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INTERNATIONAL  
DEVELOPMENT**



**DEVELOPMENT ASSISTANCE PROGRAM  
FY 1978**

**HONDURAS**

**DEPARTMENT  
OF  
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DEVELOPMENT ASSISTANCE PROGRAM

SUMMARY STRATEGY STATEMENT

USAID/HONDURAS

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## I. Development Overview

### A. Introduction

NOTE: This Development Assistance Plan is out-of-cycle, but responds to A.I.D. internal requirements to submit a DAP update. It is out-of-cycle for two reasons -- more the second than the first: One, the DAP process has been abolished and the replacement system will be operative in less than a year from now. Two, the Government of Honduras is still in the stage of preparing its own five-year plan (1979-1983 inclusive). Nevertheless, submission of a DAP Summary Statement is appropriate. It has been nearly five years since submission of the last one. The development strategy has been modified in several important respects and more changes are in the offing.

#### Prospects

Honduras is headed for the 21st century with improved prospects for achieving greater opportunity and a better living for its population. Physically, it has unused and underutilized resources and population pressures familiar to much of the developing world have not been as severe here although benefits of future prospects would indeed be diminished sharply, were the annual rate of population growth not to approach zero by the end of the current century from 3.47 (1970-75). A number of factors converge to help this country overcome the inertia that has historically plagued it. Among these are:

- First and foremost, the most favorable factor in Honduras' prospects is the positive development-oriented attitude of the Government and its leadership. The leaders are serious about development and genuinely concerned about helping the country's poor. Furthermore, they have fostered these attitudes among a large segment of the people and the Honduran bureaucracy.

- Two, there is a favorable disposition on the part of the international development agencies and other donors to provide development resources. Further, there is a supportive relationship among these agencies which makes for coordinated actions in program development and mutually reinforcing positions on policy and structural issues.

- Three, the Government of Honduras at this time responds well to increased use of the analytical approach. This is notable in the agricultural sector but it is also increasingly in evidence in other areas as well. The Government is beginning to get away from crisis management. While the numbers are all too few, there is much evidence of competence at the ministerial level and there is an increasing cadre of qualified support staff in the critical ministries.

- Four, the Government's Five Year Plan (1979-1983) has prospects of being the best such effort yet undertaken. At this stage it is still not apparent that all goals and targets will consistently and realistically be quantified, but there appears to be Government interest in developing, for example, agricultural crop production targets covering the five-year period.

Great strides have been made in both macro and micro-economic planning in the past several years and the planning ministry has qualified personnel. There would be advantage for both the Government of Honduras and the external donors if there were established a consultative committee to help focus priorities which could review the Government's goals, targets and program proposals, on the one hand, and the external agency efforts in response to Honduran needs on the other.

As time went by, performance against goals, targets and programs could also be examined. Donor agencies presently meet monthly. A consultative committee of the sort envisaged might meet annually or semi-annually, first of all to review with the Government its five-year program objectives and targets.

#### General Problems and Issues

Strategy depends to a large extent on an assessment of opportunities to influence the Honduran development process. Identifying the parameters within which this influence may assist requires attention to the following issues, the solutions to which help to define the scope of the assistance effort over the next several years.

It is generally agreed that the absorptive capacity of Honduras to use aid effectively and efficiently is still very much limited, but international financing agencies and donors, including A.I.D., have shown a disposition to expand aid and assistance significantly, and substantially. The human resource base for development is small. The institutional structure for development is weak, largely uncoordinated and partly duplicative. How much more development activity can be loaded onto a rather fragile governmental structure -- fragile even in comparison with most other Latin American governments? Absorptive potential must be increased. A.I.D. can help bring this about. When this occurs, there will be increasing opportunities for effective assistance for all donors. Timely assistance to increase human resource capacity can increase potential to absorb aid in proportions of 10, 50, even 100 to 1.

Project-oriented activities of most international financing agencies and other donors not only transfer resources -- mostly financial -- but they also put a claim on national resources, both financial and human -- both of which are scarce, but the latter, particularly, is in short supply in Honduras.

Further, the increased flow of resources from institutions and countries -- each with its own special concerns and interests -- tends

to distort to some extent the processes of planning and resource allocation.

Finally, given the extreme poverty, particularly in the rural sector, but not overlooking growing problems in the urban sector, the Government of Honduras must bring sufficient resources to bear efficiently, and in timely fashion to assure that the condition of the poor does not deteriorate, marginally, from year to year. This phenomenon is already occurring here as elsewhere in the developing world.

The foregoing issues are not necessarily in order of priority, nor are they mutually exclusive, nor are there any easy solutions to these issues. However, an analytical process, assisted by A.I.D. can contribute to improved decision-making. A.I.D. resources can also be used to complement and supplement other external resources in ways that will not constitute a further drain, but will replenish and reinforce Honduran material and human resources.

#### The Development Environment and Performance

The World Bank has characterized Honduras as becoming interested in development only about 1950. The Government's investment budget was then only \$1.6 million. The investment budget for 1978 is estimated to total \$155.5 million.

Honduras has always been considered backward in relation to the other countries of Central America -- and Latin America, except for Haiti and Bolivia.

Honduras is a country which historically needed everything and the difficult task has consistently been how to allocate scarce resources.

Honduras lacked, and still lacks, basic infrastructure. For example, only three years ago, it took two hours to travel to the next valley of Zamorano on one of the two main roads to Nicaragua. It now takes 20 minutes. Substantial resources have been allocated for basic infrastructure roads, ports, airports, transportation and communications.

	(in \$ millions)			
	1950	1960	1970	1978
Total Central Budget	\$12.5	\$44.3	\$112.6	\$416.0
Total for Basic Infrastructure	1.6	9.3	27.1	95.7
As a % of Total Central Budget	12.4%	20.9%	24.0%	23.0%

Annual investment in the industry sector for which there is no reliable data would show similar accelerated growth. Industry is a prime user of electrical energy. Annual electrical production for selected years is estimated at (thousands of kws.).

<u>1950</u>	<u>1960</u>	<u>1970</u>	<u>1978</u>
50,400	96,600	257,539	725,000

One can reasonably conclude that during the past quarter century highest priority in the allocation of resources has been to create a basic infrastructure and that industry has taken advantage of the favorable development environment in this respect. It may also be noted that the proportions of private investment (agricultural as well as industrial) -- and hence ownership -- has shifted rather significantly over the past quarter century (percentages of total). Reliable data for the 1950-1960 period are not available, but the ratio between the two can be assumed to be less than that for the 1960-70 period.

	<u>1960-1970</u>	<u>1971-1977</u>
External (mainly multi-nationals)	17.8	5.1
National	82.2	94.9

The picture on the agricultural side is considerably less encouraging, reflecting the intractability of the problems as well as weather unpredictability and the uncertainties of the Government's agrarian reform policy and the growing power of the organized rural peasant sector. The indices of agricultural production, and, on a per capita basis for selected years (using 1966 as 100) are:

	<u>Total</u>	<u>Pc</u>
1960	64	79
1965	91	94
1966	100	100
1971	121	106
1972	119	102
1973	124	103
1974	115	92
1975	105	81
1976	121	91

Thus, on a per capita basis the value of agricultural production is diminishing rather than increasing. In general, this is accounted for by the low level of technology and investment, because a high percentage of

foodstuffs consumed by the population is grown on subsistence or near subsistence farms, and, governmental support services are both few and inequitably distributed.

In the present decade Central Government expenditures in the agricultural sector have increased substantially, but most especially, for the reform sub-sector:

	<u>Total Expenditures</u>
	\$ (000)
1970	5,514.2
1971	7,253.9
1972	8,790.6
1973	8,357.8
1974	14,965.6
1975	22,095.4
1976	26,046.1
1977	17,467.9

Even here, ten times as much investment is going into the Aguán Valley as in other parts of the agrarian reform subsector. The Government will not be able to replicate this effort for the foreseeable future.

Lamentably, increased resource allocations have not been accompanied by a parallel growth in human resource development which continues to be the principal development constraint. This is illustrated by a comparison of two figures: 170,000 farm families in the traditional agricultural sector and 177 extension agents in the Ministry of Natural Resources (who, of course, are largely otherwise occupied).

An undetermined, but substantial, proportion of farmers in the traditional sub-sector enter the market to some extent but their technology remains inefficient and the Government currently lacks the capacity to improve it. Other more efficient production -- in the commercial and, potentially, the reform sub sector -- will tend to undercut the sales and/or diminish the income of impoverished Honduran farmers. As Honduras, in aggregate terms, develops and recent and current investments in agriculture begin to bring the sector forward, the tendency will be to diminish the life quality of the majority of the rural poor unless measures are instituted which will directly benefit these peoples.

Their problems are compounded by the lack of education, health and social services. While there have been sizeable increases in the Central Budget in recent years - both in absolute and relative terms, there have not been significant inroads into the problem of providing essential services to the mass of the population. Predictably the problems are accentuated in the rural areas.

For example, Central Government Budget figures in selected years of the present decade are:

	<u>1971</u>	<u>1973</u>	<u>1975</u>	<u>1977</u>
<u>Education</u>				
Total in \$ (000)	26,103	30,072	40,039	54,215
As a % of Budget	20.8	22.0	20.3	17.3
<u>Health</u>				
Total in \$ (000)	10,134	11,505	24,829	33,718
As a % of Budget	8.1	8.5	12.6	10.8

Despite a sizeable percentage of the budget going for education, the percentage of school age children going to school in the past few years has dropped from 64 to 58%. At the secondary level the discrimination against the rural sector is pronounced. 84% of rural youngsters, age 13 to 19, do not attend school, compared to only 7% in urban areas. In contrast, prospects for the health sector are more encouraging and the Ministry is engaged in an effort to extend the health delivery system in its simplest form to 80 to 90% of the population by 1980.

The problems become altogether too apparent when the factor of population increase is interjected into the equation. At the 1970-1975 annual rate of population increase (3.47%) and allowing for the other factors unrelated to an active population control program or general improvement in economic and social condition, the rate of annual population increase would be reduced perhaps 10%, to slightly more than 3.0% by the year 2000. This decrease would not be significant. The population would still double every 20 years.

Clearly the Government is faced with a dilemma. It must deal explicitly and urgently with the population issue, or, it must condemn a substantial portion of the population to perpetual poverty without any hope of improved well-being. There would be every prospect of increasingly marginal existence for more and more Hondurans. There appears, currently at least, to be an increased awareness of this issue, but there is an inability and unwillingness to take a more aggressive public posture on it. While family planning services are expected to be more widely available, the question is whether these will impact significantly before the end of the century to assure the meeting of basic human needs. The Government must adopt, whether it is publicly stated or not, a policy of zero population increase by the end of the century.

Development is characteristically a selective process, but the very poor do not have to be excluded. In Honduras, there is a Government favorably disposed to helping the poor, particularly the rural poor. This stems partly from historical factors — a country where poverty has always been a way of life and where most of those who were more relatively advantaged clung to a life style, particularly in rural areas, which did

not differ substantially from their less well-off neighbors. The campesino organizations in their twenty-four years of existence have become a powerful political voice, demanding benefits and services. Their economic and social role has to date been rudimentary; their economic and social role should be expanded. Governmental leadership in many cases is strongly conscious of its humble beginnings and circumstances.

#### The Basic Development Issue

It is clear that most governmental programs that effectively and significantly increase the level of living of the target population are in the nature of pilot projects and are too costly to be replicated on a wide scale. The basic development issue facing Honduras, like so many countries, is thus how to increase efficiency in the use of resources to reach the mass of population with services and opportunities needed for their development. An efficient use of resources, with benefits in equity terms, would imply serious attention to the following principles.

One, if the provision of opportunities and services is to be expanded any time soon, costs per beneficiary will have to be low. There are four corollaries:

- Systems and technologies will have to be simple, as well as easily understood and applied. They should produce demonstrable results at low cost within a relatively short time frame.
- The delivery systems have to be geared to and assume the lowest level of competence necessary to effect technology and resource transfers -- at every level of the systems. The greatest advance in Honduras in this respect is in the health sector. These are lessons to be applied to the agricultural and education sectors.
- The delivery system to the end-user should, insofar-as-possible, be community-based as well as community-oriented. Community self-reliance, i.e., economic and social micro systems, should be developed and fostered.
- Systems and technologies should be geared to develop local indigenous human and material resources where they are, and in this respect, to give particular attention to the role and potential of women in the development process.

Two, if a principal constraint is the scarcity of human resources, priority must be given to education and training, utilizing both national and external education and training centers. There are five corollaries:

- Para-technicians, where practicable, should be trained to meet the most pressing and immediate needs.
- Personnel needs by sector, both generally and specifically, should be identified and steps should be taken to create or strengthen the national capacity to provide a supply of essential and continuing personnel requirements for an expanding, development-oriented economy.

- Personnel should be sent abroad for education and training as a temporary expedient, but national institutions should be used as rapidly as their capacity for excellence can be developed, recognizing that because of economies of scale and quality considerations, Honduras will probably not be able, nor should it try, to meet all educational needs in all technological areas for the foreseeable future.

- In-service training should be strengthened.

- Campesinos and campesino women should be trained to improve quality of living, geared to their particular situations and requirements.

Three, goals and targets should be quantified with time periods specified, i.e., the annual budget period, a longer planning period of four to five years, and a perspective plan period of 20 to 25 years. Specifically, though not exclusively:

- Human resource development goals and targets as cited in two above should be specified.

- Crop production goals and targets for five years ahead within a longer term perspective of, perhaps, 20 years should be identified as a basis for assessing constraints, realizability of targets, implications for resource allocation, consequences for various segments of the population, national consumption vs. products available for export, etc. Rates of growth should be targeted to accommodate unmet potential effective demand and future needs for agricultural products, given the likely population growth, at least until the end of the century.

- Industrial production, electricity production and use goals and targets, etc., should be specified and quantified.

- Resource allocation (i.e., investment) goals and targets, by the Government and by the private sector should be set.

- Sector and sub-sector targets should be set, such as movement of so much credit to specific crop categories and income groups; low-cost housing units started and completed; number of students to be registered in elementary schools, etc.; and persons to be served by rural clinics, and other facilities.

Four, policies should be set to achieve goals and targets and should be based on solid analytical foundations which clearly identify costs/benefits and trade-offs.

There are indications that the Government of Honduras is prepared to move in this direction.

#### Limitations on Use of A.I.D. Resources

A.I.D. resources for Honduras are small relative to those of other international financing agencies and two donors, Japan and Canada, may

transfer as much or more capital to Honduras as the USG through A.I.D. over the next few years. Even the British, who this year are initiating a capital aid program, have offered a line of credit equal to about one-half of the average annual A.I.D. program.

Bilateral U.S. aid is, therefore, at the margin of external resource flows. When external aid flow is combined with the mobilization of the country's own resources, U.S. bilateral aid can be significant, but it is hardly substantial. Its significance will depend directly on whether or not it will have both a favorable cost/benefit ratio in development terms, and leverage over other resources to achieve a substantially larger development impact, particularly on our principal target group of rural poor.

Under the circumstances cited above, this DAP Summary Statement must be considered more indicative than definitive since our bilateral aid finds purpose and effectiveness primarily within the context of Honduras' own development goals and efforts. There should be no "A.I.D. Program" in the sense the term implies in some other countries.

Each external agency has its own special concerns and interests, its own restrictions and inhibitions, e.g., IBRD and IDB follow a project approach essentially. Therefore, A.I.D.'s sectoral approach can be most useful if it is used to strengthen the capacities of the Government to receive aid with, of course, special emphasis on our target group: human resources development and availability, institutional development, the leveraging of resources to improve policy and expand sectoral allocations.

## B. Political Trends - Development Policies

### 1. Development Aspirations and Expectations

Until recently, i.e., until the last quarter century, the Honduran people had generally accepted a fairly low level of development aspirations and expectations. Thus, economic change and accompanying social ferment have been relatively new phenomena, and disruption and violence have been rare occurrences. The process of accelerated development in Honduras, as we have come to regard it, is of fairly recent origin. The World Bank has observed that "The first serious government attempts to activate the economy were initiated in 1950." Development has been haphazard.

Since 1972 the Government of Honduras has demonstrated an increased will to accelerate the process of development, to allocate the necessary resources which give some promise of significant achievement and to increase markedly efforts to reach the disadvantaged, particularly the rural poor.

The increased attention to development matters results from several principal factors. A major impetus has been provided by the military officers who assumed power in 1972 and 1974. They are reform-minded. They have placed qualified technocrats in key ministerial positions to run the institutional processes of governing. They are amenable to modern

methods of planning and they aim at improving the civilian administrative structure.

Concurrent factors were intense political pressure from the rural poor for major agrarian reform and a decision among leaders that the country's natural resources should be exploited in the national interest.

It is expected that the Government will return to civilian hands in the near future with a return to constitutional rule. However, the recently increased aspirations of Hondurans will make it difficult for the new government to slow down or make large changes in the nature of the development process.

## 2. Summary of Objectives of National Development Plan 1974-78

The 1974-78 GOH Development Plan provides a framework for a more activist role for the Government in development and sets forth nine global objectives,<sup>1/</sup> the first four of which deal with social progress and the latter five with economic progress:

1. To ensure each person a level of income adequate to basic needs;
2. To progressively diminish the level of unemployment and under-employment;
3. To improve the quality of life of the population, especially in rural areas;
4. To achieve more equitable distribution of income and of the factors of production;
5. To secure for the country the maximum benefit from the value added in the process of production;
6. To rationalize the exploitation of natural resources so as to assure their perpetual and continuous use and to obtain from them the maximum benefit for the Honduran community;
7. To transform the structure of production, diversifying same and progressively increasing in a sustained fashion national output;
8. To broaden and modernize industry so as to permit the transformation of exportable primary commodities into finished or semi-finished products; and
9. To strengthen the position of the economy to withstand changes in the international market.

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<sup>1/</sup> Plan Nacional de Desarrollo 1974-78, Síntesis, p. 28.

### 3. Public Investment Program 1974-78

Prior to the development of the new Plan, public investment had been small (\$10 million in 1960, \$47 million in 1970) and the bulk of public fixed investment expenditures had been allocated to infrastructure, i.e., transport and power. A smaller share had been allocated to the social and productive sectors. The situation, however, has changed since 1973. As a result of significant changes in the Government's development policy, the magnitude of public investment was greatly increased and some of the productive investments in forestry and agriculture have been undertaken by the public sector, thereby shifting the composition of public investment slightly in favor of the productive sectors. (Table 1). The overall magnitude of annual public investment is expected to more than double (from \$66 million to \$157 million) over the 1974-78 period.

The basic investment strategy being followed by the GOH is:

- Increased public sector participation in the nation's development through an expanded public investment program, and through the creation of specialized public agencies.
- Continued construction of basic infrastructure to integrate the various regions of the country and, in particular, to provide the basis for the development of the Olancho and Aguán Valley areas.
- Exploitation of the nation's forestry resources through a recently established (1974) public agency, COHDEFOR.
- Increased public participation in the development of the industrial sector through the creation of a public financial institution (in 1976) CONADI.
- Continuation of the agrarian reform program and other social programs to improve the distribution of the benefits of development.

In spite of the expanded public sector effort, real GDP per capita declined in the 1970-75 period. This was caused by factors beyond the control of Honduras - natural catastrophe and changes in world market prices - dramatically demonstrating the vulnerability of the economy to these forces.

### 4. The 1979-83 Investment Program

#### a. Objectives

On the eve of the next five-year plan, in spite of the accelerated public development effort in recent years, Honduras still finds itself among the least developed nations.

The Government's objective, articulated only informally thus far, of the next five-year plan, 1979-1983, is to increase the overall growth rate, but also to direct a larger share of the benefits to the lower

TABLE 1

INVESTMENT IN SELECTED YEARS

	<u>1960</u>	<u>1970</u>	<u>1972</u>	<u>1975</u>	<u>1976</u>
<u>Total Investment</u> <sup>a/</sup> (million lempiras)	84	273	249	456	533
As percentage of GDP	12.4	19.1	15.1	21.6	21.9
<u>Public Investment</u> (million lempiras)	19	94	56	153	183
As percentage of GDP	2.8	6.6	3.4	7.2	7.5
<u>Sectoral Distribution of Public Investment as a Percentage of Total Public Investment (percentages)</u>					
Infrastructure	<u>65</u>	<u>78</u>	<u>76</u>	<u>59</u>	<u>62</u>
Transport	55	54	47	33	36
Power	9	23	23	23	21
Communications	1	1	6	2	5
<u>Social Sectors</u>	<u>35</u>	<u>14</u>	<u>23</u>	<u>37</u>	<u>28</u>
Education	4	4	7	9	6
Health	11	2	4	5	7
Water and Sewerage	<u>b/</u>	2	2	12	8
Housing	1	2	2	4	1
Urban Development & Other	19 <sup>c/</sup>	4	8	7	6
<u>Productive Sectors</u>	-	<u>8</u>	<u>1</u>	<u>4</u>	<u>10</u>
Agriculture	-	8	1	4	5
Forestry	-	-	-	-	4
Tourism	-	-	-	-	1

<sup>a/</sup> Gross capital formation

<sup>b/</sup> Included in health

<sup>c/</sup> Includes public buildings

SOURCE: Banco Central de Honduras.

income segments of the population.

