our country and convert the tragedy into an opportunity for change and development. Accordingly, we have taken the required measures to implement all necessary activities in a context of technical effectiveness, economic efficiency and transparent management of resources. In this respect, we have requested support from multilateral organizations and friendly countries that are prepared to offer our nation the opportunity to be reborn from the wreckage and to build a just, modern and caring country.

*Special Cabinet for the National
Reconstruction of Honduras*

INTRODUCTION

This document constitutes the Summary of the Master Plan for National Reconstruction and Transformation formulated by the Government of the Republic for confronting the devastation caused by Hurricane Mitch, both with its own resources as well as with help from the international community. This phenomenon has been categorized as one of the worst calamities that Honduras has suffered in all its history.

In this context, we note that in recent years **Honduras has achieved major reforms within a climate of peace and participatory democracy**. Since 1981, the Honduran people have had the opportunity to elect their own government officials through free elections in which more than 70% of the electorate has participated. A civil state has been consolidated and strengthened through the subordination of the military to civil authority, as indicated by the creation of the National Civilian Police, the creation of the Ministry of Security, and the elimination, of the office of Commander in Chief of the Armed Forces, which has been replaced by a newly appointed Minister of Defense. Other advances include increased participation by civil society whose voice is most strongly heard through the **National Convergence Forum** (Foro Nacional de Convergencia, FONAC) and other fora and social organizations, as well as the strengthening of Non-Governmental Organizations and the **process of decentralization**, which seeks to strengthen the role of local governments and communities.

In a similar fashion, the country has made significant advances in the areas of stabilization, structural adjustment, economic growth and improvements in the social sectors. Along these lines, expected achievements by the end of 1998 included, among other things: 1) real economic growth of approximately 5%, with higher rates of growth in the following years; 2) an annual inflation rate no greater than 14%; 3) a projected fiscal deficit of less than 1% of GDP; 4) a reduction of the external deficit (in the current account) to around 1% of GDP; and 5) an increase in net international reserves to an amount equal to 3.5 months of imports.

With the goal of sustaining and supporting this process, **economic and social policies and measures for the reform of the State were undertaken**, oriented toward: 1) implementing a series of social compensation policies and programs for the relief and reduction of poverty; 2) fostering and strengthening a sound and stable macroeconomic environment by means of a well-coordinated fiscal and monetary policy; 3) breathing new life into the private sector through economic liberalization and incentives to the productive sectors; 4) restructuring and downsizing the Government, to make it more efficient in providing public services and greater support for private initiatives; and 5) strengthening the process of Central American integration.

Even though the economic and social horizon has been drastically altered by the effects of Hurricane Mitch, we Hondurans have recognized that this disaster provides an exceptional opportunity for rebuilding the economic heritage of the country and strengthening the foundations for future growth and stability.

According to the United Nations, **Hurricane Mitch was responsible for the largest natural disaster in Latin America in the last 200 years**, leaving in its wake death, destruction and desolation comparable only to that of a devastating war. The latest official figures record 5,657 deaths, 8,058 persons considered legally to be missing, 12,272

people injured, and 1.5 million who sustained loss of property. According to the **Economic Commission for Latin America and the Caribbean** (Comisión Económica para América Latina y el Caribe, CEPAL), total damages sustained by the country amount to US\$3,794 million, the equivalent of approximately 70% of GDP. Likewise, it is estimated that the cost of rebuilding will exceed US\$5 billion (almost 100% of GDP).

According to estimates by the Central Bank of Honduras, damages to production have caused the estimated GDP growth rates for 1998 and 1999 to fall from 5.2% and 5.5% before Mitch to 3% and -2%, respectively. The external (current account) deficit is forecast to increase to US\$424 million in 1999 (8.4% of GDP), due to a substantial drop in exports and an increase in imports. The decrease in fiscal revenues, added to increased investment expenditures, will generate a fiscal deficit of about 8.4% during 1999.

The **response of the Government** was clear from the moment it was aware of the impending arrival of the hurricane, and again during the emergency and the period of reconstruction. Actions undertaken include: prevention and mitigation of damages by means of massive evacuations; rescue operations and provision of shelters; and restoration and rehabilitation of basic services and access roads. For the purpose of planning the initial phase of reconstruction, the Executive Branch undertook a detailed evaluation of the damages incurred and proceeded to create the Special Cabinet for National Reconstruction, whose functions are to formulate, coordinate and provide follow-up activities for the Master Plan for National Reconstruction.