It is possible that, if a choice had to be made, the government would accept a trade-off of lower aggregate growth for improved distribution of the benefits. This conclusion is based on the many public statements made by Honduran officials.<sup>1/</sup>

In fact, during the course of the next five-year plan, as ambitious as it is, projected aggregate growth as measured by the increase in real per capita income will be modest. Whether a significant distributive effect will be achieved will depend largely on the success of the agrarian reform program and of related programs to improve rural life.

b. Size and Composition of the Public Investment Program

The levels of public investment in current prices were estimated to be 183 million lempiras in 1976 and 232 million lempiras in 1977. The initial planned investment level for 1977-81 averaged about 511 million lempiras annually. As a result of a reappraisal of the constraints in executing this level of expenditure, and encouraged by the international lending institutions, and particularly the World Bank, to set more achievable, albeit more modest goals, the government scaled down this level to an average of about 383 million lempiras annually. In the Bank's view, even this figure is higher than the 360 million lempiras annually it considers to be the highest achievable target - taking into consideration the expected availability of domestic and external resources and the project executing capability.

The public investment program is currently under intensive review. CONSUPLANE officials have suggested using the projections published in the Bank report, which it is expected will closely approximate the final government program. These projections extend to 1982. CONSUPLANE officials expect the 1983 public investment figure to be somewhat lower than the 452 million lempiras projected for 1982 by the Bank. (See Table 2).

The increase in the share of public investment of the infrastructure program (Table 3) is solely due to the El Cajón hydroelectric project. Both transportation and communications decline through the 1978-1982 period in absolute as well as in relative terms.

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<sup>1/</sup> The most recent public statement made by the President of the Central Bank (quoted in the newspaper "La Tribuna," March 13, 1978) reflects the predominant thinking of the government. "This Honduran model is being closely followed by other countries, as a means of not only growing (developing), but also of creating an environment of equilibrium between the economic forces and the other sectors, especially the popular classes who are demanding that their living conditions be improved. The social peace that Honduras enjoys and also the model of a mixed economy, is what has attracted private and foreign investors to invest in the country."

PUBLIC FIXED INVESTMENT BY SECTOR, 1976 AND 1977 AND PROJECTIONS 1978-1982

(In millions of current Lempiaras)

	Actual Estimate						
	1976	1977	1978	1979	1980	1981	1982
<u>A. Infrastructure</u>	<u>115.2</u>	<u>149.2</u>	<u>199.0</u>	<u>252.0</u>	<u>265.0</u>	<u>292.2</u>	<u>326.5</u>
1. Transport	66.1	73.3	112.0	108.0	98.0	92.0	73.0
2. Power	39.7	41.9	57.0	126.0	160.0	192.0	241.0
3. Communications	9.4	34.0	30.0	18.0	7.0	8.2	12.5
<u>B. Productive Sectors</u>	<u>18.2</u>	<u>21.2</u>	<u>50.0</u>	<u>99.0</u>	<u>88.0</u>	<u>86.0</u>	<u>68.0</u>
1. Agriculture	10.3	11.7	19.4	27.0	22.0	25.0	38.0
2. Forestry	7.3	7.0	26.0	68.0	58.0	41.0	13.0
3. Tourism	0.6	2.5	4.6	4.0	8.0	20.0	17.0
<u>C. Social Sectors</u>	<u>49.5</u>	<u>62.0</u>	<u>65.9</u>	<u>61.3</u>	<u>55.3</u>	<u>65.2</u>	<u>57.0</u>
1. Education	10.8	17.2	16.6	10.3	9.6	11.1	12.0
2. Health	11.7	12.0	15.0	19.0	15.0	11.0	10.0
3. Water & Sewerage	15.0	15.0	19.0	19.0	20.0	26.0	18.0
4. Housing	2.0	5.5	6.0	5.0	5.0	11.0	10.0
5. Urban development	<u>10.0</u>	<u>12.3</u>	<u>9.3</u>	<u>8.0</u>	<u>5.7</u>	<u>6.1</u>	<u>7.0</u>
TOTAL	182.9	232.4	314.9	412.3	408.3	443.4	451.5
GDP deflator (1976=100)	100.0	110.0	117.7	125.9	134.8	144.2	154.3
TOTAL (at 1976 prices)	182.9	211.3	267.5	327.5	302.9	307.5	292.6

SOURCE: World Bank mission estimates.

TABLE 3

SECTOR SHARES OF PUBLIC FIXED INVESTMENT

(As Percentage of Total)

	<u>1976</u>	<u>1978</u>	<u>1980</u>	<u>1982</u>
A. <u>Infrastructure</u>	<u>62</u>	<u>63</u>	<u>65</u>	<u>72</u>
1. Transport	36	36	24	16
2. Power	21	18	39	53
3. Communications	5	9	2	3
B. <u>Productive Sectors</u>	<u>10</u>	<u>16</u>	<u>21</u>	<u>15</u>
1. Agriculture	5	6	5	8
2. Forestry	4	8	14	3
3. Tourism	1	2	2	4
C. <u>Social Sectors</u>	<u>28</u>	<u>21</u>	<u>14</u>	<u>13</u>
1. Education	6	5	2	3
2. Health	7	5	4	2
3. Water & Sewerage	8	6	5	4
4. Housing	1	2	1	2
5. Urban development	6	3	2	2

SOURCE: Table 10

The productive sectors increase their share while the social sectors decrease theirs. Agricultural investments are projected to double from 1978 to 1982, from 19 to 38 million lempiras. Forestry investments reach levels of 68 million lempiras in 1979, 58 million in 1980, and 41 million in 1981, reflecting the construction of sawmills and related forestry development. Tourism investments rise to levels of 20 and 17 million lempiras in the final two years.

In the social sectors, investment in health and education decline in absolute terms during the period from levels of 15 and 17 million lempiras, respectively, to 10 and 12 million, respectively. Water and sewerage investments remain at a level of about 20 million lempiras annually, urban development expenditures decline slightly, and housing expenditures almost double, but remain at a low 10 million lempiras level. All but the housing sub-sector decline in relative terms.

### c. Major Programs

The sector allocations do not tell the full story of the significant changes implicit in the figures. The next five-year plan will establish the Aguán Valley-Olancho region as a new growth pole, destined to have the highest growth rate in the country. Some \$700 million are programmed for the region, for agricultural and forestry development, the first stage of related industrial development, and supporting infrastructure. A trunk road being extended from Talanga to Catacamas (\$30 million) and then to San Esteban (\$15.5 million) will bring the Aguán Valley to within a 3 1/2 hour automobile ride from Tegucigalpa (currently a two-day trip, when passable).

Within the valley, a \$50 million agrarian reform settlement program, supported by the IDB, will establish about 7000 farm families on farm enterprises producing African palm oil and citrus. This is the first agrarian reform project with a fully integrated farm-to-market program. It may serve as a model for others, as major irrigation projects and integrated valley development programs expand. These now total about \$8 million in the execution stage with an additional \$17 million in the process of negotiation. Additional projects totalling some \$103 million have been identified and are in various stages of pre-feasibility studies.

The \$420 million El Cajón hydroelectric project is the largest ever undertaken by Honduras. It is expected to meet the power needs of Honduras for the medium term.

A major expansion of agricultural credit will be made possible by the reorganization of the Banco Nacional de Fomento. An Agricultural Marketing Institute is being established and an expansion of grain storage facilities programmed so that an effective price stabilization program for basic grains can be implemented - directly benefiting the many small farmers who produce most of the basic grains.

Three recently established public institutions will play increasingly important roles in the nation's development: COHDEFOR, charged with managing the nation's forestry resources and establishing major forest products industries; CONADI, charged with stimulating industrial development through preparation of pre-investment studies and co-participation in the financing of private projects; and COHBANA, charged with developing banana plantations and finding new markets for the product. The COHDEFOR program totals \$200 million, the CONADI program \$86 million, and the COHBANA program \$26.5 million. A fourth institution, the Honduran Coffee Institute, will manage a greatly expanded program to stimulate coffee production with a budget of \$32.5 million.

Tourism represents an important new source of foreign exchange earnings. Present programs include a \$2 million improvement program for the village of Copán and the present archeological site and \$7 million for an improved access road to the site. CONADI, through its Tourism Development Fund, has programmed \$2.7 million for tourism development studies and hotel financing. An additional \$20 million loan is being negotiated with the World Bank for needed infrastructure improvements (principally airports) and for financing hotel construction. Honduras' principal tourism resources - the Copán archeological site, the Bay Islands and the Caribbean coast - offer the best development possibilities in Central America. Should Honduras capture only 15% of the vacation visitors projected to visit Guatemala in 1985, this would imply a level of visitor expenditures of some \$30 million in that year.<sup>1/</sup>

### C. Honduras' Development Prospects

#### 1. Growth Rate

The development program for the 1978-83 period is ambitious with respect to past efforts, and will require a substantial effort to mobilize internal resources, as well as greatly expanded foreign assistance. With all this, the anticipated results as measured by increased real per capita GDP, are modest, 1.4-1.5 percent annually for the 1980-83 period. (Table 4)

Compared with the poor performance during the 1970-76 period, the projected growth rate is a significant improvement. However, it barely matches the real per capita annual GDP growth rates of 1965-70 (averaging 1.4 percent), and is lower than those of the 1960-65 period (averaging 1.9 percent).

Furthermore, even these modest achievements may be diminished if current savings on export earnings are lower than projected, imports are higher, or construction costs (particularly of El Cajón) exceed programmed levels.

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<sup>1/</sup> Guatemalan vacation visitors were projected to reach over 650,000 in 1985 in an unpublished study by Robert R. Nathan Associates. Other independent projections are considerably higher. An average expenditure of \$300 per visit is assumed.

TABLE 4

PROJECTED GROSS DOMESTIC PRODUCT, TOTAL  
AND PER CAPITA, 1977-1983

Year	GDP in Millions of 1975 Lempiras <u>a/</u>		Population Growth Rate		Real Per Capital GDP Growth Rate	
	Total	Growth Rate	Total <u>b/</u>	Rate	Total <u>c/</u>	Rate
1975	2,112		3,093		683	
1976	2,238	6.0	3,203	3.56	699	2.3
1977	2,410	7.7	3,318	<u>3.59</u>	726	3.9
1978	2,579	7.0	3,438	3.62	750	3.3
1979	2,734	6.0	3,563	3.64	767	2.3
1980	2,870	5.0	3,691	3.59	778	1.4
1981	3,014	5.0	3,822	3.55	789	1.4
1982	3,165	5.0	3,957	3.53	800	1.4
1983	3,323	5.0	4,093	3.44	812	1.5

a/ IBRD Mission projections to 1982. 1983 projected at trend 5% growth rate.

b/ SOURCE: CONSUPLANE. In thousands.

c/ In Lempiras. Calculated from data.

## 2. Distribution of Income and Services

The effect of the proposed development program for the 1979-83 period on the poorer strata of Honduran society will depend largely upon the extent to which investments are directed, that goods or services are redistributed, and that existing assets (especially land) are transferred to specific target groups. The execution of such redistributive programs will depend upon the willingness and ability of the Government to carry out such policies, the effectiveness of programs being implemented, as well as the overall financial status of the Government.

Based on the actions of the Government during the 1972-77 period and the increased aspirations and active participation of the poor strata of Honduran society, it is expected that the official policy of the Government will continue to give priority to redistributive programs. Health and education strategies continue to emphasize outreach into rural areas. Agrarian reform programs, including both the transfer of land and agricultural development efforts directed toward beneficiaries of newly distributed land, should move forward although development efforts are expected to be emphasized over the transfer of land. The rate of implementation will probably be moderate, reflecting the current philosophy of the Government and likely successors.

The ability of the Government to carry out redistributive programs in a timely fashion and to get the greatest impact out of such programs will be influenced by the ability to complete pre-investment studies on time, to arrange for the necessary financing, to manage the actual implementation and to coordinate complementary investments. The performance of the Government over the last few years has been improving but still demonstrates significant deficiencies. Poor performance can be traced to a lack of human resources to design, implement, manage, and evaluate programs and to institutional rigidities which inhibit timely execution. A.I.D.-financed programs will assign a high priority to assisting the GOH to alleviate human resources and institutional constraints.

The overall financial status of the Government<sup>1/</sup> could affect the size, timing, and rate of implementation of redistributive programs. Should the financial status of the GOH turn out to be less solid than projected (see 5 below) the overall investment and current expenditure program of the GOH will have to be cut back. Redistributive programs may suffer disproportionately because of the priority being placed on the El Cajón and Olancho forestry development programs and the large share in total investment which these programs represent.

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<sup>1/</sup> See the "Memorandum on Recent Economic Development and Prospects of Honduras," Report No. 1856-HO, World Bank, January 10, 1978 for an in-depth analysis of the projected financial status of the GOH over the 1976-1982 period.

### 3. Balance of Payments

Balance of payments projections of the World Bank<sup>1/</sup> show favorable or at least manageable, trends over the 1977-82 period. Export prospects will be closely related to the growth of bananas, coffee, lumber, sugar, beef, cotton and miscellaneous crops and seafoods. Exports of goods and non-factor services are expected to grow at about 9.5 percent a year. Imports of goods and services can be expected to grow at 12.3 percent a year if the public investment program is executed as projected.

The current account deficit is projected to increase substantially from \$43 million in 1977 to \$205 million in 1982, largely as a result of the expanded public investment program. External financing is assumed to cover 65 percent of the public investment expenditures. It is expected that loans will be offered on concessionary terms so that the projected level of public investment can be supported at the same time that net foreign exchange reserves are maintained at a level exceeding two months imports, and the debt service ratio is held to 13.4 percent by 1985. (The debt service ratio is projected to rise from 6.6 percent in 1976 to about 9.4 percent by 1981).

### 4. Public Finances

Public savings are expected to more than double from 1976 to 1981 as a result of new tax measures in 1975 and anticipated increased efforts starting in 1979, and increased resources from public autonomous institutions and enterprises. There is some indication that this may be underestimated. Public sector savings in 1975, 1976 and 1977 were higher than budgeted.

The projected budget deficits for the 1978-81 period are modest, totalling 40.5 million lempiras, only 2.4 percent of the projected 1,686 million lempiras in public capital expenditures.

### 5. Financial Viability of the Investment Program

The financial viability of the public investment program (including the large hydroelectric project at El Cajón) depends heavily on the domestic savings effort and on the ability of the Government to raise substantial external financing on concessionary terms.

Financing the investment program will require an even larger domestic fiscal effort, and lead to a higher external debt service than projected in this report, if any of the following developments occur:

(a) a lower growth of exports values and GDP, because of lower coffee prices and banana export volumes than now expected; this could raise the debt service;

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<sup>1/</sup> Op. Cit. World Bank, Table 3.4, Statistical Appendix.

(b) a higher rate of growth of imports than projected; these additional imports could require additional external financing for the balance of payments;

(c) a cost overrun in the construction of El Cajón, beyond normal contingency allowances as sometimes occurs in projects of this kind; and

(d) a lower than projected increase in current savings.

6. Opportunities for Increasing Development Prospects

a. Role of the Private Sector

The GOH projections of private investment over the 1977-82 period assume a rather slow rate of expansion. If the share of private investment could be held constant while the amounts of public investment are expanded, the gross investment ratio would be increased with a consequent increase in GDP growth rates. Policies to stimulate private sector investment and production could result in greater than projected additions to production, income and foreign exchange earnings.

b. Role of Community-Based Rural Works

There may be opportunities to convert redundant rural labor into rural capital that directly improves the productivity of small farmers. These include feeder roads, small on-farm catchments and irrigation systems, terracing and similar works. If the programs made maximum use of internal resources such as community leadership, talent and labor and external resources such as food-for-work, such programs could probably be expanded significantly without adding a large administrative or financial burden to Central Government operations.

## II. Mission's Program Strategy

### A. Objective

A.I.D. aims to support those development goals and strategies of Honduran Government which are realistic and realizable, which take advantage of technologies and techniques appropriate to Honduras' stage of development, and which promote growth with justice and greater equity.

### B. Environment

The most positive and hopeful sign which holds much promise for development of Honduras is the Hondurans themselves. Hondurans are serious people and their commitment to development at this time is strong. Consequently, the environment for cooperation helps to assure close collaborative action. Not only is there an appropriate development environment in Honduras, there is a favorable disposition on the part of major donors -- multilateral and bilateral -- to help Honduras accelerate its development. Honduras is on the threshold -- some would say over the threshold -- of major development accomplishment.

Nevertheless, programs to benefit poor Hondurans are still insufficient and most poor Hondurans can expect to receive relatively few positive governmental benefits over the next several years. The issue that faces the Government of Honduras, and A.I.D., is how to accelerate programs which will aid the disadvantaged poor. Certainly the stated objectives and concerns of the Honduran Government for improving the lot of the poor Hondurans provide a suitable framework for an A.I.D. program under the Congressional Mandate.

### C. General Strategy

The strategy to be followed will be to design and carry out suitable programs more adapted to overcoming the obstacles in the four major areas of planning and analysis, development management, delivery systems and human resources development. Coincident with progress in these areas, new programs, e.g., appropriate technology, can be initiated to help the disadvantaged rural Hondurans, thereby improving their well-being and quality of life opportunities. The existing and proposed program aims at increasing the Government's capability to reach increasing numbers of poor Hondurans by working directly to overcome these obstacles.

In pursuing the development assistance strategy, we will be guided by the following principles:

FIRST: The program will clearly place highest priority on the development of agriculture and programs which promise the most in terms of early benefits for the rural poor. To a lesser extent, though still requiring a significant effort, the program will begin to address problems and opportunities in the health sector. Urbanization, which is likely to put increasing strains on Honduran society over the next several years

will increasingly claim our attention. Education will be under review as a possible area to receive significant A.I.D. resources over the next several years, especially in basic formal and non-formal education.

SECOND: The program approach will be sectoral, in the first instance involving comprehensive analyses of sectors and the design of programs in support of sector-wide goals to benefit the poor. The approach will be analytical, but pragmatic, and will avoid highly theoretical solutions.

THIRD: Major sector analytical and design efforts will be sequentially undertaken to permit the concentration of Mission staff efforts and, within a country program level which is reasonable, to permit the application of a level of resources necessary to bring a critical mass of resources to bear in effecting changes in sector policies, strategies, organization and execution.

FOURTH: The Mission will undertake to focus its efforts even more sharply on the rural poor. In this respect the Government of Honduras over the past several years has stressed its interest in helping the poorest Hondurans, mainly in the rural areas. There has been a major Honduran agrarian reform initiative (early in 1973) through which settlements were created on previously underutilized lands for landless and subsistence farmers. The effort has centered largely, though not exclusively, on the sub-group of landless laborers which now number some 32,000 families. A.I.D. has supported this effort, but we favor also providing resources for other small farmer groups (a vastly larger number of rural poor), i.e., groups other than those included in the agrarian reform program, and small, independent farmers.

The target group families of A.I.D.-supported education, health and nutrition programs are the rural poor, i.e., target beneficiaries of the agriculture program. We are continuing to develop data on the rural poor through various baseline studies. More precise descriptions of potential and intended beneficiaries will be completed in the context of sector analytical efforts to be completed before major programs are developed. For example, as part of the current agriculture sector assessment, both the potential and intended beneficiaries have been identified, described, and analyzed in terms of a functional classification which lends itself to the identification of policy issues and operational strategies. (See the agriculture sector strategy discussion below).

FIFTH: We will design new programs and re-evaluate existing programs from the viewpoints of practicability and replicability at low cost to expanded target groups. Government programs in the health and education sectors supported by A.I.D. highlight health para-professional training and the beginnings of non-formal rural education. With respect to the agriculture sector, the Government of Honduras has come to realize (a) that it is not now in a position, given present technologies, to replicate broadly the agrarian reform program, major assistance efforts for which are only now getting underway; (b) that a vastly larger number of rural poor are virtually without governmental agricultural services whatsoever and need to be served; and (c) any appreciable increase in

per capita food consumption depends in no small measure on increasing the productive capability of the vast number of rural poor who grow the food.

Yet, the agrarian reform program is one which has merited support with its direct focus on the poorest among the rural poor and could not await new (to Honduras) low-cost technologies which would make replicability feasible on a large scale. Very importantly as a part of the program, we are helping the Government to rationalize investment credit operations and to develop lower cost technologies which will utilize more heavily human and animal labor, technologies which programmed investment credit will eventually help to finance.

As we develop new programs in the agriculture, health and education areas, we will seek out appropriate, low-cost technology to be applied within the framework of practicable and low-cost delivery systems for expanded numbers of the rural poor.

SIXTH: We will encourage the Government to actively promote a greater involvement of the private sector in the development process. The Government has been concerned in the recent past with increasing the national and public character of development, especially in the areas of forestry and bananas which play such a large role in the national economy. These actions, which have been carried out with relatively moderate policies, reflect the consequences of inappropriate past behavior, on the part of the usually foreign private sector, which has been perceived as a subversion of the sovereignty of Honduras.

The Government has also become a major participant in the economy because of its role in executing a major agrarian reform program, a program which by its very nature would not attract private capital and has created an unsettled environment in the agriculture sector.

As a result of the above Government policies and actions, private investment in commercial agriculture lagged until recently. As the parameters of the Government's actions have become more clear, private investment has begun to grow again.

As noted in the 1979-1983 public investment section above, the GOH has not defined a very dynamic role for the private sector. Also as noted above, without increased activity by the private sector above projections, the overall growth of the economy is not likely to be spectacular.

There have been recent indicators that the GOH is beginning a campaign to attract foreign investment - this new development should be encouraged. Furthermore, the A.I.D. Mission will seek to identify mutually beneficial ways in which private investment can be combined with agrarian reform initiatives and efforts to assist small, independent farmers.

SEVENTH: The Mission will monitor closely the overall financial status of the Government and will be prepared to be flexible in regard to the terms of financing and counterpart requirements in order to protect and accelerate redistributive programs in the event of unforeseen financial constraints. As discussed above under the Viability of the Investment Program, the proposed development program over the 1979-83 period is very ambitious and will not be financially feasible if exports, imports, or domestic savings do not behave as projected or if there is a significant cost overrun in the El Cajón project.

If unforeseeable financial constraints appear, the Mission will request a greater proportion of grant financing than currently projected and may request a waiver or postponement of counterpart requirements until the financial situation becomes more favorable.

D. Sector Strategy Statement - Agriculture

1. Background

a. Overview

During the last several years particularly since 1973, important policy and structural changes have been initiated which in due course could have considerable positive impact on the development of the agricultural sector in Honduras. Prior public sector agricultural development efforts had been scattered and somewhat ineffective having little or no impact on the vast majority of the rural population. For example, the then most important institution, a National Development Bank established in the 1950's had taken on more than it could manage with the result that it could not effectively carry out its principal functions, grains stabilization and agricultural credit. In fact, credit generally was provided only to some larger farm operators. The personnel of the Ministry of Natural Resources were capital-bound and the principal agriculture sector public institutions could have been described generally as being ineffectual. Moreover, coordination of policy and the activities which were being pursued was virtually non-existent. It was more the non-governmental organizations which took an active interest in rural development. An agricultural cooperative federation was established but failed apparently because of the effect of adverse weather conditions on its farmer members but also because of an absence of Government support. A more successful organizational effort resulted in the emergence of relatively strong campesino unions principally composed of landless laborers.

In 1973, encouraged by pressure from the campesino organizations, the Government instituted an active agrarian reform program. A serious attempt was initiated more generally to develop the agriculture sector with the agrarian reform program as its center-piece. The resources of the public sector institutions were channeled increasingly to the reform effort. The budget of the Ministry of Natural Resources dramatically increased and the Ministry decentralized its operations and delegated some operational authorities to seven new regional directors. The problems of the National Development Bank were analyzed and the Government committed itself to important changes in the Bank's functions and method of operations. Recently in this connection, the Bank's grains stabilization function was spun off with the creation of a marketing institute and it appears that the Bank is now prepared to move in the direction of decentralizing its agricultural credit operations.

A sector analysis office was set up in the Ministry of Natural Resources and a coordinating mechanism for the sector institutions was established, was later deemed ineffective, and was substituted with a ministerial level commission supported now by a recently-created technical secretariat. Perhaps most importantly, scores of young professionals have been and are being trained in various agricultural specialities at all levels and training of campesinos has begun.

It is clear more generally, that the focus of the Government of Honduras is now on the development of rural Honduras. New rural health and education programs have been developed. More emphasis is being placed on rural access roads and the National Municipal Bank is providing some technical and capital assistance to rural municipalities. In summary, the Government of Honduras, supported by external assistance agencies, has demonstrated a commitment to rural development and specifically to the development of the country's agricultural sector. The issue is no longer whether to undertake a serious agricultural development effort but how to do so. Questions of strategy are currently being considered by the Government's Economic Cabinet and Agriculture Policy Commission.

In perspective, the progress achieved in organizational improvement, human resources development and in other sector areas is but a beginning. Sector policy-making, planning, and management are still at a somewhat rudimentary stage. Highly productive, low-cost technologies applicable to small farms and agrarian reform farms are virtually non-existent. Present delivery systems are qualitatively inadequate and reach only perhaps 10 and at most 20 percent of small farmers and agrarian reform farms. There is still a considerable shortage of trained manpower particularly in specialized areas and the quality of training at the lower levels is wanting. Although limited, modern fresh and processed produce marketing systems exist, mostly export-oriented and operated by the transnational companies, and while the Government operates a basic grains marketing program, the marketing system can be generally characterized as rudimentary, dominated by small truckers and, it would appear, a few powerful intermediaries. Finally, in a country where heavy floods and droughts dominate precipitation patterns and where slash and burn techniques and hillside cultivation are too frequent, there is only a minute fraction of cultivable land under irrigation and there is no effective water resources policy or management.

#### b. General Description

The economy of Honduras is predominantly agricultural. The agriculture sector accounted in 1976 for about one-third of GDP, 75% of the value of exports, and 16% of current public revenues. About two-thirds of the economically active population depend on agriculture for their employment and income.

Because of the poor performance of the agriculture sector since 1960, the overall growth of the economy has been slow (see macroeconomic overview above) and the income received by the agricultural workforce have remained inadequate to cover even the most basic needs of food, clothing and shelter. (The minimum income level to provide basic food needs alone is estimated approximately to be \$250 per capita in 1978 prices).

The rural population is composed of approximately 346,000 families. For the purposes of analysis, it is useful to classify these families into four major categories: commercial private farms, including the large multi-national plantations; agrarian reform farms; small traditional

farms; and the landless labor force. These groupings do not correspond to clean lines of delineation, e.g., some traditional farmers produce in substantial degree for the market, and some agrarian reform production units are organized and operated on a commercial agriculture basis. However, each plays a somewhat distinct role in the economy and each has its own problems and opportunities.

Distinctions among the categories of farms can be made based upon land size proxies related to income levels. Thus, traditional small farms are defined as those having from one to 35 hectares; commercial farms are those with over 35 hectares. Farm families with less than one hectare of land are included in the landless labor category (since these families obtain two-thirds of their income from off-farm sources). The largest number of families are found in the traditional farmers and landless labor groups, 149,000 (43.1%) and 153,000 (44.2%) respectively followed by agrarian reform beneficiary families with 32,000<sup>1/</sup> (9.3%) and commercial farmers with 11,000 (3.5%).

In terms of the numbers of farms and the percentage of farm land available to each group (using the above definitions) it is found that the traditional farmers constitute 76.3% of all farm units and have control of 36% of the farm land; the agrarian reform farmers represent 0.5% of all farms, though nearly 10% of all farm families, and control 6.0% of all farm land; 5.9% of the farms are commercial units and control 57.2% of total farm land; and, an estimated 0.8% of farm land is held by people classified in the landless labor group (having less than one hectare) representing 17.3% of "farms".

As might be expected, the commercial farms produce most of the industrial, export-oriented items (bananas, sugar, cotton). The production of cattle and coffee is shared with the traditional sub-sector. The commercial farms receive the bulk of agricultural credit from private banking sources, run relatively modern enterprises and enjoy high rates of labor productivity. While average incomes have not been calculated for this sub-sector, they are assumed to be well above the minimum income level required to provide for basic food needs.

The bulk, well over 50% of basic grains (i.e., corn, rice, sorghum and beans) is produced by farms ranging in size from 3 to 35 hectares. This component of the traditional sector (53.8% of the farms in this category) uses only about 8% of the value of all inputs (fertilizer, improved seed, pesticides, etc.). Per hectare yields are low. There is little or no technical assistance and not much credit. Storage and marketing facilities available to these farms are also inadequate, giving rise to serious post-harvest losses. The remaining group of the traditional sector, i.e. the farmers with 1 to 3 hectares, also use their land mostly for basic grains and are even in a worse situation vis-a-vis inputs, credit and technical assistance.

<sup>1/</sup> September 1977 estimate; all other farm grouping estimates are based on 1974 census.

The net result of low productivity in the traditional sector is low incomes. The average per capita income of the traditional sector is \$135, within a range of \$83 to \$260 depending on farm size. The proportion of traditional farmers falling under the poverty line of \$250 per capita is estimated to be 84%.

The agrarian reform sector is generally a producer of basic grains. The major exceptions are reform families in the Guanchías and Isletas banana cooperatives, the families in the Aguan Valley producing african palm and some cotton-producing cooperatives in the South. This is the group on which most of current A.I.D. assistance is concentrated; it is also the group which is accorded highest priority by the GOH for public sector services. Consequently, in a relative sense, these units do receive technical assistance and credit. The constraint here is on the quality, timeliness, appropriateness, and continuity of assistance. Managing a group farming enterprise is a complex endeavor, at best. When the "managers" are illiterate or semi-literate, have no experience with even simple bookkeeping, and have a tradition of producing for consumption rather than for profit, the complexities multiply. Poor performance again results in low income; the mean per capita income, including all sources of household income, for reform families is \$106. Except for those groups producing cash crops noted above, the majority of agrarian reform farmers fall under the poverty line of \$250.

The rural labor force (landless laborers and farmers using less than 1 hectare) faces three principal constraints; lack of access to sufficient land to provide an adequate income from family farming (approximately 1.4 hectares of farmed land in basic grains is considered minimal to feed a family), insufficient and seasonally fluctuating demand for family labor, and low absolute and relative wage labor rates. Per capita income is difficult to determine for this group, but has been estimated to be \$63 per annum for those living on farm with less than one hectare and \$50 per annum for the landless.

The critical importance of agriculture as the principal basic sector in the economy dictates the need to stimulate the development of this sector in order to achieve overall development of the country in addition to providing for the minimum needs of the rural populace. If economic development is to be accomplished, the agricultural sector must:

- 1) satisfy the domestic demand for food and for primary materials of agricultural origin for industry at prices that are reasonable in relation to incomes; 2) generate capital for the needs of the sector and for other sectors of the economy; 3) provide labor to the industrial and service sectors; 4) earn foreign exchange through exports and import substitution; and 5) provide a market for industrial products.

## 2. Major GOH Goals and Strategies

### a. Objectives

The 1974-78 GOH Development Plan sets forth nine global objectives,<sup>1/</sup>

<sup>1/</sup> Plan Nacional de Desarrollo 1974-78, Tomo I, pg. 33.

the first four of which deal with social progress<sup>1/</sup> and the latter five with economic progress.<sup>2/</sup> The agricultural and livestock sub-sector, the fisheries sub-sector, and the forestry sub-sector have their own respective sets of objectives. For the first two, the initial objective is to increase production. In the case of forestry, the first objective (since accomplished) is to acquire state control of forestry resources. There is, however, no indication that the order of listing is equivalent to priority. On the contrary, there is ample recognition, both in the plan document and in government circles of the inherent inter-relationships and inter-dependencies of the various objectives as well as of potential conflicts among them. The GOH does not, at this time, envisage any major changes in objectives in the new five year plan.

b. General Strategy Considerations

The central thrust of GOH strategy for the agricultural sector during the past four years, i.e. the principal consideration around which individual strategy decisions have been taken, has been implementation of the agrarian reform. This has come about as a response to political factors, but also responds to a strongly held belief that the present land tenure situation is the major impediment to economic and social development. With the exception of special programs like COHDEFOR, the agrarian reform program is the principal instrument being used to promote rural employment, achieve increased production of basic grains, and diversify production into new crops, e.g. citrus and african palm. It should be noted that until the implementation of the agrarian reform program, major public sector involvement in agriculture was basically limited to credit programs for commercial farmers.

c. Level and Composition of Public Investment

1976 marked a turning point in the importance given the agricultural sector in terms of both total government expenditures (29.9% of the

1/ Plan Nacional de Desarrollo 1974-78, Tomo I, pg. 33. "To ensure each person a level of income adequate to basic needs; to progressively diminish the level of unemployment and under-employment; to improve the quality of life of the population, especially in rural areas; and to achieve a more equitable distribution of income and of the factors of production".

2/ Ibid: "To secure for the country the maximum benefit from the value added in the process of production; to rationalize the exploitation of natural resources so as to assure their perpetual and continuous use and to obtain from them the maximum benefit for the Honduran community; to transform the structure of production, diversifying same and progressively increasing in sustained fashion national output; to broaden and modernize industry so as to permit the transformation of exportable primary commodities into finished or semi-elaborated products; and to strengthen the position of the economy to withstand changes in the international market".

total for that year compared to an average of 20.7% over the preceding four years) and in terms of investment (40.4% of total planned public investment for 1976-83 as compared to an annual average of 4.2% in the period 1965-75).

d. Production Strategy

The existing production strategy may be summarized as follows:

1. Assure the minimum necessary level to meet domestic consumption and industrial needs for basic grains (corn, sorghum, rice and beans), but not to produce for export with the possible exception of beans.

2. Develop import substitution production of such items as milk and vegetable oils.

3. Promote the maximum possible increase in and diversification of other food and fiber crops and of livestock for domestic use and for export.

4. Restock denuded pine forest areas, clear-cut old stands, where necessary replacing them with new high quality stands, while maintaining overall output on a sustained yield basis and incorporating subsistence families living in forest areas into the forest exploitation system.

5. With regard to fisheries, continue with programs already initiated or about to begin, e.g., aquaculture for shrimp and fresh water fish, improvement of artisanal fishing and domestic marketing, but proceed slowly with major investment and exploitation, while initiating needed research, and human resources and organization development.

e. Strategy for Land Use

The facts about the current status of land use are well known. The situation may be summarized as follows:

1. Large areas of potential crop land (40-50% of all agricultural land) are either currently inaccessible, devoted to extensive grazing, or underutilized due to lack of irrigation and drainage facilities;

2. Cropping by small farmers is to a considerable extent undertaken on slopes best suited for other uses. These small traditional farmers in a great many cases are suffering from a land productivity constraint: either they are on non-farming type land or they do not have enough land (49.9% of all farm units were 3 hectares or less in 1974);

3. There are ample opportunities and real need --both social and economic--to improve the exploitation of the land;

4. The reasons for a sizeable amount of land not being properly exploited are many and complex and range from lack of access roads, to land tenure, to culture and tradition, to floods, etc.

The GOH strategy for dealing with this situation appears to be a combination of:

1. Opening up new areas, e.g. the Aguan Valley and Olancho via a combination of investment in major trunk roads plus agrarian reform settlements;

2. Moving extensive livestock operations from state owned lands suitable for cropping, e.g. Olancho, to slope lands and replacing them with agrarian reform group farms composed largely of landless laborers; and,

3. Undertaking major irrigation/drainage/flood control projects.

f. Agrarian Reform Strategy

This subject needs to be examined under two subheadings: 1) Strategy vis-a-vis the 32,165 families presently settled on 907 group farms; and 2) strategy for new settlement.

1. Existing Settlements

As a whole, the reformed subsector is dealt with as a special group and the preferred recipient of public credit, public investment and technical assistance. However, the variations are considerable among the reform groups in terms of attention received. For example, it is highly unlikely that the GOH can replicate the enormous investment which has gone to Bajo Aguan project beneficiaries in other agrarian reform settlement areas. In many areas, especially the more isolated ones, reform groups have received almost no assistance.

2. New Settlements

The goal set by the 1974-78 plan of settling 120,000 families on 600,000 hectares by the end of 1978 will not be achieved. To date approximately 32,165 families have been settled on 125,000 hectares.

It would appear that the development of a strategy for 1979-83 has only reached the issues stage --the primary ones being related to the rate of agrarian reform and where the settlement effort should be directed.

g. Strategy for the Development of Agricultural Sector Institutions

There are three major institutional strategies which are in the process of being implemented by the GOH. The first in the creation of new institutions to provide a national focus to the development of major

crops and natural resources, e.g. COHBANA and COHDEFOR which are playing a major role in the development of the banana and forestry industries respectively. The second is the regionalization and decentralization of the administration of the operational activities, e.g. extension and machinery services, of the public agricultural agencies to allow them to be more responsive and flexible in relation to local needs. The third is the sector planning, programming and budgeting to improve the coordination of programs involving several institutions, i.e., the recent creation on an experimental basis, of a Committee for Agricultural Policy with an adequate secretariat. There has been discussion concerning the possibility of coordinated planning and budgeting at the regional level among sector institutions.

#### h. Investment in Infrastructure in the Sector

There has not been a coherent or comprehensive strategy for the investment of infrastructure in the agricultural sector. Investment decisions for irrigation, roads and storage usually have not been coordinated spatially or in terms of timing with each other or with agricultural production strategies. However, a major study has recently been completed which has placed in rank order all of the major valleys of Honduras in terms of projected returns to investments in agriculture, including roads, irrigation, credit, etc. The study is receiving attention and may provide the basis for a comprehensive and operationally useful strategy for investment in agriculture, perhaps to be included in the new five year plan.

#### i. Human Resources Development Strategy

This topic needs to be approached from two viewpoints: 1) the requirements for professional personnel and the training and facilities needed to produce that personnel; and 2) the educational needs for the rural population, especially farmer training.

As concerns professional personnel, the apparent strategy of the Government is to train most middle level and university level professionals required over the next five years at institutions located in Honduras. Certain specialists and all professors will have to be trained out-of-country. The Ministry of Natural Resources also has plans for improving its in-service training.

The situation with regard to farmer training is disturbing. While non-formal education is an appropriate way to reach out-of-school farmers, no fewer than eleven GOH dependencies and three private organizations are active in this area. Large amounts of resources are being employed. Some individual programs may be well conceived and operated, but when looked at as a system, the results are probably disproportionately low compared to the investment. This is especially distressing since the formal education system is expanding slowly in rural areas and is only beginning to experiment with ways to make education more relevant to future farmers.

j. Provision of Credit

The strategy now being followed to satisfy the needs of medium and large size private farms and of commercial crop oriented cooperatives -i.e., combination of rediscount lines from the Central Bank through the private banking system plus recourse to direct foreign credit sources, without the intervention of the national banking system --appears to be working reasonably well.

The sub-sector which does not appear to be the beneficiary of any explicit GOH credit strategy is the small, independent farmer. Alternative strategies are currently being discussed. The credit strategy with regard to the reformed sub-sector is to satisfy their needs principally through the National Development Bank (BNF).

Operationally, the BNF is considering or undergoing significant changes, i.e., the decentralization of its lending operations and a shift to lending on the basis of farm plans rather than on past performance or collateral. Structurally, the BNF is also undergoing a significant change to strip it of non-agricultural credit related functions so that it can concentrate its efforts on agricultural credit.

k. Marketing and Pricing

The current marketing strategy is to tackle constraints on a product-by-product basis as one element of a systems approach. The Government is an active participant in the marketing of both basic grains and export crops.

The situation with regard to the subject of price policy and marketing of basic grains may be described as one in which the responsible agency, presently the Basic Grains Division of the BNF, and the Basic Grains Commission, attempts to not only manage a price stabilization program but also one for support prices, neither of which is producing the desired results. A long overdue first corrective step has been taken with the recent establishment of the autonomous Agricultural Marketing Institute. It is expected that the Institute will begin operating within the next few months, but will require additional time and assistance to reach full effectiveness.

The Government is currently the sole marketing agent for forestry products and is active in the marketing of bananas and coffee. It relies on private firms, both local and multi-national, to market a variety of other export crops.

Another major component of the marketing price policy complex is the price control program conducted by the Ministry of Economy for products sold in the national market. There are indications that the manner in which this authority has been used may have favored intermediaries and consumers at the expense of the profit margins of producers. The matter is currently being proposed for further study.