In this context the **Master Plan for National Reconstruction and Transformation (MPNRT)** was prepared. Its implementation constitutes an important step towards sustainable development, through the linking of key themes such as the mitigation and reduction of poverty, the sustainable management of natural resources and the strengthening of democratic participation. With respect to the latter, it is important to highlight the broad process of analysis and discussion of the MPNRT with the most representative sectors of Honduran society, in order to obtain their valuable contributions to the Plan.

The MPNRT includes specific objectives and targets for:

- rehabilitating and energizing the productive sectors;
- replacing and improving infrastructure;
- rehabilitating and reforming the social sectors;
- strengthening macroeconomic stability;
- institutionalizing a new form of risk management in order to prevent and mitigate disasters;
- ensuring efficient and transparent management of resources designated for national reconstruction.

In addition, it includes a priority portfolio of investment projects and of technical assistance that respond to the needs of reconstruction of the damaged sectors and to measures oriented towards decreasing the socioeconomic and environmental vulnerability of the country.

The MPNRT transcends short-term horizons, since the damage caused by Mitch and the implementation of the strategy of equitable development goes beyond the period of one

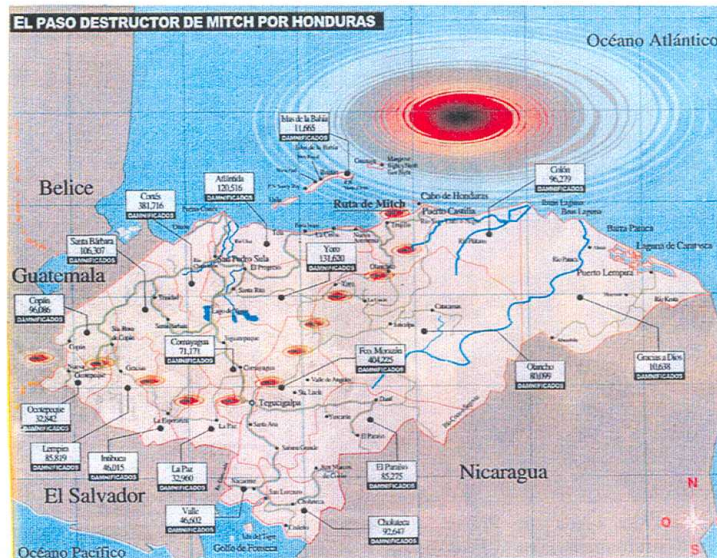
single government. Greater involvement is expected from the municipalities, NGOs, beneficiaries and private enterprises during project implementation, through implementation units formed outside Central Government.

With the implementation of the Plan, the country expects to have recouped the majority of its losses by 2001 and anticipates a per capita GDP similar to the one forecast for 1998, prior to Mitch. It is also anticipated that social indicators will show the first positive results of the reforms. Significant advances are likewise anticipated in the areas of the environment; efficient risk management, greater democratic participation, including social-auditing activities; and a progressive increase in the abilities of women and ethnic groups to participate fully in the various aspects of the socioeconomic life of the country.

Likewise, for the year 2005 the following achievements are expected: sustained economic growth of 6.5%; an additional decrease of 10 points in the incidence of poverty; substantial improvements in the indicators for education, health and housing; the consolidation of the modernization of the State; a better environmental balance; and a widely recognized democratic participation by all sectors of the national society.

I. SOCIAL AND ECONOMIC EFFECTS OF THE HURRICANE

The natural phenomenon “Mitch” originated as a tropical storm on October 22, 1998, following an erratic trajectory with variable intensity, until it was designated a category 5 hurricane. It made landfall over the entire national territory between October 26 and 31, having begun its devastation in the Bay Islands with a maximum wind velocity of 290 km. per hour. The center of the storm passed over the island of Guanaja with the greatest intensity and then slowly made landfall as a tropical storm with no precise direction, from the northern coast to the center, south and west of the country. Most of the damage incurred can be attributed to the torrential rains that fell between October 29 and 31, which were measured as being equivalent to between 20% to 50% of the average annual rainfall for the most affected areas.