### 1. Research Strategy

The GOH recently decided to restructure and strengthen the national agricultural research system (PNIA). In this connection, it procured the services of the International Agricultural Development Service (IADS) to study and make recommendations concerning the totality of the program and its interrelationships with related national and international entities. The draft report of the study group composed of PNIA and IADS personnel proposes research priorities which: 1) focus primarily on small to medium farmers (both independent and agrarian reform); and 2) places continued emphasis on basic food grains with medium to long-run emphasis on vegetables, oil, seed crops and livestock (this emphasis constitutes an issue and will be a subject for further discussion). It then recommends a research strategy, i.e., farmer-oriented, interdisciplinary research; strengthening the national research station network; a strong manpower development program; and exploitation of opportunities to link with other research and development institutions engaged in activities complementary to those of PNIA. The proposal is currently being reviewed by A.I.D.

#### m. Strategy for Control of Post-Harvest Losses

The GOH is well aware of the need to reduce post-harvest losses and a strategy for initiating work was proposed by a team of consultants in 1977. Alternative implementation strategies are currently under discussion.

### 3. Mission Strategy Over the 1979-1984 Period

#### a. Objectives

The Mission's strategy will be one of support for the Government's rural productive and, particularly agricultural, sector development efforts - one of building on progress already achieved, encouraging further efforts in critically important areas and assisting with new initiatives. Some of the resources necessary to support the strategy are already in the pipeline, but significant new resources will be required. The objectives of the Mission's strategy are to help the Government to greatly expand the capacity of agriculture sector institutions to plan, program and manage their activities; to increase the numbers of adequately trained human resources for the sector at all levels; to extend significantly the coverage and improve the effectiveness of agriculture sector delivery systems including the creation of new systems; to provide agriculture sector delivery systems with more productive, low-cost technologies with emphasis on light capital technologies; and to create off-farm employment opportunities in rural areas.

#### b. An Approach to the Target Group and Delivery Systems

Over the past five years, the agrarian reform program has been accorded a high priority for Government resources. There is little doubt

that the Government will continue to provide high priority for this program. As it has been developing, the agrarian reform program, it appears clear, is not meeting its quantitative objectives and will not have as great an impact on the intended target group as expected. Realistically, there is a need, therefore, to consider other solutions for landless laborers and small-scale farmers with less than five hectares. Moreover, small farmers with 5-35 hectares have been receiving virtually no services with the exception that a small portion has been receiving some credit. It is important that attention be focused on this group whose income generally falls well under the poverty level and who have considerable productive potential.

As we explore possible program approaches to the target group with the Government, we will emphasize assistance to improve efficiency of governmental ministries and agencies and activities to meet the need for the development of low-cost technologies and low-cost delivery systems. Further, we will advocate the use of non-governmental organizations so that it can be possible within a reasonable time-frame to make services available to the large portion of the target group.

1. We will continue to provide support wherever feasible for the Agrarian Reform effort which maintains a high priority in the Government's strategy and directly benefits the poorest of the rural population, i.e., landless laborers and farmers with less than five hectares. We will be prepared to assist, if requested, in the development of new non-governmental delivery systems, e.g., second level organizations which can provide services - inputs and marketing - for agrarian reform farms and eventually release government resources to expand the program. In support of an existing government-operated delivery system, A.I.D. resources for credit, farm planning advisory services, and some training are already in the pipeline. Beyond resources applied to a search for lower-cost, replicable technologies, the new A.I.D. resources required over the next roughly three years for the reform sub-sector will be for management and technical assistance. Subsequently, A.I.D. could consider providing additional credit resources for the reform effort, depending in large part on the priority the Government then assigns to it.

2. We will encourage the Government to begin to deal effectively with the vast numbers of small farmers who operate plots of from 1-35 hectares and who generally have received no services from the Government. To service this group, low-cost delivery systems must be devised. These systems would involve the use of para-professionals/volunteers and demonstrations eventually covering large areas of the country. Once developed, the installation of the delivery systems would proceed gradually, eventually covering the entire country. Considerable resources will be required for this effort over the next five years, including funds for small farmer credit.

3. It is quite possible that sector advances will result in the worsening of the position of the smallest-scale farmers, those farming plots of less than 2-3 hectares frequently on hillsides and who characteristically sell a portion of their production and buy it back at higher prices. Increased production nationally and quite possibly lower, attendant real farm-gate prices for the product could generate this effect. Special attention will need to be given to the problems of these farmers, as well as of landless laborers who while together constituting the primary subject of the agrarian reform program, cannot for the most part expect to benefit from it. Other options include increasing the labor intensity of rural works projects, e.g., road construction (in which the Government is now engaged) and increasing off-farm and other employment opportunities in rural areas. In this respect, we will consult with the Government concerning possible A.I.D. support for rural, small industries development including the development of village-based industry. Additionally, for the sub-group of the smallest-scale farmers, the Mission will encourage the Government to explore the prospects for hillside agricultural techniques involving minimal terracing and some crop diversification, including tree crops.

c. Sector Institutions, Policies and Training

We will encourage the acceleration of the evolution of the public agriculture sector structure and, particularly, improved coordination at the national and regional levels and the trend toward decentralization with the attendant closer proximity of decision-making to field operations. We will support, in particular, the development of a capacity for policy analysis and joint planning and budgeting at both the national and regional levels among all sector institutions. Joint planning among the sector institutions at the regional level could better take place within the overall framework of a serious regional analysis/planning effort. This will be explored with the Government in connection with the urban sector program. Participation of rural municipalities as a "bottom-up" element in the joint planning effort would also be most useful, if not critical, to the success of the effort. This participation would reinforce certain measures which the Government has taken to strengthen municipal government capacities and test whether the Government is willing to proceed further in this direction.

Several issues will need investigation and resolution during the DAP time-frame, e.g., how quickly the pace of agrarian reform should proceed and to what extent the Government will wish to encourage farmer organizations to develop delivery system and marketing capabilities. Production, marketing and supportive research strategies will have to be developed vis-a-vis the various farmer sub-groups taking into account such matters as the distribution of benefits from increased productivity of farmers, national self-sufficiency as opposed to comparative advantage, and shorter as opposed to longer-term gains in production.

Other important issues involve the extent to which the Government will be willing to emphasize the development of small industries in market

towns and agricultural service centers (as opposed to the leading urban centers) and the development of light capital technologies for industry, as well as for the farm. There are fundamental development policy questions at the crux of these issues involving rural/urban and labor/capital terms of trade, future demographic patterns and the very development potential of the country. In the final analysis, decisions will be taken by the Honduran Government on a political as well as technical basis. A.I.D. will encourage the Government to continue its efforts toward growth with equity by providing incentives through the financing of various programs. And we will provide financing for training and to secure the best available talent to assist in analyzing important issues and formulating the alternatives.

Our approach will be to provide assistance in policy analysis, planning and management wherever it is critically needed in the sector and, particularly, to support the earlier described sector trends toward improved coordination and decentralization. We would expect to continue our support toward the strengthening of the capacity of the Ministry of Natural Resources. We plan to continue working closely with the Banco Nacional de Fomento in support of the Government's determination that it become a fully effective agricultural development bank, and in this respect, we see no higher, single institutional development priority during the DAP period. If requested, we will provide assistance for the more effective functioning of the National Agrarian Institute. We will provide resources for comprehensive planning for water resources management and encourage the creation of an effective coordination mechanism. We intend to continue support for the National Autonomous Municipal Bank so that it can become a more effective instrument for the development of agriculture market towns and service centers. We will explore with the Government the prospects of A.I.D.'s providing assistance for the CCTI towards its becoming a technological center providing assistance for the development of rural small industries, and we will be willing to consider support beyond that presently planned for the newly established Marketing Institute.

As the resource flow to the sector increases and problems of the sector become more complex, the present urgent need for trained manpower at all levels will increase still more. Accordingly, A.I.D. programs will continue to finance considerable training abroad in specialized skills and to support training in national institutions. We will explore prospects for assisting in the further development of the national agriculture professional training capacity and be prepared to assist as necessary in increasing the effectiveness of campesino training.

#### d. Technologies

Technologies for the farm extant in Honduras are generally either traditional or modern and it is clear that highly mechanized farming practices are inapplicable to the small farm situation and too expensive to be replicable on a large scale. The Government's agronomic research capability is very weak. Essentially, it has developed only limited,

applicable technologies for corn and beans. On the other hand, the research capability of transnational companies in Honduras in certain diversified product areas is very strong and to the extent the companies are cooperating with farmer groups in arrangements to market their production abroad, this capability is being tapped. Also, on a project basis, some research is being contracted by the Government for diversified products. A.I.D. will assist the Government to develop its agronomic research capacity and a research strategy compatible with production objectives and marketing prospects.

The Honduran Government has become interested in the development of light capital technologies for the farm. A.I.D. is already assisting in an incipient research and development effort toward adapting mechanical technologies for use in Honduran agriculture. We are discussing with the Government an expansion of their effort with a view to achieving some considerable impact on agricultural technology applied in Honduras toward the end of the DAP time-frame. And we will encourage the development of low-cost mechanical technologies in conjunction with the improvement of agronomic research and practices.

#### Technologies for Industry

There is precious little industry in rural areas of the country and little, in fact, in cities outside the two leading urban centers. The general tendency of existing larger and medium-scale entrepreneurs, it appears, is to invest in capital-intensive industrial processes.

To support the development of light capital farm technologies, small industry advisory services will have to be provided for fabrication of prototypes in the testing and demonstration stages. But technical advisory services on a much broader scale, oriented toward light capital technologies could produce significant benefits, i.e., bring industrial development opportunities within the reach of smaller-scale entrepreneurs, increase the labor intensity of investment, and save on foreign exchange. If requested, therefore, the Mission will explore the prospects for developing an industrial development advisory services capacity with a light capital technologies orientation. We believe the interest and the beginnings of an institutional base exist within the Government. Resources for small industry credit will generally be available from other sources.

Our emphasis will be on rural small industry and one aspect could involve a directed, pilot effort for village-based industries. But the potential for impact could be such that the advisory services should be extended as well to urban small industries.

#### e. Marketing

Marketing is an area which will require increasing attention and study. There is a need for a Government marketing strategy which can support production goals. The new Marketing Institute will attempt to

get a handle on the issues and operational problems inherent in the basic grains stabilization program, its legacy and principal focus of attention. During the next few years, we will provide support for the Marketing Institute principally through Title III funding for grain buying and other resource requirements and through sector program funding for technical and management assistance as well as for policy analysis. At this point, we would also consider the possibility of financing certain marketing infrastructure. It is possible that the Government may wish to create a marketing policy unit within the Ministry of Natural Resources and leave the Institute to handle problems at an operational level. This approach, too, would have our support.

Unless Honduras can become an exporter of grains on a considerable scale, and this appears doubtful, productivity and income increases for the farmer will increasingly be based on diversified production. This in turn, will require among other things, export marketing arrangements since the domestic market is most limited. The Government is investigating the prospective marketing arrangement for certain crops, e.g., citrus. Such arrangements will and should be determined on crop-by-crop basis.

The Mission is presently assisting the Government in a program to develop systems for the export of fresh and processed produce involving contract farming arrangements with agrarian reform farms and small-scale, individual farmers. We have encouraged the transnational companies in Honduras and the Government to work together in this area since the former possess unique capacities in international marketing and transport as well as in agronomic practices for diversified crop production. Through the ongoing project we will continue to support the development of export marketing systems for fresh produce and we will explore the manner in which we might be more helpful in the development of agro-industrial processing for domestic consumption and possibly for export. The most apparent alternative is technical support for the CCTI which could provide industrial advisory services for small agro-industry, e.g., canning. Industrial credit resources are already programmed. The domestic fresh produce marketing system is one requiring further analysis.

There is little doubt that on-farm and community storage facilities are badly needed, primarily for grains. A.I.D. will be prepared to provide support through farm investment credit programs and zonal infrastructure packages.

f. Program Composition FY 1978 - FY 1984

The Mission is generally taking a sectoral approach in its assistance programs inter alia to provide an analytical framework for an A.I.D. assistance strategy and related financial inputs. A.I.D. financial support would best be effected through Sector loan/grant programs. The exigencies of the agriculture sector in Honduras, however, require that we go forward with project activities in addition to sector programs because of the complexities of certain activities and because of the need for focus which can best be provided by a single project activity framework.

Nevertheless, the activities are very much related one to the other and their design will be mutually supportive. For example -and as a general approach- we will explore with the Government the desirability and feasibility of proceeding with several elements in specific regions of the country taking each region in tandem. This approach could incorporate the inter-agency joint planning process, zonal infrastructure packages, initiation of new delivery systems, preparation of technological packages and demonstrations of light capital technologies. The programs themselves will be discrete national programs with national policy, institutional and operational dimensions. But the co-location of the activities could assure better activity management and closer interfacing of certain elements, strengthen the decentralization process, and perhaps result in a synergistic effect.

The following activities have been identified for financing within the next two fiscal years (FY 1978 and FY 1979).

Agricultural Research (FY 1978)

This will be a grant project to help the Government to markedly strengthen its agronomic research capacity and coordination and develop a research strategy in support of production objectives compatible with marketing prospects. The project will be designed to encourage as close a relationship as necessary between agronomic and mechanical technology research and development; and to place priority on development of technological packages for new and expanding delivery systems for small farmers and agrarian reform farms. It is possible, because of the institutional and operational linkages with the expansion of the Small Farmer Technologies program, that the two projects will be merged.

Small Farmer Technologies Expansion (FY 1979)

This grant activity will expand the present A.I.D.-financed appropriate technologies research and development activity to effect by the end of the DAP time-frame, usage of new on-farm, light capital technologies in selected areas throughout the country. The approach will be one of product development pre-testing, testing and demonstration on a rather large scale closely related to agronomic research activities.

The Mission will also explore within the framework of this project, the prospects of incorporating light capital technologies in small industry development in Honduras. The focus will be on the development of an industrial advisory services capacity possibly using the present CCTI as an institutional base. Three activities are foreseen. First, technical support to blacksmiths and other small rural entrepreneurs for fabrication of prototypes; secondly, a directed village-based industry pilot activity; and finally, advisory services for new or expanding small scale industry in general. For the latter, credit resources will likely be made available through a World Bank loan and counterpart resources. It can be expected that much of the industry will be agro-based, e.g., food processing, wood products, textiles, etc. A.I.D. assistance could

help orient the use of these credit resources toward financing investments involving light capital technological industrial processes.

The program in this area is by no means firm. The Mission at this time is awaiting the final report and recommendations of the Intermediate Technology Development Group whose technical experts recently visited Honduras.

#### Water Resources Management (FY 1979)

The program is aimed at increasing the effectiveness of key Honduran institutions involved in selected areas of water management. The primary obstacles facing these institutions in making better use of water resources are the limited amount of information and basic data available to them, the scarcity of trained personnel to formulate and conduct development projects and the lack of coordination and integrated planning characterizing GOH agency activities in this field. On the other hand, there are opportunities to reduce the costs of installing and operating on-farm water facilities if appropriate lower cost technologies could be introduced in GOH programs.

The program will provide support to the Government to expand, improve and unify the current program of basic data collection (climatology, hydrologic, ground water, and soils); to undertake selected operational pilot activities (including those adapting available light capital technology); to expand training at the graduate, undergraduate, technician and user levels in such areas as hydrology, meteorology, climatology, soils, water management, irrigation engineering, watershed management, soils conservation, and on-farm utilization of water, and to support key GOH entities involved in planning and coordinating water activities on a national scale in order to bring about more comprehensive and integrated water development programs.

#### Agriculture Sector II (FY 1979)

The sector program will concentrate resources on the central strategy problems of human resources development, government improvement with emphasis inter alia on decentralization; and delivery systems expansion.

Several activities will be considered to support human resources development:

- The School of Agriculture of the University of Honduras (CURLA) and the Catacamas Agricultural School are two institutions which now appear to be in a situation where they could profitably absorb considerable external assistance, designed primarily to improve the quality of the instruction given to their students.

- Upgrading the quality of public sector entities by providing out-of-country specialized training to their personnel is and will continue to be a priority requirement. Also, there are likely to be possibilities for expanding the base from which the sector can obtain

specialized personnel by providing agriculturally oriented out-of-country training to civil engineers, biologists, economists and others.

- There could well be possibilities for improving the facilities, course content, teaching staff, etc., for training public and private sector personnel dealing with rural women. A relatively small amount of effort and resources placed here would likely pay large dividends over the long term.

- Concerning campesino training, it is not now clear that a direct A.I.D. input is required. The possibility of specific activity in this area will be left open and considered further, since such training would be an integral part of delivery systems development.

The range of needs and opportunities for government improvement is almost limitless, and while some degree of flexibility is needed to take advantage of targets of opportunity, A.I.D. assistance will focus on the following priority areas:

a. Policy analysis, coordination and joint planning and programming-Assistance for entities and units within agencies concerned with planning, budgeting and coordination at the sector-wide, individual agency and regional levels.

b. Management and support particularly with respect to:

- Administration of credit programs; i.e., the National Development Bank

- Improvement of marketing support activities - the Marketing Institute

- Possibly the restructuring of the National Agrarian Institute

- Continued support for the Ministry of Natural Resources including possibly, additional support for research.

Related to governmental improvement is the matter of delivery systems which will call for the development and/or improvement of separate organizational arrangements through which needed services and inputs can be provided, respectively, to small and medium scale independent farmers and to agrarian reform farms. These systems will be designed to have impact in the sense of reaching large numbers of farmers. This will call for the training and use of paid para-professionals and of campesino volunteers as one approach. Additionally, second level organizations to provide services may be developed. Substantial resource inputs including agricultural credit will be required.

Delivery systems will be designed to assist the smallest farmer to produce a more abundant and varied set of foods for his own use, e.g.,

the family vegetable garden. Specific approaches to hillside agriculture will also receive attention along with basic technological packages. The role of non-governmental organizations will receive particular attention.

The concept of integrated agricultural infrastructure investment packages developed on a zonal basis as a major element of inter-agency joint planning is now being explored with the government. Small infrastructure might include jeep trails, terracing, small water and conservation projects, and community storage facilities. One possible design approach would be to create a commingled fund from which regional offices could draw for approved investment packages which meet pre-set criteria. The participation of Municipalities and the National Autonomous Municipal Bank (BANMA) will be considered.

As design work proceeds on this activity, we will consider the possibility of expanding the concept to include support for agriculture market towns and service centers. Under a program with the Autonomous Municipal Bank (BANMA), A.I.D. has supported financing of secondary cities' infrastructure and institutional development for towns serving important agricultural regions. That program is nearing conclusion. Financing will be considered to ensure that the Bank's momentum, stimulated by an A.I.D. loan continues and the flow of resources moves increasingly to market towns and service centers. Further assistance might be considered as an element of an A.I.D.-supported Urban Sector Program planned for FY 1981. Assistance under Agriculture Sector II would serve as a bridge to the Urban Sector Program and would be modified to support the objectives of developing market towns' infrastructure as it directly serves agriculture.

#### Agriculture Sector III (FY 1983)

The Agriculture Sector II Program will be in its final stages and a follow-on sector program has been included in the long-range planning for 1983. The nature and content of the follow-on, of course, will be later articulated as Sector II is complemented and further analysis is carried out.

#### 4. A.I.D. Resources

The 1979-1984 program will be financed through 1) Small Farmer Technologies (Grant and Loan); 2) Agricultural Research (Grant); 3) Water Resources Management (Loan); 4) Agriculture Sector II (Grant and Loan); 5) Agriculture Sector III (Grant and Loan); and PL 480 Title I/ Title III. The proposed size and timing of grant and loan financed projects is given in the following Table:

	<u>Year of Obligation</u>					
	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>
	(\$000)					
1. Small Farmer Technologies	697 <sup>1/</sup>	1,000	1,500	1,000	1,000	-
2. Agricultural Research	750 <sup>2/</sup>	314	300	-	-	-
3. Water Resources Management	5,000	-	-	-	-	-
4. Agriculture Sector II	23,000	-	2,000	-	-	-
5. Agriculture Sector III	-	-	-	-	22,000	-
TOTAL:	29,447	1,314	3,800	1,000	23,000	-

1/ Ongoing project begun in FY TQ.

2/ New project to be initiated in FY 1978.

E. Sector Strategy Statement - Urban

1. Background

Honduras is entering a period of rapid urbanization marked by the concentrated growth of a small number of urban areas. At present, the small size of the Honduran population, its relatively low level of urbanization, and the presence of agricultural frontier growth areas within the nation suggests that the patterns of urban growth could be considerably different from those encountered in other Latin American nations. The rates of migration appear high, but the predominant direction of migration appears to be toward areas of markedly improved development potential and away from the areas of very old settlement, high density, low agricultural potential and relatively low levels of socio-economic achievement.

There is evidence that some urban areas are falling behind in their ability to accommodate migration. For example, among the ten most rapidly growing areas, four already show signs of severe infrastructure shortages and several of the seven next largest centers are in similar straights. Moreover, urban unemployment rates are persistently higher than rural rates; the unofficial rate for Tegucigalpa is 17%. However, the problem has not reached unmanageable proportions.

It appears that Honduras is probably in a unique position in at least two respects regarding its process of urbanization. First, the Government may be able to better define the role which the emerging system of cities could play in support of: 1) the movement of population toward more productive areas, especially major agricultural regions, and 2) other aspects of the development of agricultural regions. Second, Honduras has the opportunity to define and to implement urban and regional development goals and programs well in advance of the time that urbanization becomes a major, unmanageable problem.

The Urban Structure and Pattern of Urbanization. The urban structure of Honduras is relatively simple. As of 1974 there were 24 cities with 5,000 or more inhabitants of which 13 had a population in excess of 10,000, six were larger than 20,000 and only two were larger than 40,000: San Pedro Sula (148,000) and the Central District of Tegucigalpa and Comayagua (271,000). Honduras has a higher percentage of its population in rural areas (63%) and a lower percentage of its urban population residing in the capital only (43%) than any other Central American country.

Despite the highest rate of overall population growth in Latin America for more than 25 years, urban population only increased from 30 to 37% over the period 1961-1973. Rapid urban growth is a relatively recent phenomenon, but is highly variable from center to center. For example, for the 24 cities larger than 5,000, the range is 1.86% to 7.7% with 10 of these in excess of 5.0%. The range is accounted for in part by the fact that much of the migration in Honduras is urban to urban.

The propensity of the rural population to migrate is only half that of the urban population.

The focus of urban growth is in the North, in and around San Pedro Sula (an IDB study suggests that San Pedro Sula soon will be the fastest growing city in Central America). The cities of El Progreso, Choloma and Potrerillos are all within a 40 Km. radius of San Pedro Sula, and they experienced growth of 5.4%, 5.7%, and 6.2% respectively. This new and very pronounced concentration of population in the Sula agro-industrial valley is likely to lead to considerable adjustment problems.

There are fast growing centers in all major areas except the Western departments, indicating that there are prospects for regional development at locations other than in the vicinity of San Pedro Sula. Examples are Choluteca in the South, Siguatepeque in the Central area, and Danlí and Catacamas in the East-Central area.

Preliminary and partial evidence suggests that the rapid growth of cities in Honduras is an integral part of a broader movement of the population out of the less-productive and more-densely-populated regions of the South and the West and toward those urban areas and agricultural frontier zones where opportunities are considerably better.

The observed resettlement patterns appear to follow and facilitate the current pattern of growth of modern sector employment. To that extent, there appears to be little reason to discourage the migration now underway. If, on the other hand, greater decentralization of industry were desired, the present migration patterns might be inappropriate.

There is some evidence that urban and rural unemployment are greatest at the principal destinations of the migrants, often the most rapidly growing cities. It also appears that much of the migration is tending toward smaller communities with substantial infrastructure deficits and limited capacity to respond to the demands of rapid urban growth.

## 2. Major GOH Programs

There are four host government agencies concerned with general questions of urban development. They are:

1. The Regional Planning Department and the Local Development Department of the technical secretariate of CONSUPLANE, the National Economic Planning Council;
2. The National Directorate of Urbanism in the Ministry of Public Works and Transport (DGU);
3. The National Directorate of Municipal Technical Assistance, in the Ministry of Government and Justice; and

4. The National Autonomous Municipal Bank (BANMA).

In addition, there are numerous agencies, such as the Electrical Energy Agency (ENEE) and the Water Works Agency (SANAA), which are concerned with specific types of urban infrastructure. The division of labor among these agencies is not clear, and there appears to have been considerable overlap and some competition among them in recent years.

Regional and urban planning and development have not been high on the list of planning and development priorities of the Honduran Government, partially because they were not of high priority for the international agencies toward which much of the planning to date has been directed. However, there is evidence that the present Honduran Government is interested both in more rational regional planning and in greater local development planning and assistance. CONSUPLANE has been active for more than three years in developing background and bases for local and regional planning and there reportedly is a distinct section of the draft national plan for 1979-1983, to provide formal recognition and funding for this new focus. A competent professional core is in the making at CONSUPLANE and it appears likely that the 1979-1983 Development Plan will place increased emphasis on regional and local urban development.

In the past there have been isolated attempts at regional planning or to develop bases for such, but it appears that little has come of them. For example, there was considerable interest in 1967 and 1968, but the costs in terms of the surrender of autonomy imposed on entrenched ministries vitiated the efforts and little was implemented. Fairly large scale regional development plans were prepared for the Bago Aguán Valley and for the whole South of the country at that time. Individual projects from those studies have been implemented, but not as a part of a generalized regional approach.

The DGU has been active since late 1973 in activities related to urban physical planning and, since about 1976, in some local areas, in socio-economic planning. To the extent that local planning has taken place in the small and intermediate towns and cities of Honduras, DGU has been the agent responsible.

Legally, CONSUPLANE has responsibility for devising the guidelines and background legislation within which an agency such as DGU would function. In practice, DGU has been "free-wheeling" because of the absence of guidelines and has probably been as influential as any group in pressuring CONSUPLANE to develop general plans and legislation.

The National Directorate of Urbanism (Dirección General de Asesoría y Asistencia Técnica Municipal) was created recently. Its function appears to be the supervision of the legal formalities of the nations 283 municipal government bodies.

BANMA was created in 1961 to provide local governments with financial and technical assistance, to serve as depository for municipal funds, and to serve as financial agent, purchasing agent, and administrator for municipal governments. BANMA is the implementing agency for the USAID's Municipal Development Program (\$4.1 million) underway since 1974 and to be completed by mid-1979.

Other Programs of Potential Relevance. There are several ongoing Honduran Government programs which must be considered central to assessment of urban development strategies. One is the recently released Master Roads Plan (PMV). The PMV is important to an urban development strategy for at least two reasons: First, the 21 valleys evaluated under the plan differ substantially in the extent of development and settlement. Agricultural expansion in those valleys will require attention to the patterns of increased town growth, resettlement, and, in general, new urban infrastructure which will be needed to facilitate (or, at the extreme, to permit) agricultural growth. Second, it may prove true that inclusion of urban infrastructure, both private and public, in the calculation of the costs of developing the valleys would alter the rankings and the recommended order for undertaking projects. At the very least, further investigation of such urban development implications are needed in conjunction with investment programs of a magnitude and with potential spatial (and specifically urban) implications as great as those associated with the Master Road Plan.

Cadastrars are another government effort of significance. The BANMA loan has permitted a number of communities to undertake fiscal reforms based on new cadastral surveys. The reform undertaken in Tegucigalpa using a cadaster financed with city revenues is illustrative. The simple process of surveying, cataloguing, and assessing property under a recognized cadaster has raised city revenues by more than 300% over less than three years without raising tax rates and assessment ratios. As a result, the mayor's office has expanded the scope and extent of the construction and social service projects which it has undertaken.

A national cadaster is now underway, but several cities have borrowed from BANMA to conduct their own rather than await the national results. Similar changes in revenues, though not so dramatic, have been experienced in Comayagua, Danlí, and Siguatepeque. This increase in solvency at the local level, should it become generalized, would imply even greater need for technical personnel to assist the municipalities with expanded development programs.

Tegucigalpa is engaged in some innovative approaches to its growth and development. For example, it has designed several projects which would simultaneously increase the integration of the region and provide improved opportunities for artisans on the periphery of the city. The remodeling and reconstruction of the center of Ojojona and San Buenaventura (about 25 kilometers to the South of the capital) and a series of road and other infrastructure projects programmed for Valle de Ange-

les (25 Kms. to the North-East) are examples of projects which might have sufficient benefits for A.I.D. target groups that they would warrant support. The expansion of community service centers throughout the Distrito Central (Tegucigalpa area) has the potential for providing considerably improved access and increased participation in local decision making for residents of barrios. Of perhaps greater significance in a broader regional context, they could provide a basis for programs designed to facilitate the flow of information to migrants and potential migrants and to ease the adjustment of newly-arrived migrants. The fact that these projects are underway in the Distrito means that there exists the possibility of studying their effectiveness, of considering their transferability to other places with similar problems, or of expanding them in the Distrito to ease the pressures of growth, if that growth is not deemed inappropriate or counter-productive.

### 3. Mission Strategy over the 1979 - 1984 Period

Mission strategy is predicated upon its perception of urban development within a regional (primarily agricultural) development framework as an opportunity to facilitate essentially healthy population movements toward some productive, diversified economic and social environments. Further, the strategy is intended to support, strengthen, and encourage the host country's ability and effort to define and to implement urban and regional development goals and programs well in advance of the time that urbanization becomes a major, unmanageable problem. In this regard Honduras has a unique opportunity to avoid the social blight that has plagued some of its neighbors and, in the process, to create a liveable urban environment as its population doubles within the next 20 years and as rural-urban migration accelerates.

Objectives and Options. The background discussion above suggests that there exists a wide range of possibilities for an urban development strategy. The formulation of a detailed strategy must await a much more detailed assessment of the major themes surveyed here than the Mission has been able to carry out to date. The strategy expressed in terms of a possible Mission-supported program for the 1980's might include some or all of the following:

a. expansion of the human resources base in technical fields related to the urban environment and the creation, strengthening, restructuring, and coordination of institutions responsible for development of the urban sector. As one concrete element, expansion and partial re-orientation of the present BANMA urban infrastructure loans seems to be squarely on the mark for the problems presently encountered;

b. a technical assistance and training program to expand the ability of the smaller rapidly-growing cities to accommodate their growth and to implement the urban development plans now being prepared for them by the Dirección General de Urbanismo;

c. a technical assistance program to support regional planning providing inter alia a framework for a complementary effort of regional, agriculture sector planning and programming;

d. a program of planning for and assisting in the creation and development of agricultural service centers or rural market towns in expanding agricultural areas such as coastal Atlantida, the Aguan river valley, and Western Olancho;

e. a program to assist in stimulating the decentralization of modern industry away from the Sula Valley and the Distrito Central toward the growth centers within 50 to 100 kilometers of them, where population growth may be accommodated more readily;

f. a program of capital and possibly technical assistance coordinated with agriculture sector activities, to stimulate the growth of small-scale enterprises in both major urban centers and in rural market towns to provide greatly increased non-agricultural employment opportunities;

g. Housing Guarantee programs for major cities and/or secondary cities appropriately geared to low-income groups and including provision of community infrastructure and social overhead capital;

h. concessional loan assistance to provide or upgrade basic infrastructure/services, e.g., drainage, streets, water, waste disposal, and lights, to poor sections and/or squatter settlements in the major cities and/or secondary cities.

i. a set of social programs to improve the flow of information across regions with respect to employment opportunities and to assist in the relocation of migrants, attempting to anticipate the spontaneous urbanization which will result if no foresight is lent to migration questions; or

j. a minimum-intervention approach which would advocate simply making certain that A.I.D. sectoral programs were consistent with GOH regional plans and that the regional selection of sectoral projects reinforced generally positive trends rather than running counter to them.

There are options also in terms of spatial orientation of a Mission policy. For example, with various sub-options under each, the program could focus on:

Small Urban Places and Agricultural Frontier Areas. It would be possible to dismiss urban places of less than, say, 5,000 inhabitants unimportant to the urban development "problems" of contemporary Honduras. But if movement of the population into larger urban places begins primarily in these smaller places, as some evidence above suggested, then it is precisely the

relative employment opportunities and access to infrastructure and social services in these places which is a prime determinant of the migration.

Medium-Size Towns. For the 22 towns in Honduras which had more than 5,000 but fewer than 50,000 inhabitants, the needs are somewhat clearer, although priorities among them will differ depending on the regional development strategy adapted for the nation as a whole.

The Two Largest Cities. Whether an A.I.D.-sponsored urban development strategy should incorporate San Pedro Sula and Tegucigalpa would depend upon answers to numerous questions which are still open:

- Are the demonstrable net diseconomies of scale associated with these cities? Should they be encouraged to grow?

- To what extent are they able to handle their own growth, given the existing revenue sources and expenditure needs?

- To what extent can programs be tailored in those places to reach effectively the target groups without simply providing for the substitution of A.I.D. resources for local resources that otherwise would have been expanded for target group projects?

- To what extent will preferential treatment of those places lead to increased unwanted growth as a result of the specific programs proposed?

#### 4. Specific A.I.D. Programming

a. An Urban Assessment will be conducted over an 18-month to two - year period beginning in the fourth quarter of FY 1978. The funding requirements will include \$200,000 from the DS/UD FY 1978 budget for this purpose, complementary Mission technical support funds, as necessary, plus GOH counterpart.

b. The assessment process will collect, or generate and organize, the data required to clarify and amplify host government and Mission thinking about the Urban Sector and indicate possible future urban program package components of a long-term urban sector strategy which can be supported by A.I.D. The resulting urban sector program assuming that direct assistance is indicated, could be ready for financing in FY 1981. A \$17 million program has been tentatively programmed for FY 1981.

c. Housing Guaranties, preliminarily estimated at \$15 million in FY 1981 (low-cost, sites and services housing), \$10 million in FY 1980 (squatter settlements upgrading), and \$10 million possibly in FY 1982.

F. Sector Strategy Statement - Health

1. Background

a. Health

Though the Government of Honduras is giving increased attention to the health problems of the population, the health status of the Honduran people as reflected by health statistics is among the worst of Latin America. The crude death rate of 14.3/1000 population is second highest (Bolivia first) in Latin America, however, it has halved since 1950-55. This rate reflects a general rural rate of 16.5 deaths/1000 population and an urban rate of 9/1000 population. The same tendency is true for infant mortality rates. The rate for the country as a whole is 117 deaths/1000 live births - urban, 85.6 and rural, 127.2. The average life expectancy at birth, fifty-two years, is among the shortest in Central America. Among the primary causes of disease and death are many which are largely preventable such as enteritis and diarrhea, and poor nutrition. Malaria is present in much of the country.

b. Nutrition

A 1966 survey indicated that malnutrition existed in some degree in at least 70% of the Honduran children under five years of age and nearly 30% of all children had the moderate and severe forms. More recent studies do not indicate any change. The deficiencies are predominantly lack of proteins, calories, and Vitamin A. In addition, other deficiencies resulting in anemia are common.

c. Demographic Trends

Though the population growth rate of Honduras shows expected variability since the early part of the century, there was always at least 1.5% growth rate until 1940 when it rose to 2% continuing to 3% in 1955. The 1970-75 rate was 3.47%. The population doubled to 3,000,000 between 1950 and 1974 and would double again in 20 years if the growth rate were to continue at 3.47%. (The Minister of Health believes the present rate is 3.2%).

For at least 25 years the birth rate in Honduras has been the highest in Latin America. In 1970-75 it was 49.3 births/1000 population. This rate is reflected in the total fertility rate or number of children born during a woman's life time, which, for the country is 7.5 children per woman (8.7 children/rural woman, 5.3 children/urban woman). The age-specific fertility rates are higher for rural women than urban women at all ages. The total fertility rate for the eight largest cities is even lower than the general urban rate. Fertility varies inversely with socio-economic status as determined by level of education and occupation of the head of the household.

High fertility and decreasing mortality have gradually resulted in a younger population. In 1975, 46.9% of the population was under the age of 15. The dependency ratio, the number of non-economically productive people to 100 economically productive persons rose from 90 in 1970 to 99 in 1975. The importance of the large young population is apparent in absolute numbers. In 1950 Honduras had approximately 620,000 children under 15 but in year 2000 this could be over 3,000,000! The resources needed to provide services to the young age group, and employment soon thereafter, are, of course, considerable.

d. Health Implications of Demographic Trends

Other country studies with applicability to Honduras show that a high population growth rate is closely associated with poor health. Thus, there is every reason to assume that Honduras suffers most of the ills of early first pregnancy, child bearing late in reproductive years and close spacing of children, resulting in high infant and maternal mortality and a high risk of serious malnutrition, particularly among later-born children.

In addition, where contraception is not available, not used or fails, a growing number of women seek abortion because they are not willing to have another pregnancy. Studies of other countries show that many women are receiving inexpert and/or unhygienic abortions with a high rate of complication or death. Though no studies are available for Honduras, there are indications that the same situation prevails here.

e. Health Delivery System

The location of health resources, facilities, physicians, and other health personnel have normally been heavily concentrated in the urban area, where only about one-third of the population lives. In an attempt to extend the coverage of the health delivery system to 80-90 percent of the population by 1980, the Ministry of Health has launched a major new effort to reach rural areas.

The central program of this new effort is the expansion of physical infrastructure, with the financial assistance of the Inter-American Development Bank, into rural areas through the construction of rural health posts and small hospitals. Approximately 500 health posts, about half of which will be financed with Government funds; eight emergency hospital centers and two regional hospitals will be constructed by 1980.

While the extension of the delivery system is necessary, appears to be well designed, and makes maximum use of paramedics, the fact is that the current delivery system is not functioning well. As the delivery system is expanded significantly into rural areas, the weaknesses of the system will be magnified and will adversely affect the ability of the system to function efficiently. Systems of administration, supervision,

continuing education and patient referral are noticeably weak. In addition, many of the programs to be carried out through the new system of delivery have not been updated and adapted to the system to assure the most effective attack (i.e., methods of recognition treatment and follow up) on such diseases as Tuberculosis, parasites, and intestinal problems, and to insure continuous and improved immunization levels. Emphasis on certain services which should be delivered through the newly designed system is minimal, especially family planning.

The capability for health sector planning is rudimentary. The Government has not yet been able to determine with any precision the human and financial resources required to expand the health delivery system. While Ministry of Health officials are concerned that the expanded system may prove to be too burdensome for the available and projected human and financial resources, they have been unable to identify the specific areas in which the shortages will occur. In addition, it has not been possible to weigh alternative interventions to assure the most effective programming of resources. Since the health sector is already absorbing between 8-12 percent of the national budget, it is likely that a substantial proportion of additional resource requirements will have to be met through improved efficiency.

## 2. Major GOH Goals and Programs

Health - The Government of Honduras is directing its health efforts toward decreasing the prevalence of all illness with emphasis on those associated with poverty such as diarrhea, malnutrition, maternal and infant deaths. The strategy to achieve this includes extension of basic health services to cover 80-90 percent of the population through an integrated regionalized health delivery system, extensive community participation, emphasis on preventive measures, orientation of major efforts to the rural area and improvement of the quality of care.

### a. Conceptual Basis

The concept of regionalized delivery system is that the least trained individuals will have curative and preventive responsibilities for the least complex (and usually most frequent) problems and situations in their area. More complex problems will be referred through an organized series of levels of care to that level which is most appropriate for the problem.

At the national level the Ministry of Health considers itself primarily a normative level but it also provides mechanisms for developing and carrying out certain training, studies, supply and equipment procurement and management functions in support of individuals in each of the eight health regions who have such responsibilities for their region. The MOH feels that its most important function is to develop norms to guide the regions in the development and implementation of a full range

of programs with emphasis on certain priority programs.

Each of the eight health regions is headed by a regional staff and most have a regional hospital. Each region is divided into health areas headed by an area staff, often at an emergency hospital, with responsibilities for the area. Such responsibilities include: planning for the area, continuing education, supervision, supply, and proper referral. Of decreasing complexity are the health center, - a physician-staffed out-patient unit and, finally, the lowest level of the formal system, the rural health post staffed by an auxiliary nurse with ten months of training. Besides her specific medical and health tasks, the auxiliary nurse has supervisory and continuing education tasks related to three types of volunteer community health personnel. The community health personnel include the community health worker (guardian) chosen by the community. The guardian receives limited training in personal care and prevention methods. The community health representative is also chosen by the community and is given brief training oriented toward environmental and sanitation problems. Finally, local midwives are provided short courses to upgrade their skills to work at the community level.

b. Physical Infrastructure, Institution Building and Human Resources Development

The Inter-American Development Bank is assisting the GOH in the process of expanding physical infrastructure into rural areas through the construction of rural health posts and small hospitals. Approximately 500 health posts, about half of which will be financed with Government funds; eight emergency hospital centers and two regional hospitals will be constructed by 1980. To date, only 290 of the health posts are in operation. None of the planned new emergency hospital centers or regional hospitals have been completed.