The most notable social consequences were:

- ◆ More than 1.5 million people with property losses, a figure that is the highest of all natural disasters in the country;
- ◆ Human losses totaling 5,657 deaths, 12,272 injured and around 8,058 still declared missing;

- ◆ Around 441,150 people who lost or incurred damage to their homes and had to seek refuge with friends and relatives, although a large majority were housed in shelters, schools, sports facilities, churches and other locations;
- ◆ Loss of running water for 4.2 million people (70% of the population).

Indeed, the hurricane affected 100% of the population of the country in one way or another, although the losses incurred by the most vulnerable strata of society are the most noteworthy, having social effects that still have not been evaluated, such as loss of sources of income, in both rural and urban areas; the breaking up of families; orphaned children; and damage to psychosocial health, principally among the population directly affected by the natural disaster.

The estimate of damages calculated by the **Economic Commission for Latin America and the Caribbean (CEPAL)** is US\$3,794 million, to which should be added US\$47.6 million in damages to the mining and financial sectors, as estimated by sources in those sectors. Of the total damages, US\$2,005 million are direct and US\$1,789 million are indirect. The estimated replacement cost is US\$5,084 million. **About 70% of the damages occurred in the productive sectors**, followed by infrastructure with 17.3% and the social sectors with 11.4%. Damages to the environment are estimated at US\$46.7 million, taking into consideration only certain environmental services in the forestry zones.

HONDURAS: Summary of Damages
Amounts in US\$ Millions

	Direct	Indirect	Total	Replacement
Social Sectors	273.5	166.0	439.5	589.4
- Housing	221.0	123.1	344.1	
- Health	25.6	36.7	62.2	
- Education	26.9	6.2	33.1	
Infrastructure	343.6	321.8	665.4	756.2
- Roads, Ports and Airports	241.0	289.9	525.2	
- Telecommunications and Post Office	41.8	6.4	28.4	
- Energy	9.9	18.5	57.9	
- Water and Sewerage	50.9	7.0	24.7	
Productive Sectors	1,341.0	1,301.2	2,689.8	3,738.6
- Agriculture (including irrigation infrastructure)	1,248.7	804.0	2,052.7	
- Forestry	2.0	1.4	3.4	
- Manufacturing	15.8	360.8	376.6	
- Commerce	74.5	135.0	209.5	
- Mining			3.5	
- Finance			44.1	
Environment	46.7		46.7	
Total	2,004.8	1,789.0	3,841.4	5,084.2

Source: Economic Commission for Latin America and the Caribbean (CEPAL), except for the mining and financial sectors, for which estimates were provided by sources in those sectors.

According to estimates by the Central Bank of Honduras (BCH), the country will lose exports valued at US\$158 million and US\$501 million, compared to what had been forecast for 1998 and 1999, respectively. In addition, imports will increase by US\$139 million in 1998 and by US\$285 million in 1999. This translates into a huge widening of the

trade deficit by an additional US\$786 million in 1999, the equivalent of nearly 14% of GDP for that year.

Hurricane Mitch lowered the growth rate of GDP in 1998 to 3% instead of the projected 5.2%. For 1999, it is expected that it will be -2% rather than the forecast 5.5%. The impact on the fiscal accounts is also strong, since it is expected that the fiscal deficit, which had been reduced to a minimum figure, might now increase to 8.4% of GNP in 1999. In addition, the increased financial needs of the country, generated by the disaster, will aggravate the impact of the foreign debt, unless there is some form of relief from the international community at the bilateral and/or multilateral level.

II. INITIAL RESPONSES FROM THE GOVERNMENT

The Government of the Republic, with the support of social organizations, municipalities and the international community, has carried out a series of activities during the emergency, restoration and reconstruction phases.

Within the framework of this process, the Government has taken a series of **measures of an administrative and legislative character** in order to establish control over the diverse situations generated by the effects of the hurricane, among which the following are noteworthy:

- ◆ The issuance of several Executive Decrees with the goal of: 1) declaring an emergency situation; 2) creating the National Emergency Commission (CNE); 3) temporarily regulating the sales prices of goods, services and essential inputs; 4) safeguarding order and the safety of people and goods; 5) accelerating in an orderly fashion the end of the 1998 school year; 6) creating a technical group to evaluate the damages; 7) creating the Special Cabinet for National Reconstruction, charged with formulating, coordinating and following-up the Master Plan for National Reconstruction and Transformation (MPNRT); and 8) appointing a group of distinguished citizens to interface with the Special Cabinet for National Reconstruction for consultation on various areas of the Plan.
- ◆ With the goal of giving the President of the Republic the flexibility necessary to confront the crisis, within the framework of his powers, the National Congress approved, at the initiative of the Executive Branch, the Law of Administrative Streamlining for National Reconstruction.
- ◆ In order to stimulate a rapid response for new investments and employment in the key productive sectors, the National Congress approved, via initiatives presented by the Executive Branch, a new Mining Law, the Law of Tourism Incentives and the Law for the Promotion and Development of Public Works and National Infrastructure. In addition, approval is pending for the Law to stimulate Forestation and Reforestation, the new Civil Aviation Law and the General Water Law, among others.