Some complementary technical assistance in the development of management systems for the new health delivery system is being provided by PAHO/WHO. A.I.D. is currently assisting the GOH to train community health workers (the guardians, health representatives and midwives) and auxiliary nurses through the Integrated Rural Health Services grant. The grant should help increase the number of trained paramedics in rural areas from approximately 2,800 in 1975 to cover 10,000 in 1980.

c. Priority Programs

The priority program areas may be divided into two general groups: (1) attention to individuals which includes nutrition, maternal-child care, communicable diseases, diseases preventable by vaccination and personal medical attention and, (2) attention to the environment which includes basic sanitation, vector control and food control.

In relation to attention to the individual, mothers and infants are identified as the group to receive the greatest, including pre- and post-natal care, proper nutrition and means by which to appropriately space their families. The UNFPA is developing a grant to provide assistance to essentially all phases of maternal-child care, running from 1978 to 1980.

Vaccination against polio, diphtheria, tetanus, measles and whooping cough are provided in some health facilities, but the main delivery is through two annual campaigns in the communities. Attention is given to assuring a functioning tuberculosis identification and treatment program. Environmental sanitation (water and waste disposal) programs exist both in the MOH (assisted by A.I.D.) and in an associated agency, SANAA (assisted by CARE and the IDB). The Government has set a goal to provide 80 percent of the population with potable water by the end of 1980. A vertical program called the Malaria Program, deals with eradication and control of all vector problems.

#### d. Performance of the Health Delivery System

Without question, the integration and coordination required to assure proper functioning of the regionalized health delivery system is complex and success is not automatically assured.

The Ministry of Health has developed a good general extended delivery system design and some norms to implement it. More are being written. It is the responsibility of the region and area personnel to make plans for implementing system components and then to carry out the actual implementation in a manner that recognizes the specific character and problems of their respective region and areas. Both implementation planning and actual implementation are being poorly executed. In general, access to health services is still low; most of the rural health workers are inadequately trained and supervised, patient referral is not functioning and supply and maintenance systems are inadequate. The Ministry, region and area personnel have not been able to mobilize the means to analyze and improve components of the operation, especially in the midst of a significant expansion of the delivery system. In the specific priority program areas the best and most effective interventions are not always being used and the studies and analyses required to make these choices are not being done. In great part, this is because there are insufficient well trained and motivated people in the health system or available to hire even if the Ministry of Health had resources to do so. Appropriate training, especially in the regions, is an essential element for system improvement.

Nutrition - In mid 1975, the Government and A.I.D. collaborated on an assessment of the nutrition situation in Honduras. Published in late 1975, the assessment document provided the basis for a new multi-sectoral effort of the Government to combat malnutrition. A national nutrition

coordinating body, SAPLAN, was created in early 1976 within the National Planning Council to give a focus to this effort through the establishment of overall nutrition goals and policies, the development of multi-sector strategies and the evaluation, design and coordination of nutrition interventions.

Financial support was provided by A.I.D. through a grant and loan for programs in analysis and planning, nutrition education, environmental sanitation and pilot project activities to introduce new, more nutritious foods into rural diets. To date, data gathering has begun under an Income, Expenditures and Food Consumption survey and an evaluation of the national Vitamin A-Fortified Sugar project, and will begin soon under an experimental Nutrition Surveillance System. Nutrition education activities are underway using both radio messages and short nutrition courses. Wells are currently being installed under the environmental sanitation component. Pilot food production and consumption activities have begun in soy and sorghum, and are scheduled to begin soon in aquaculture and community-based food production projects. Experimentation is also underway to determine the feasibility of local food processing for institutional feeding.

At the same time as the above, somewhat disparate, pilot activities have been started, SAPLAN has also been preparing a National Food and Nutrition plan for inclusion in the Government's new five year development plan for the 1979-83 period. It is hoped that the plan will provide a coherent, overall nutrition strategy. As the details of the Food and Nutrition plan become available for analysis, the Mission will consider appropriate ways to support this important effort.

Population - The Government has no official demographic policy and has to all intents and purposes played a passive role in the provision of family planning services.

The National Economic Planning Council (CONSUPLANE) has taken the first steps toward developing a demographic data base and demographic projections to understand more thoroughly the demographic changes which are likely to occur in Honduras between now and the year 2,000. The Centro Latinoamericano de Demografía (CELADE) has been assisting the Government in this effort. Furthermore, the Government, through the Planning Council, is trying to integrate demographic projections into its overall planning effort. The Corporación Centro de Región de Población is assisting CONSUPLANE to develop models which will allow estimates of the effect of various population configurations on the demands for Government services and investment resources over the period of the new 5-year plan (1979-83) and beyond.

Family planning services have been made available for health reasons through the Ministry of Health; the coverage of potential users has been very limited. The Ministry has been constrained from taking a more active stance towards family planning for mostly political reasons. The

risks of offending the Catholic Church, which has vociferously opposed family planning, leftist elements within the university, and elements within the medical community are real and cannot be discounted. These risks of actively supporting family planning are heightened when the United States is seen to be directly instigating and providing primary support for an active family planning program.

The Ministry of Health also believes that it does not have the institutional capability to provide family planning services separate and apart from other basic health services.

Family planning services are being made available by private organizations - the Honduran Family Planning Association and the largest campesino federation. The Honduran Family Planning Association has initiated a successful community-based distribution program, is involved in training Ministry of Health personnel and is introducing services in voluntary sterilization.

### 3. Mission Strategy Over 1979-1984

It is the intention of A.I.D. to support the general GOH health emphasis through a strategy of several components.

#### a. Overall Principles

1. In keeping with the Government of Honduras orientation to view health, nutrition and family planning as part of a broad health orientation, the Mission intends to support health activities, directed to the target groups. Where A.I.D. resources are available in one or another of the three areas --and requested-- they will be used to strengthen that area, always within the context of general health improvement. Where an effort requires attention and involvement of factors outside of the traditional health sector, for example, nutrition's multi-sector approach, the Mission will seek to assure these elements are appropriately coordinated and that solid support is given to those nutrition components considered to be traditionally health. For this coordination, A.I.D. will work predominately with CONSUPLANE (The National Planning Council) which is the GOH agency responsible for coordination of policy and its implementation.

2. By choice and design, the Mission will orient its assistance toward the poor, predominately rural, population. The majority of the Mission's effort will be in collaboration with the MOH which has as its mandate to provide access to health services to the entire population. Private care, social security, the military and banana companies have assumed responsibility for 10-15% of the population, the Ministry has the rest and these are more unfortunate individuals and families who cannot expect to receive assistance from other health systems.

3. A major priority will be to assist the GOH to cope with the current expansion of its delivery system. While the ongoing investment of the GOH in human resources and physical infrastructure will expand the potential coverage of the health system, the necessary supportive elements such as administration, supply, supervision and planning are not in place. The lack of supportive systems and trained personnel, in spite of recent training efforts, is becoming increasingly the more important constraint preventing an expansion of actual coverage. In addition, the efficiency of the delivery system will have to be greatly improved if expansion is to be carried out in the face of projected budgetary constraints. Assistance in this area will be directed, in large measure, toward the health regions and communities where the rural health programs are being implemented. In those respects, the Mission will give much emphasis to problem analysis in the sector and human resource improvement activities.

4. A.I.D. will encourage planning and actions oriented toward disease prevention in order to obtain a proper balance of prevention and cure in Government programs. Such an approach emphasizes outpatient community-based methods rather than a hospital orientation. Basic health workers' skills will include the means to treat certain illnesses both for the relief provided and as a means of gaining credibility in the population regarding preventive measures.

5. The Mission will continue to act with circumspection with regard to family planning. The Mission expects to step up its support of demographic and other more peripheral activities as part of an effort to create increased awareness about the population problem. Support to health efforts of the MOH which encompass maternal-child health in all aspects will be continued. Some funds will flow to increase MOH options to seek the external Honduran help it requires in serving the target population. The Mission will provide facilitating service in channeling requests for assistance which can not or should not be provided on a direct bilateral basis. The Mission will respond to specific Government requests for assistance. A more active A.I.D. stance would only serve to reduce the ability of the Government to move forward in this area, a point made amply clear at the highest Honduran levels. The Government has noted the posture of the A.I.D. Mission with approval and, furthermore, has taken certain steps which suggest the efficacy of this policy. If anything, an earlier more active Mission policy appears to have been a constraint on the Government and the Mission was asked at high level to reduce its profile.

b. Activities to be emphasized:

1. Program Development

a. Human Resources

In this area attention will be given to the appropriate determination of tasks for various categories of health workers and the assurance of appropriate and sufficient training. Task determination and training is underway now for the community level health personnel - traditional midwives, community health workers and the health post auxiliary nurse, but these efforts need to be expanded to include almost all technical management and administrative positions.

The fact that essentially all health intervention is to be carried out through the system of graded levels of care, makes it mandatory to assure that technical, management and administrative areas are appropriately staffed from the regional office down. The category of Management and Administration includes planning, analysis, data and information, implementation, monitoring and evaluation. More specifically, economics and finance, accounting information systems, logistics, maintenance, supervision, statistics, data collection and community organization training will be provided. Technical training (i.e., for work in bacterial and chemical laboratories, engineering techniques for water systems, design and construction, etc.) will be provided in relation to program needs.

b. Institutional Development

Considerable review, analysis and improvement will be required for both the support components of the health delivery system (i.e., such elements as supply, transportation, communication, referral systems, supervision, etc.) and technical programs (i.e., control measures for Malaria). Not only will effective systems need to be designed but their use must be institutionalized. The physical resources required to assure that appropriately trained persons can correctly use the revised, improved system will be provided.

2. Extension of Program Coverage

It is clear from the scanty information immediately available that collaboration must be undertaken in certain priority areas:

a. Demographic Growth

The rapid Honduran demographic growth rate is a clear signal that the present problem will worsen. However, the lack of government demographic policy and the presence of considerable sensitivity about the family planning issue require delicate handling of any U.S. support. The Mission will be responsive to requests for additional studies which may take the

form of grants to CONSUPLANE to contract locally to gain a better information base in this area. In general, the Mission will encourage Honduran recognition of the consequences of the high growth rate. Within a general health framework, maternal-child health will be encouraged in all of its aspects for health reasons.

b. Improved Availability and Quality of Water and Waste Disposal

Gastroenteritis has been clearly identified as the most common morbidity/mortality problem among the largest age group, i.e., infants and children. It also causes significant morbidity in all other age groups. This is an extremely complex problem not responsive to a single approach but which requires multiple interventions such as improving water quality and availability and waste disposal, improving nutrition and hygienic habits, especially in mothers and children. While it is not possible to quantify the amount of health improvement brought about by better and more water and improved waste disposal in relation to other interventions, expert opinion is that it is an essential ingredient. The Ministry of Health's ability to plan and carry out these programs in the rural health area is now being improved under the A.I.D.-supported ~~nutrition program~~ and should allow a significant program extension in 1980 and thereafter. A.I.D. is prepared to assist in extension of service coverage and the carrying out of studies and pilot programs to improve the service.

c. Improved Nutrition

The Mission will continue to support SAPLAN's efforts, especially in nutrition data collection and analysis and its coordination of the various involved agencies. Where proven pilot programs require additional collaboration, i.e., extension of a test program such as fish farming or promotion of a better low-cost water system, the Mission is prepared to assist.

The Mission will increase the Title II program in terms of quantity, but only in the context of development and execution of a national feeding policy and program, and through more extensive use of Section 206 of the FAA. Also the use of these foods will be oriented more toward development efforts and away from strictly humanitarian distribution through their increasing incorporation as a component of the Honduran Food and Nutrition Plan.

d. Maternal/Child Health

This group has the highest morbidity and mortality rate generally and in respect to infectious diseases. A.I.D. is presently collaborating in this area through a grant for training. A large UNFPA initiated assistance program will run from 1978 through 1980 for this group. It is expected that further expansion will still be necessary after that

time and that additional external funds will be needed. A.I.D. collaboration could include further coverage extension in the areas of health education, vaccination and personal health care services.

e. Vector Programs.

Honduras, along with other Central American countries, has been burdened with vector-borne diseases including malaria, Chagas disease, and Denque and Listhmaniasis. The existence of such diseases has made it difficult to open new lands and to live safely in many areas. The malaria service is changing from an eradication approach to an approach utilizing a variety of methods tailored to a specific area in question. Additional resources will be needed to develop the alternatives to spraying, e.g., drainage, oil on water, and malaria mosquito-eating fish. Simple epidemiological surveillance methods are also needed for defining and monitoring the vector disease control program. The Mission intends to support these efforts.

f. Other Areas to be Defined

As a result of additional analysis and planning, A.I.D. expects to support additional elements in the health, nutrition, population fields that are determined to be critical to achievement of policy goals. Such elements could include assistance in communications, transportation, appropriate equipment and maintenance.

4. Specific A.I.D. Programming

In summary, it is proposed that the health strategy include : (1) integration of nutrition, health and population efforts; (2) an orientation toward the poor, predominantly rural, population; (3) institutionalization of capacity to efficiently manage a vastly expanded health care delivery system through assistance directed mainly at the regional and local levels; (4) a preventive emphasis; (5) a strong manpower component with emphasis on management and administration; (6) specific priority program extension; and (7) an effort to raise awareness of the consequences of rapid population growth. It is proposed that this strategy be composed of:

1. A health assessment planning project to be started in FY 1979 and to be completed in early FY 1980 will support the development of planning and implementing capabilities in the Ministry and regions, and provide training in priority management/administrative areas as well as selected parts of the priority areas. \$475,000.

2. A Health Sector Loan/Grant to begin FY 1980 and continue through FY 1983, will continue to develop planning and administrative skills, as well as provide training and technical assistance, equipment and partial budget support for extending programs and personnel services, especially

MCH, water supply, waste disposal, nutrition and vector control. It is expected that some funds will be used to further analyze and study the epidemiological situation, the recipient population, special problems as well as to test alternative interventions. \$17,000,000.

3. Support to PAHO and voluntary agency efforts in the health area.

## G. Sector Strategy Statement - Education

### 1. Background

The problems in Honduran education grow out of predominately rural society with a traditional, urban-oriented approach to education. Agricultural, health, industrial and commercial sector problems as well as administration and management problems are affected and compounded by the limited and poorly developed human resources of the country,

Problems in the education sector are internal and external to the system. The most serious internal problems are: inadequate financial resources; an insufficient number of adequately-trained teachers, inequitably distributed throughout the system; irrelevant, poorly designed and planned curricula; lack of didactic materials, and weak planning, management and control of the system.

The impact of these weaknesses is greatest in the rural areas, which receive a disproportionately low share of financial resources, teachers, materials, and management services. In 1974, over 64% of all primary schools offered less than six grades of education; 99% of these were in rural areas. Furthermore, while 70% of the population is rural, only 54% of all primary teachers are in rural schools. In 1975, 70% of all rural teachers were classed as "unqualified", i.e., they had no teaching degree.

At the secondary level, 84% of rural youngsters age 13 to 19 do not attend school, compared to only 7% in the urban areas. That is, a total of 60% of potential secondary students do not attend school.

The specific internal problems in the sector as a whole are evidence of the inadequate coverage provided by the system. During the past several years, there has been an increase in the absolute number of children in primary schools, but a decrease from 64% to 58% in the percentage of school age population actually attending schools. The dropout rate throughout the educational system is exceedingly high. Of every 1,000 students starting primary school, 105 graduate from primary, 39 from secondary, and 4 from the university.

The allocation of public resources to the system, while increasing in absolute terms, has declined from 27% of the budget in 1974 to 17% in 1978. The limited resources available to the system are used inefficiently because of problems such as the insufficiency and inadequacy of professionals, and the cumbersome legal and administrative system. There are large numbers of repeaters in the primary school system, due in part to an inadequate performance evaluation system which leads to progressively higher failure rates (14% in 1971, 20% in 1976) and in part to inadequate staff and curricula. Expenditure of resources is primarily in personnel —80% of the primary education budget is absorbed by teachers salaries, leaving very little for materials and curriculum development.

In essence, the internal problems of the education system produce a formula for the educational underdevelopment of a large majority of Hondurans.

The external inefficiency of the education system is caused by the numerous internal problems. Human resources needs at all levels and in all sectors are simply not met because of the inadequate human resource quantity and quality from that system.

Most serious is the problem of basic education for the rural population. The adult literacy rate in Honduras is 55%; in the rural areas it is only 42%. In other words, 84% of all illiterates are found in the rural areas. These figures do not take into account the functionally illiterate group which is prevalent in the rural areas. Nor do they reveal the inadequacy of basic education and its lack of relationship to rural life.

The extensive adult population in the rural areas which has not been served by the education system constitutes a serious impediment to development efforts in all sectors. This problem is being attacked on a piece-meal basis by non-formal education efforts conducted by various Honduran agencies. However, only 5% of the population is reached by these efforts. Furthermore, there is no coherent, sector-wide strategy for addressing the problems posed by these by-products of the educational system.

Given the serious problems within the sector and the influence that these problems have on all other sectors, it would be illogical for the GOH to attempt a development program without focusing on improvement of its human resource development system.

## 2. Major GOH Goals and Programs

### A. Ends

#### 1. General

To date there has been no comprehensive attempt to assess or analyze the educational sector as a whole. The GOH and international and bilateral donors, including A.I.D., have focused on obvious needs in narrowly defined segments of education and have produced projects accordingly. Insofar as these projects address obvious needs, such as additional infrastructure and relevancy of rural education, they have limited acceptability in and of themselves. However, there is no assurance that the various interventions support an optimal strategy, because there is no strategy. Honduras had developed a number of approaches that should be considered experimental. However, the results of these programs are often unrelated to decisions concerning their continued application.

What follows is an attempt to separate and categorize intermixed statements of policy, goals, and programs contained in the 1974-78 National Development Plan.

## 2. Goals

The stated policy of the GOH is to create equal educational opportunity and link education to national development. The emphasis is to be in the rural areas.

The goals are:

- a. The reduction of the illiteracy index and the unemployment index.
- b. Cultural improvement, both medium and long range, of the work force.
- c. Contribution to productivity increases in other sectors.
- d. Increase in the internal efficiency of education.
- e. Evaluation of the different roles of education in the development process.

## B. Means

### 1. Strategies

If the GOH is to achieve its goals, priority should be given to the rural areas where economic development is weakest and where most Hondurans live.

The most coherent strategies growing out of the foregoing policies and goals center on rural areas, but they are not yet necessarily articulated into concrete goals or action programs. Neither can it be taken for granted that they are perceived as strategies.

#### a. Rural Primary Education

(i) Nuclear (Central and Satellite) schools being established in rural areas will provide integrated formal and non-formal education for all members of the community, making education a continuing element for the education of all community members. A need to coordinate home improvement, health and production programs with the educational process is identified.

(ii) "Nuclearization" will organize all schools in a given area around a central school and link this system with other institutions and programs. The system is planned to give all students access to six grades of education.

(iii) The curricula of rural primary schools will be adapted to the rural environment.

(iv) Primary education programs to reduce the imbalance between rural and urban areas will be developed. Further, the physical plants of rural schools will be expanded and provided more, and better trained, staff.

b. Secondary Education

(i) An unspecified percentage of increase will be achieved, in allocations to secondary schools with normal school education growing at a somewhat faster pace than other fields so as to produce more primary school teachers and to provide greater opportunities for secondary teaching degrees or advanced training in specialty fields.

(ii) Priority is to be given to technical and vocational education and improvement of instruction in scientific and technical fields in order that education respond to the needs of development.

c. Higher Education

No strategy is stated for higher education.

d. Non-Formal Education

Non-Formal Education is intended to reach and educate or train youth and adults who were missed by the formal education system with non-academic, practical knowledge and skills appropriate to their needs. Special attention is to be given to rural areas.

2. Program

a. Central/Satellite (C/S) Schools

The C/S program began in 1972. By early 1976 there were 73 Central and 465 Satellite schools serving 40,000 rural students. Current plans call for expansion to 250 Central, and 1,250 Satellite schools by 1980.

b. Teacher Training

The primary teacher training system has been consolidated into five Normal Schools (down from 43 in 1972) with a modified three year curriculum. The modified curriculum adds a period of practice teaching and new curriculum elements for community services. Total normal school enrollment in 1975 was 2,004.

Four-week in-service training programs, aimed at updating methods in traditional basic skills, have been given to 5,000 primary teachers. The programs have been discontinued, but experience and content from them will be employed in the design of the program for the planned Teacher Training Center. Qualified teachers (those holding normal school

certificates) increased from 59.7% in 1969 to 67.3% in 1975.

c. Secondary Education

Construction of 16 new secondary schools with laboratories, library facilities and shops was completed in 1976 with A.I.D. financing. In 1975, there were 65,542 students enrolled in 165 public and private secondary institutions, up from 57,256 students in 1972.

d. Vocational Education

In 1975, there were 187 schools offering commercial, industrial and vocational studies at the secondary level. At present, however, the IDB is providing loan financing to reorganize and reform the Vocational Education System. Three schools, recently constructed, will double their capacity to produce Bachilleres Industriales (grades 10, 11, and 12). A similar plan for Agricultural Technicians is in the development stage. Other schools will be groomed to offer pre-vocational training in grades seven through nine.

e. Higher Education (Non-University)

At the Escuela Superior del Profesorado, (ESP) in order to increase the secondary teaching force, a reform undertaken in 1970-71 lengthened the period of study to four years. Enrollment was also increased. Specialty areas were also expanded and facilities were constructed with IBRD financing, and the curriculum was expanded. However, the school still does not graduate enough teachers to meet demand.

The Pan-American Agricultural School (EAP) at El Zamorano offers three-year courses leading to a post high school diploma in Agronomy. There are about 80 graduates per year, of which about 34 are expected to be Hondurans as a result of a recent agreement between the School and the GOH to increase the GOH contribution to the school and the number of Honduran students who attend.

The National Agricultural School at Catacamas, is being reorganized, with IBRD financial support, to offer training for three years at the post secondary level. Starting in 1981, 80 Agronomists per year will graduate. The National School of Forestry at Siguatepeque provides a three-year post secondary curriculum for training foresters. The Forestry School graduates about 40 students per year.

f. Higher Education (University)

The National Autonomous University of Honduras offers courses of study for periods of two to seven years. In recent years, the University has expanded to include Department of Mechanical, Electrical and Chemical Engineering, Public Administration and the School of Agriculture at La Ceiba. Enrollment has increased about 60% from 9,226 in 1974 to 15,500 in 1977, with a concurrent increase in faculty from 656 to 783.

g. Non-Formal Education

Learning activities outside the formal classroom may be classified in the categories of: (i) literacy and general education; (ii) vocational training; and (iii) community development. National Planning Council (CONSUPLANE) assessment showed that, in 1976, there were 11 government and three private organizations offering basic non-formal education without any coordination between programs. The new National Program for Adult Education (PRONAEHH) has been established to handle such coordination. A.I.D. is financing the testing and development of NFE methodologies as part of the PRONAEHH program.

3. Other Donor Activity

A. InterAmerican Development Bank

The IDB has been providing financing for Vocational Education for the past several years. Present IDB project assistance includes a \$14,000 grant and a loan of \$6.75 million for Vocational Education. The project includes construction of two new vocational schools, renovation of one Agricultural school plus curriculum reform, equipment, furniture, materials and technical assistance. These schools will produce secondary level industrial and agricultural technicians. Consideration is being given to a feeder schools program at the Junior High level. Further, the Bank is considering possible assistance to a university-level project.

B. The World Bank

The World Bank in recent years has provided important financing in the field of education, especially education infrastructure. Under a 1974 project now nearing completion, the Bank provided a \$6.0 million loan which has helped to construct the expanded physical plant of the Escuela Superior del Profesorado (ESP - Secondary Teacher Training School), four normal schools, twelve primary practice teaching schools, two National Training Institutes, technical training centers, the Agricultural School at Catacamas and three new campesino training centers. The loan also financed furniture, material, equipment and technical assistance.

A second loan of \$6.0 million has recently been signed to support a primary schools' construction and improvement program. In an area including the 6 El Salvador frontier departments, the equivalent of 600 classrooms will be constructed using the nuclear school model, i.e. a central school model, i.e. a central school complete with library and manual arts shops; satellite schools with all six grades, but no library or shop facilities; and feeder, or sub-satellite schools with less than 6 grades. Financing is included for equipping the schools and for developing literacy and manual arts training for adults.

C. UNESCO

This Agency has provided limited technical assistance (two technicians) in Non-Formal Education and three additional technicians to give a one year course in the ESP for secondary school teachers curriculum and educational technology. The course was attended by Ministry staff from the Offices of Primary, Vocational, and Secondary Education, Fine Arts, and Educational Reform and Planning. Several of these trained people have been employed as staff in the Teacher Training program.

D. UNICEF

UNICEF is considering providing \$232,000 for materials and equipment for Central/Satellite Schools in the Comayagua and Danli regions. Previously, grant-financed equipment was provided for schools in the frontier zones.

E. CARE

CARE is involved in an ongoing self-help school construction program and is distributing PL 480 Title II food commodities to the Directorate of Primary Education for further distribution to 180,000 school children.

F. Relationship to GOH Plan

All of the above agencies are working within the framework of the GOH 5-year National Development Plan, as it is currently interpreted. The Vocational Education needs at the secondary level are being covered by the IDB with its present and planned projects. A.I.D. and the World Bank have financed Central/Satellite school construction. The World Bank appears to be willing to finance the construction required to expand the Central/Satellite School concept country-wide.

In general, however, A.I.D. and donor activities tend to respond more to individual targets of opportunity than to set of systematic priorities. The IDB, IBRD, A.I.D. and CARE are building schools; the IDB, IBRD, A.I.D. and UNESCO are involved in various teacher training, curriculum and research efforts. With so many actors, considerable caution must be exercised to avoid overlapping efforts and to avoid placing undue strain on the severely limited planning and management capacities of the Government.

4. Mission Strategy Over the 1979-1984 Period

A. Objectives

The Mission restricted strategy, to date, has been to support specific GOH programs in response to specific problems, i.e., secondary school construction, primary school construction and teacher training. Non-formal education assistance has been directed at designing and testing initial non-formal programs and training a core group in NFE techniques and methodology. The Mission proposes to broaden the focus of its strategy somewhat, but only in the context of urging by the Honduran Ministry of

Education coupled with evidence of increased allocation of Honduran financial and human resources and commitment to reform and improvements in overcoming sector-wide constraints. Project-specific activities should diminish in importance as the improvement of the capacity of the sector to plan and manage its programs is addressed.

The basic strategy of the Mission, if requested, will be to assist the Ministry of Education to develop capacity in the sector to define and meet broad educational objectives. More specifically, the Mission's objectives will be to support GOH efforts to improve the internal and external efficiency of the educational system and to provide more equal educational opportunity to the population, especially the disadvantaged rural sector. While the GOH strategy is directed to these ends, the principal constraint has been the lack of institutional capacity to plan and execute policy and programs with acceptable efficiency. The assumption is made that little benefit to A.I.D.'s target group will occur unless and until comprehensive improvements are made in the educational system as a whole. Therefore, the Mission's strategy is to help the GOH with the means to achieve its goals, i.e., a corps of professionals with the skills, systems and tools to allow them to restructure and to manage educational systems.

The Mission recognizes that the lack of trained skilled human resources in the target population is a result of weaknesses in the education system. Not only are there weaknesses in formal and non-formal offerings, but there is an absence of a system of coherent policy, strategies, and programs which focus on identifying and addressing educational problems from a long-range perspective.

In the absence of a cohesive, systematic approach to education in the country, the Mission strategy will, if requested, be to utilize an analytical process to identify systems which will enable the MOE to formulate policy, to develop and implement programs, and to improve its management of the entire educational system. This denotes a shift away from the piece-meal management improvement in supported projects.

The strategy's goal is to help develop a contingent of educational personnel which is fully capable of planning and managing an improved and more efficient educational system. The non-formal system can be improved by training professionals already in place to plan and manage coordinated, non-formal programs to gain increased coverage of the target population and improved quality both in the delivery and the content. The formal system can be improved by training MOE personnel in educational planning, policy development, management, administration, and analysis while developing the information and management system needed to analyze and to address sector problems. In effect, this approach can create both the professional staff and the information systems needed for the analytical process and for action programs within the sector, while developing management talent that will have a long-term impact on the system. This process is expected to lead into the planning and execution of an A.I.D.-supported sector program. As a long-term strategy, the development of local analytical and management

capacity is more effective than externally-conducted analysis and planning. It has the added advantage of obviating the political difficulties that would arise if large numbers of foreign consultants are employed on a long-term basis to carry out the analysis directly.

The Mission strategy has both short-term and long-term objective. In the short-run, the relevance and quality of the formal curriculum in the rural areas is being addressed through support of the Central/Satellite schools and the Teacher Training Program. The focus in this latter program would be to develop an in-service teacher training system that will enable rural teachers to use more efficient teaching methods and to make local primary school curricula more relevant to the needs of the rural community. The quality and coverage of the non-formal system is being tested by the training of a staff of professionals who hopefully will be capable of planning, designing, and executing efficient non-formal training activities in various GOH institutions. Both of these short-term objectives were identified in the 1976 A.I.D. subsector assessment.

The long-term objective represents a broadening of the scope of current efforts from specific programs to sector-wide systems. The same approach, i.e., improvement of GOH human resources to better manage their own systems, will be used. But rather than focusing on particular sub-systems the strategy will be to provide analysis, planning, and management capacity for all the sub-systems within the sector.

If a request from the MOE is forthcoming (see caveat above), the second step in the long-term strategy would be for the Mission to carry out an assessment of organizational needs using Mission personnel, and consultative support from the MOE and CONSUPLANE leading to an educational systems development grant project. This approach would enable the MOE to perform continuing analysis, but would not produce a sector analysis as such. It could, however, create better analytical and management systems upon which a sector program could be based.

It is recognized that this approach means a delay in the design and initiation of a financially-significant education effort. The Mission believes this delay to be prudent, but that some progress can be achieved in the interim. It seems prudent to ascertain whether there is Honduran capacity and leadership commitment to participate in planning a broad sector program. In the meantime, some work can proceed in laying the foundation for both the Educational Management Systems project and a possible Sector Program. Specifically, the Mission plans to identify appropriate people and fund their training in key areas (Education Planning, Management, Information Systems, Education Economics). Program Development and support funds would be used for this purpose. Trainees will return and be available for active roles in the planned grant-supported project and the Sector Program.

The sector-wide strategy adopted by the Mission will impact on the primary, secondary, higher, and non-formal education sub-systems. While there may be an apparent lack of focus because no particular sub-system

has been singled out, there is in fact a much sharper focus--development of an analytical and management capacity throughout the system in pursuit of the basic GOH objectives of greater equity. This implies improving education in rural areas and a direct and long term contribution by education to rural development.

The rural target population is currently the most educationally disadvantaged, both qualitatively and quantitatively. Short-term Mission strategy is directly addressed to critical rural problems through formal and non-formal projects. Long-term Mission strategy should continue to impact directly on the rural population, by assisting the GOH direct resources at improving the quality and efficiency of the entire system and thereby increasing the ability of the system to direct its own resources to meet critical needs.

B. A.I.D.-Supported Programs

(1) Rural Education Project - FY 1978 - 3 years - \$750,000

This is a follow-on assistance to expand the Non-Formal Rural Education Project and to provide technical assistance and training to the In-Service Teacher Training Program now underway as part of the Rural Reconstruction II Loan. Its purpose is to help the MOE improve the relevance of formal education in one area of the country and to expand non-formal education to additional priority development regions.

The Ministry of Education and the National Planning Council will draw upon experience gained in part as a result of the A.I.D.-supported Non-Formal Rural Education and Rural Reconstruction II projects to:

- (i) extend from two to 10 more areas the non-formal education activities;
- (ii) expand the nascent curriculum/teaching materials development capacity; and
- (iii) through technical assistance and long-term training, build up their administrative, supervisory, planning, and statistical support capacity to these activities.

The target group is the rural school-age population and rural adults who have been by-passed by the formal system. During the life of this project approximately 66,000 rural children and 20,000 adults in the Central/Satellite and Non-Formal Education Program will benefit.

The training of primary school teachers and village-level monitors is applied directly to training and teaching in their rural communities. On the formal side, improved curriculum and methods that are adapted to the rural environment will be fully developed and delivered through the teacher training system for Central/Satellite schools on the North Coast. On the non-formal side, basic education packages in health, nutrition, and agriculture will be developed and delivered through a delivery system whose key point is the village-level monitor. Various GOH agencies will be involved in the non-formal component, to enable a coordinated and integrated non-formal approach which will address the learning needs of the rural poor in the context of development projects in their areas.

At the end of project assistance, the MOE will extend to ten areas the benefits of the Non-Formal Education Program --to the extent that this experimental approach proves relevant and cost efficient. Two thousand seven hundred teachers and promoters will have been trained in curriculum and working in schools on the non-formal education project. Learning packages including curricula learning and teacher training courses will have been designed, evaluated and introduced to the schools and non-formal education regions.

Specialized personnel, including Ministry of Education administrators and planners, and PRONAEH non-formal education and educational technology specialists will have been trained and will be working in the project. The Teacher Training Center will have a full complement of well trained staff and a complete set of training packages for primary teachers.

(2) Rural Educational Scholarship/Loan Fund FY 1978 - 3 Year Pilot Grant Project - \$50,000

One of the serious problems facing education is the inefficiency of the system. The dropout rate is enormous. Various reasons are given for this dropout rate including irrelevancy of curriculum, a lack of recognition of the value of education, an accessibility of school facilities, family economic considerations and lack of funds to cover costs of schooling or leaving home to live nearer the school facility. According to an EDUCREDITO survey done in 1976, the major cause for 50% of the dropouts in rural areas at the upper primary and high school levels is a lack of funds combined with inaccessibility of school facilities.

The Mission is considering support for a pilot project to test the findings of the survey and determine if the internal efficiency of the education system and the quality of graduates can be improved and the literacy level of the zone increased through provision of scholarships/loans to rural families to provide for upper primary or secondary schooling where public school facilities at these levels is not available in the community. The project ties indirectly with the World Bank nuclear school program mentioned above and would be executed in the frontier areas where nuclear schools are being constructed.

Funds would be provided by EDUCREDITO to students for clothing, temporary lodging, tuition, travel and school materials. During project development, the feasibility of providing financial support on a grant or loan or mixed bases will be explored as will the question of appropriate mechanisms for administering the program.

(3) Education Management Systems (Grant) FY 1980 - 5 years - \$4.0 million

This project would support the GOH goal to improve the cost effectiveness in the education system to accommodate the increasing school age population. It would develop the management, information, research, curriculum reform, testing evaluation, teacher training and other sub-systems to improve management of education systems.

The project would include technical assistance, commodities, and participant training to train Ministry personnel in key areas of planning and management. It would further include analysis of the Ministry's organization with a view toward more efficient organizational structures. At the end of the project, the Ministry of Education would be capable of carrying out sector analytical efforts in a continuing basis.

III. PROPOSED RANGE OF RESOURCE REQUIREMENTS

(\$000)

	<u>FY78</u>	<u>FY79</u>	<u>FY80</u>	<u>FY81</u>	<u>FY82</u>	<u>FY83</u>	<u>FY84</u>
Food & Nutrition	11,790	30,097	1,745	4,334	1,600	23,500	500
Grants	1,790	4,097	1,745	4,334	1,600	3,500	500
Loans	10,000	26,000	-	-	-	20,000	-
Population	73	360	380	100	100	100	100
Grants	73	360	380	100	100	100	100
Loans	-	-	-	-	-	-	-
Health	380	1,112	17,425	160	200	300	22,200
Grants	380	1,112	2,425	160	200	300	2,200
Loans	-	-	15,000	-	-	-	20,000
Education	365	500	1,942	250	16,160	60	60
Grants	365	500	1,942	250	1,160	60	60
Loans	-	-	-	-	15,000	-	-
Selected Development							
Activities	1,068	997	638	17,250	210	210	210
Grants	1,068	997	638	2,250	210	210	210
Loans	-	-	-	15,000	-	-	-
Total Program	13,676	33,066	22,130	22,094	18,270	24,170	23,070
Grants	3,676	7,066	7,130	7,094	3,270	4,170	3,070
Loans	10,000	26,000	15,000	15,000	15,000	20,000	20,000
PL 480							
Title I/III	1,600	1,740	1,815	2,000	2,000	2,000	2,000
Title II	3,769	5,281	4,371	5,101	5,108	4,911	4,215
Housing Guaranties	15,000	-	10,000	-	10,000	-	-

IV. PROPOSED WORKFORCE REQUIREMENTS

	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981 - 1984</u>
<u>Office of the Director</u> <sup>1/</sup>				
USDH	5	5	5	5
FNDH	5	5	5	5
PSC	-	-	-	-
<u>Program Office</u>				
USDH	3	4	5	5
FNDH	2	2	2	2
PSC	2	2	2	2
<u>Capital Resources Dev. Office</u>				
USDH	3	5	5	5
FNDH	3	3	3	3
PSC	2	1	1	1
<u>Engineering Development Office</u>				
USDH	2	2	3	3
FNDH	2	2	2	2
PSC	3	3	3	3
<u>Food and Agricultural Dev. Office</u>				
USDH	4	6	6	6
FNDH	3	3	3	3
PSC	3	4	4	4
<u>Human Resources Dev. Office</u> <sup>2/</sup>				
USDH	5	7	7	7
FNDH	4	4	4	5
PSC	6	5	5	4
<u>Office of the Controller</u>				
USDH	3	3	3	3
FNDH	9	9	9	9
PSC	1	2	2	2
<u>Management Office</u>				
USDH	1	1	1	1
FNDH	1	1	1	1
PSC	1	1	1	1
<u>Miscellaneous</u> <sup>3/</sup>				
PSC	4	4	4	4
<u>Totals</u>	<u>77</u>	<u>84</u>	<u>86</u>	<u>86</u>
USDH	26	35	35	35
FNDH	29	29	29	30
PSC	22	22	22	21

1/ includes C&R staff

2/ includes Education, Health, Nutrition and Urban Development

3/ driver, mechanics, etc.

V. Annexes

A. Section 102 (d) Considerations

Reliable data, especially socio-economic data, are usually not available for more than one or two points in time over the last two decades. This makes the identification, description and analysis of trends almost impossible. The Mission has begun an effort to pull together data series from all available sources into one data book. In fact, a considerable amount of data related to Section 102 (d) considerations have already been compiled and distributed for use by Mission personnel.

The Mission also takes every available opportunity to improve data collection in Honduras through ongoing programs as well as through major analytical undertakings such as the Agriculture Sector Assessment now underway.

## B. Macro-Economic Trends

### 1. Economic Background

References to Honduras' "potential" usually are accompanied by the observation that Honduras is one of the three least developed countries in the Western Hemisphere, sharing this distinction with Bolivia and Haiti. The under-exploited land and forestry resources of the country are pointed to as an indicator of this development potential.

This potential has largely remained unexploited until the present time. As a result, Honduras' economic growth has been modest. From 1960 to 1965 real growth of Gross Domestic Product averaged 5.4% annually, and growth in per capita GDP averaged 1.9% annually. In the second half of the decade, annual growth rates of GDP and Per Capita GDP declined to 4.2% and 1.4%, respectively (Table 5).

The advance of the economy was even slower during the first six years of this decade: the average annual growth rate for GDP was 3.5% and per capita GDP grew at a bare 0.3%. The record for the last four years 1972-76 was even worse - an annual GDP growth rate of 2.9% and a decline in per capita GDP. (Table 6)

This long-term poor performance of the economy was responsible for the low level of per capita income in 1976: in current prices, it was 759 lempiras (\$380) using a Gross Domestic Product concept and 616 lempiras (\$308) using a net national income concept. (Table 7) (In 1975, Haiti's \$150.2 was the lowest per capita GDP in the Western Hemisphere; followed by Bolivia's \$280.7 and Honduras' \$341).

The economy, however, appears to have turned the corner. Real growth of GDP was 7% in 1976 over 1975 and is expected to have equaled this figure in 1977.

### 2. Principal Factors Affecting GDP Growth

#### a. Performance of the Agriculture Sector

The persistently slow growth of the economy and low income level is largely a result of the poor performance of the agricultural sector and the economy's dependence on it. Although other sectors have increased their share of total economic activity, the agricultural sector still accounts for about one-third of GDP, 75% of the value of exports and 16% of the current public revenues. About two-thirds of the economically active population depend on it for their employment and income.

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1/ Haiti and Bolivia from "Progreso Económico y Social en América Latina," 1976, InterAmerican Development Bank. Honduras estimated from latest available official figures.