Despite financial limitations, intense and widespread activity has developed to confront the crisis, making use in most cases of national funds, although we have also counted on the support of the international community.

- ◆ These actions have helped produced number of achievements, among which are: 1) controlling outbreaks of epidemics; 2) financing 100% of health-care services; 3) beginning the 1999 school year in a normal fashion, with the restoration of more than 80% of the damaged educational facilities and temporary solutions for the rest; 4) totally reestablishing electric power in affected municipalities; 5) restoring, by November, 100% of the telecommunications services that had been interrupted; 6) rehabilitating more than 80% of the potable-water systems in the capital city, about 320 municipal aqueduct systems and 1,600 in rural areas; 7) temporarily repairing 1,095 kilometers of paved roadway and 2,679 kilometers of unpaved roads; 8) installing four Bailey-type bridges, 9) providing transitional living communities for people who were housed in shelters; and 10) initiating some 1,800 projects for cleaning, restoring and replacing social and productive infrastructure, through the Honduran Fund for Social Investment (FHIS), benefiting some 230 municipalities.
- ◆ In support of the productive sectors, achievements have included: 1) repairing roads and highways in the coffee-producing departments; 2) implementing an emergency plan, through the Ministry of Agriculture, under which help was given for more than 70,700 hectares of basic grains and 300 hectares of vegetables; 3) carrying out a preventive vaccination campaign for different species of animals under which nearly 184,000 head of cattle, pigs, poultry and horses were vaccinated, and 4) reestablishing secondary roads with funds provided through the domestic sale of donated fertilizers.

In addition, work is still being done in the following priority areas:

- ◆ Emergency water and sewerage works in Tegucigalpa, with the initiation in the short run of three projects using funds from the Inter-American Development Bank (IDB), the World Bank (WB) and the Government of France.
- ◆ Activities to complete, as soon as possible, another 22 projects to rehabilitate the national highway system. In this area work is continuing on: 1) the installation of Bailey bridges with important help from friendly governments; 2) protective works to combat flooding, erosion, sedimentation and channeling, for which financing is being identified; 3) the restoration of levees and the construction of loading platforms and other works related to the Ramón Villeda Morales Airport in San Pedro Sula; 4) the reconstruction of highway segments with the help of the IDB and the World Bank; and 5) works related to flood control in the department of Cortés.
- ◆ Further construction of transitional living communities with basic services for displaced families who are still in shelters, with financing from the United Nations Development Program (UNDP).

In this new phase of the process, direct contracting of goods and services has been terminated in order to follow the normal bidding processes established by the laws of the country. In this context, measures have been taken to establish special, transparent and efficient bidding procedures.

The following measures have been taken to support the activities identified above:

- ♦ The National Congress approved two laws for the Executive Branch, guaranteeing a transparent and efficient process for the contracting of public works.
- ♦ Also approved was a law authorizing the Executive Branch, for a period of two years, to purchase land for low-income housing, of less than L.200,000 (US\$14,286), at its market value, rather than at its cadastral value as the law previously stipulated.
- ♦ Technical assistance has been obtained for improving the efficiency and transparency of government purchases, through the creation of a project control center that includes: a) the strengthening of the office of the Comptroller General of the Republic, for better financial auditing; b) the creation of Technical Commissions for Adjudication of Projects, made up of the General Directorate for Probity and the project implementation unit; c) an office of the Inspector General of Projects, composed of national and international specialists, for quality control, technical assistance, resource management and transparency, during the life of the project; and d) the constitution of a unit for monitoring and follow-up, composed of the Ministries of the Presidency, Finance and International Cooperation. In addition, through implementation of the Financial Management System (SIAFI), efficiency in resource allocation and transparency in the financial information of the State will be achieved.