TABLE 5

GROWTH IN REAL GROSS DOMESTIC PRODUCT,  
TOTAL AND PER CAPITA, 1960 - 1970

Year	Gross Domestic Product <u>a/</u>		Population <u>b/</u>		Per Capita GDP	
	Total (Lps Millions)	Growth Rate (%)	Total	Growth Rate	Total	Growth Rate
1960	797		1943		410	
1961	819	2.8	2020	3.96	405	-1.2
1962	861	5.1	2096	3.76	411	1.5
1963	889	3.3	2169	3.48	410	-
1964	942	6.0	2238	3.18	421	2.7
1965	1039	10.3	2304	2.95	451	7.1
1966	1100	5.9	2384	3.47	461	2.2
1967	1151	4.6	2466	3.44	467	1.3
1968	1235	7.3	2552	3.49	484	3.6
1969	1239	0.3	2638	3.37	470	-2.9
1970	1278	3.1	2639	0.03	484	3.0
1960-65		5.4				1.9
1965-70		4.2				1.4

a/ 1966 Lempiras. \$1 = 2 Lempiras Source: Banco Central de Honduras

b/ Source: CONSUPLANE

TABLE 6

GROSS DOMESTIC PRODUCT, a/ TOTAL AND PER CAPITA,

1970 - 1976

Year	GDP in Millions of Current Lempiras	GDP in Constant Prices Total <u>b/</u> Growth Rate (%)	Population Total <u>c/</u> Growth Rate (%)	Per Capita GDP in Current Lempiras	Real Per Capita GDP Lempiras	Per Capita Growth Rate (%)
1970	1,430	1,278	2,639	542	484	
1971	1,516	1,351	2,717	558	497	2.7
1972	1,648	1,406	2,801	588	502	1.0
1973	1,813	1,469	2,892	627	508	1.2
1974	1,995	1,478	2,990	667	494	-2.8
1975	2,112	1,486	3,093	683	480	-2.8
1976	2,431	1,575	3,203	759	492	2.5
Growth Rate (%)						
1970-76		3.5	3.3		0.3	
1972-76		2.9	3.4		-0.4	

a/ At market pricesb/ In millions of Lempiras. 1966=100c/ In thousands

SOURCES: GDP in current and instant prices, Banco Central de Honduras. Population, CONSUPLANE. Growth rates and per capita GDP calculated from data.

TABLE 7

## NATIONAL INCOME, TOTAL AND PER CAPITA,

1970 - 1976

Year	National Income		Per Capita Income	
	Current Lps.	Constant Prices	Current Lps.	Constant Prices
1970	1,207	1,077	457	408
1971	1,298	1,160	478	427
1972	1,390	1,189	496	424
1973	1,521	1,238	526	428
1974	1,655	1,242	554	415
1975	1,746	1,244	565	402
1976	1,973	1,300	616	406

SOURCE: Banco Central de Honduras. National income is Gross Domestic Product at market prices plus net factor income (usually negative), less indirect taxes and depreciation.

The growth rate of GDP generated by the agricultural sector averaged 7.7% per year during the 1960-65 period buoyed by the strong production performance in both basic grains and bananas but fell to only 3.0% per year during the 1965-70 period, with the production of basic grains actually declining in absolute terms. Per capita agricultural production growth declined from 4.2% per year during the 1960-65 period to 0.1% during the 1965-70 period. Between 1970 and 1976, average, agricultural production growth fell even further to 0.6% per year; per capita agricultural production decreased at an average annual rate of 2.6% per year. (See Table 8). Of course, the poor performance of agriculture during the 1970-76 period was principally due to effects of hurricane Fifi in 1974 which caused a sharp decline in banana production and a general slowdown of the economy in 1974 and 1975. With the recovery of banana production and the increase in coffee prices in 1976, sector growth in 1976 over 1975 was 4.0%.

#### b. Performance of Exports

The overall growth of GDP has been sensitive to changes in agricultural export earnings and thus has been vulnerable to two factors beyond the control of the economy: the weather and export prices. Where good weather and high export prices have led to increases of 15% and higher of export earnings, increases in GDP generally have been over 6%. Increases in export earnings of 5% or less have coincided with GDP increases of 6% or less. (Table 9).

### 3. Public Finances

Honduras has followed conservative fiscal (as well as monetary) policies consistently over the past several decades. One result has been one of the lowest inflation rates in the Western Hemisphere. An increased emphasis on revenue collections over the past ten years as well as the expansion of public enterprises has accounted for an increase in public sector revenues from 181 million lempiras in 1967 to 546 million in 1976 (Table 10). A new tax reform was enacted in 1975 that is intended to add to past efforts. In fact, tax revenues increased by 25% in 1976 and the tax revenues rose to 12.8 percent of GDP as compared with 11.8 percent in 1975. (Table 11).

The current account surplus of the public sector tripled in the 1967-74 period from 32 to 94 million lempiras. Current revenues rose at an average annual rate of 11.8 percent (by 214 million lempiras) while current expenditures rose at an average annual rate of 10.5 percent (by 151 million lempiras). Central government revenues increased at an average annual rate of 11.3 percent over the same time period.

From 1974 to 1976 public revenues increased even more sharply than previously (by 38%) but current expenditures increased even more rapidly by 58% with a consequent decline in public savings. Public savings are expected to increase again in 1977, as a result of a more moderate increase in current expenditures and a continued increase in revenues

TABLE 8

HONDURAS: Agricultural Gross Domestic Product, Gross Value of Production,  
Basic Grains, Banana, Coffee, and Forestry. Annual Rates of Growth.

1960 - 1976

Year	Agricultural GDP 1/	Population 2/	Per Capita Agricultural GDP 3/	Growth Rate of Population (per year)	Growth Rate of Agricultural GDP (per year)	Growth Rate of per capita agricultural GDP (per year)	Gross Value of basic grains production 4/	Gross Value of banana production 5/	Gross Value of Coffee production 6/	Gross Value of Forestry Production 7/	Per Capita Gross Value of basic grains production 8/	Annual Growth Rate of Basic Grains prod.	Annual Growth Rate of Banana Prod.	Annual Growth Rate of Coffee Prod.	Annual Growth Rate of Forestry Prod.	Annual Growth Rate of Per Capita Gross Value of Basic Grains
1960	239	1943	123				57834	83946	30721	39879	30					
1965	347	2304	151				78640	138459	43510	45063	35					
1970	402	2639	152				75929	197582	49424	53983	29					
1972	461	2801	165				81759	222961	56072	60568	29					
1976	417	3203	130				84093	164292	76043	62523	26					
1960-65				3.5	7.7	4.2						6.6	10.5	8.2	2.5	3.1
1965-70				2.8	3.0	0.1						-1.0	7.4	1.7	3.7	-3.7
1972-76				3.4	-2.5	-5.8						0.7	-7.4	7.9	0.8	-2.7
1970-76				3.3	0.6	-2.6						1.7	-3.0	7.4	2.5	-2.7

1/ In millions of 1966 lempiras. Source: Banco Central de Honduras.

2/ In thousands. Source: Demography Unit, CONSUPLANE.

3/ In lempiras

4/ In thousands of 1966 lempiras

5/ In lempiras

TABLE 9

## GROSS DOMESTIC PRODUCT AND EXPORTS, 1960 - 1975

(in millions of 1966 Lempiras)

Year	GDP	Value of Exports	Annual Percentage Change	
			GDP	Exports
1960	797	162		
1961	819	172	2.8	6.2
1962	861	180	5.1	4.7
1963	889	190	3.3	5.6
1964	942	203	6.0	6.8
1965	1,039	278	10.3	36.9
1966	1,100	320	5.9	15.1
1967	1,151	334	4.6	4.4
1968	1,235	401	7.3	20.1
1969	1,239	384	0.3	-4.2
1970	1,278	378	3.1	-1.6
1971	1,351	406	5.7	7.4
1972	1,406	425	4.1	4.7
1973	1,469	461	4.5	8.5
1974	1,478	412	0.6	-10.6
1975	1,486	383	0.5	-7.0

SOURCE: Banco Central de Honduras.

TABLE 10

## PUBLIC SECTOR OPERATIONS - 1967-1976

	(000 Lempiras)					
	1967	1970	1973	1974	1975	1976
					Estimate	Estimate
<b>I. <u>Central Government</u></b>						
Current Revenue	128.9	188.1	227.0	273.2	303.9	365.9
Current Expenditure	113.4	158.1	188.6	224.6	288.3	352.3
Current Account Surplus (+) or Deficit (-)	15.5	30.0	38.4	48.6	15.6	13.6
<b>II. <u>Municipalities</u></b>						
Current Revenue	13.8	13.4	16.1	19.2	21.0	27.4
Current Expenditure	11.9		12.0	14.8	15.6	21.4
Current Account Surplus (+) or Deficit (-)	1.9	11.6	4.1	4.4	5.4	6.0
<b>III. <u>Autonomous Institutions</u></b>						
Current Revenue	30.0	17.4 <sup>a/</sup>	43.1 <sup>b/</sup>	59.0	77.5 <sup>c/</sup>	96.0
Current Expenditure	24.8	15.6	42.5	50.3	61.5	68.3
Current Account Surplus (+) or Deficit (-)	5.2	1.8	0.6	8.7	16.0	27.7
<b>IV. <u>General Government, I, II &amp; III<sup>d/</sup></u></b>						
Current Revenue	152.9	208.0	272.7	323.6	269.5	440.3
Current Expenditure	130.3	174.4	229.6	259.5	334.1	398.1
Current Account Surplus (+) or Deficit (-)	22.6	33.6	43.1	64.1	35.4	42.2
<b>V. <u>Public Enterprises</u></b>						
Current Revenue	33.0	44.0 <sup>e/</sup>	40.6 <sup>f/</sup>	71.1	92.0	105.6
Current Expenditure	23.9	31.8	24.9	40.8	66.2	76.5
Current Account Surplus (+) or Deficit (-)	9.1	12.2	15.7	30.3	25.8	29.1
<b>VI. <u>Public Sector<sup>d/</sup></u></b>						
Current Revenue	180.8	248.1	313.1	394.7	450.5	545.9
Current Expenditure	149.1	202.3	254.3	300.3	389.3	474.6
Current Account Surplus (+) or Deficit (-)	31.7	45.8	58.8	94.4	61.2	71.3

<sup>a/</sup> Includes National University, Social Security Institute, National Agrarian Institute, National Social Welfare Board.

<sup>b/</sup> National Lottery and Professional Development Institute is added.

<sup>c/</sup> National Retirement Fund for Public Employees and National Retirement Fund for Teachers are added.

<sup>d/</sup> Transfers among public agencies netted out.

<sup>e/</sup> Includes National Electric Power Company, National Railway Company, National Water & Sewerage Service, National Lottery, National Port Authority, National Housing Institute.

<sup>f/</sup> National Lottery reclassified as an autonomous institution.

SOURCE: Central Bank.

TABLE 11

CENTRAL GOVERNMENT CURRENT REVENUE - 1967-1976

	<u>1967</u>	<u>1970</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>
<u>Tax Revenue</u>	118.1	158.5	194.7	228.3	249.3	311.0
On Income & Property	35.5	46.5	50.0	67.6	77.3	76.2
On Domestic Transaction	37.0	61.5	77.0	80.9	87.7	105.1
On International Trade	45.5	50.4	67.6	79.7	84.1	129.5
Miscellaneous Taxes	0.1	0.1	0.1	0.1	0.2	0.2
<u>Non-Tax Revenue</u>	10.8	31.6	32.6	45.0	56.6	54.9
Current Revenue	128.9	190.1	227.3	273.3	305.9	365.9

P E R C E N T A G E S

<u>Tax Revenue</u>	91.6	83.4	85.7	83.5	81.5	85.0
On Income & Property	27.5	24.5	22.0	24.7	25.3	20.8
On Domestic Transaction	28.7	32.4	33.9	29.6	28.7	28.7
On International Trade	35.3	26.5	29.7	29.2	27.5	35.4
Miscellaneous Taxes	0.1	0.1	-	-	0.1	0.1
<u>Non-Tax Revenue</u>	8.4	16.6	14.3	16.5	18.5	15.0
Current Revenue	100.0	100.0	100.0	100.0	100.0	100.0
<u>Tax Revenue as Percentage of GDP</u>		11.1	10.7	11.4	11.8	12.8
<u>Current Revenue as Percentage of GDP</u>		13.3	12.5	13.7	14.5	15.1

resulting from the new tax measures and favorable export markets resulting in higher export tax revenues.

The rapidly increased public investment program of recent years has increased public indebtedness and the debt service burden.

#### FINANCING PUBLIC SECTOR INVESTMENTS

(Million Lempiras)

	<u>1967</u>	<u>1970</u>	<u>1972</u>	<u>1974</u>	<u>1976</u>
Public Sector Savings & Capital Receipts	32.4	51.0	63.7	95.4	76.3
Investment Expenditure	46.5	107.5	94.9	161.6	205.3
Deficit	-14.1	-56.5	-31.2	-66.2	-124.0
Net External Financing	10.7	34.4	32.2	61.4	120.3
Net Domestic Financing	3.4	22.1	-1.0	4.8	8.7

In 1977, debt service payments by the Public Sector for foreign debts committed up to December 31, 1976 were scheduled to be about 6% of export earnings. In 1976 interest payments paid by the Central Government for domestic debt totaled about 2 1/2 percent of current expenditures and amortization about another 8 1/2%.

#### 4. The Balance of Payments

##### a. Long-term Composition of Exports

The balance of payments position of Honduras has been largely determined by the exports of a few major commodities (bananas, coffee, lumber and beef). Bananas have been traditionally the main export product although their share has been declining over the years; it came down from 75 percent of total exports in 1950 to 41 percent in 1965 and to 26 percent in 1976. The share of coffee, lumber, beef, and other products has been steadily increasing over the long term. This increased diversification of exports has made the economy somewhat less vulnerable to the vagaries of weather and export prices. For example, while hurricane Fifi caused a general slowdown of the economy in 1974 and 1975, the recovery of the economy came sooner and was more rapid than expected because of a fortuitous rise in coffee prices in 1976.

##### b. 1970-1976 Period

The value of merchandise exports increased at a somewhat higher rate than the value of merchandise imports from 1970 to 1976. In current prices, the respective average annual rates of increase were 14.0% and 13.2%. However, since imports started from a higher base in 1970, the absolute

merchandise deficit increased from \$20 million to \$23.5 million. (Table 12). The rapid rise in the value of imports from \$244 million in 1973 to \$427 million in 1976 reflected the sharp increase in petroleum prices, the world-wide inflation and the doubling of capital goods imports resulting from the reconstruction program following hurricane Fifi and the increased public investment program.

Adding in non-factor services, net factor income and net transfers results in a current account deficit increasing from \$61 million in 1970 to \$109 million in 1976. From 1971 on, the annual surplus in the capital account more than offset the current account deficit resulting in reserves steadily increasing from \$9 million in 1970 to \$72 million in 1976. The 1976 reserves were the equivalent of two months merchandise imports.

TABLE 12

BALANCE OF PAYMENTS  
(in millions of dollars)

	1970	1971	1972	1973	1974	1975	1976
<u>Exports of goods and services</u>	<u>201.8</u>	<u>217.2</u>	<u>235.0</u>	<u>293.8</u>	<u>331.3</u>	<u>343.5</u>	<u>443.1</u>
Merchandise f.o.b.	183.4	196.4	212.1	266.6	298.9	307.9	403.5
Non-factor services	18.4	20.8	22.9	27.2	32.4	35.6	39.6
<u>Imports of goods and services</u>	<u>246.6</u>	<u>222.8</u>	<u>226.6</u>	<u>302.1</u>	<u>456.0</u>	<u>452.4</u>	<u>509.0</u>
Merchandise f.o.b.	203.4	177.1	176.5	243.6	387.8	377.6	427.0
Non-factor services	43.2	45.7	50.2	58.5	68.3	74.8	82.0
<u>Factor Income (net)</u>	<u>-22.6</u>	<u>-24.7</u>	<u>-27.5</u>	<u>-33.2</u>	<u>-13.4</u>	<u>-28.3</u>	<u>-56.1</u>
<u>Transfers (net)</u>	<u>6.6</u>	<u>6.8</u>	<u>6.5</u>	<u>7.0</u>	<u>32.5</u>	<u>17.7</u>	<u>13.2</u>
<u>Current Account Balance</u>	<u>-60.8</u>	<u>-23.6</u>	<u>-12.5</u>	<u>-34.6</u>	<u>-105.7</u>	<u>-119.6</u>	<u>-108.9</u>
Private Capital	17.6	2.8	1.7	14.5	36.9	15.1	43.9
Public Capital <sup>1/</sup>	28.0	19.5	11.0	9.0	35.1	103.1	82.6
Other	7.5	6.9	15.2	14.5	35.5	18.3	5.4
Change in reserves (- increases)	7.7	-5.6	-12.0	-3.4	-1.8	-16.9	-23.0
Net Reserves (end of year)	9.0	14.7	26.6	30.0	11.8	28.7	51.7

<sup>1/</sup> Includes disbursements on loans channeled to the private sector through financial institutions such as BANAFOM and the Central Bank of Honduras.

SOURCE: World Bank, Op. Cit. Table 3.1 Statistical Appendix

## C. Socio-Economic Trends

### 1. Income

The per capita GDP figures given in Annex B above do not tell the whole story in relation to the disposable incomes of families, especially rural families. An income survey completed in 1967-68 showed that 80 percent of all families had incomes of less than \$1,000 and 45 percent had incomes of less than \$250. In rural areas, 94 percent of all families had incomes of less than \$1,000 and 61 percent had incomes of less than \$250. (See Table 13).

A comparison of the results of the 1967-68 survey with figures for 1978 will be possible by mid-1979 when an ongoing, follow-up survey (financed by A.I.D.) will be completed. There is some evidence to suggest that rural incomes may not have improved or may, in fact, have declined because of the poor performance of agriculture, especially during the 1971-75 period.

### 2. Nutrition

The low income levels of the Honduran population have been the primary cause of malnutrition. A nutrition evaluation survey conducted in 1966 with INCAP (Nutrition Institute of Central America and Panama) participation estimated that more than 70 percent of children five years of age or under suffered some degree of protein/caloric malnutrition. This malnutrition was worse than average in rural areas where 76 percent suffered to some degree, including: 45.4 percent from first degree malnutrition (Gómez classification), 28.7 percent from second degree, and 2.4 percent from third degree malnutrition. Honduras, at that time, showed the worst malnutrition rates in Central America.

A comparison of this data with new data for 1978 will also be possible upon the completion of the follow-up survey discussed above.

### 3. Health

Reliable health statistics were generated by a national demographic survey carried out in 1971-72. The infant mortality rate was estimated to be 117 per thousand of live births for the nation as a whole -- 86/1000 in urban areas and 127/1000 in rural areas. Life expectancy is estimated to be 52 years.

Morbidity is high and for too many Hondurans illness is nearly a constant companion, especially in rural areas. The principal causes of death and morbidity are environmentally related and largely preventable.

### 4. Education

The overall educational level of the Honduran population remains low - illiteracy rates were 40 percent for the nation as a whole in 1974-76; 19 percent for the urban population and 51 percent for the rural population.

TABLE 13

HONDURAS: Distribution of Urban-Rural Income, by Broad Income Levels, 1967-68

In Percentages

INCOME BRACKET	U R B A N Z O N E S			R U R A L Z O N E S		
	FAMILIES: RELATIVE ACCUMULATIVE % %	INCOME: RELATIVE ACCUMULATIVE % %	INCOME: RELATIVE ACCUMULATIVE % %	FAMILIES: RELATIVE ACCUMULATIVE % %	INCOME: RELATIVE ACCUMULATIVE % %	INCOME: RELATIVE ACCUMULATIVE % %
LOW INCOME BRACKET	45.7	45.7	14.5	93.7	93.7	68.8
Under 500	5.9	-	0.6	60.6	-	26.4
from 500 to 2000	39.8	-	13.9	33.1	-	42.4
MEDIUM INC. BRACKET	44.0	89.7	46.1	6.2	99.9	29.8
HIGH INC. BRACKET	10.3	100.0	39.4	0.1	100.0	1.4
			100.0	100.0	100.0	100.0

SOURCE: National Economic Planning Council, Global Sector, La Distribución del Ingreso en Honduras, Tegucigalpa, 1973

However, the overall illiteracy rate has dropped approximately 13 percent since 1961.<sup>1/</sup>

The growth of primary education has been slow over the 1970-1976 period. The percentage of the 6-13 years of age population which have enrolled in schools was estimated to be approximately 68 percent in 1970 and 70 percent in 1976.

Year	Population 6-13 year olds	No. of students at beginning of year	%
1970	564,640	381,685	67.6
1976	688,236	483,217	70.2

SOURCE: Ministry of Education.

### 5. Housing

The 1961 census showed that about 50 percent of the population lived in over-crowded housing, only 12 percent of houses had piped-in water, and only 20 percent of houses had their own toilets. The situation in respect to water and toilets improved somewhat by the time of the 1974 census - 15 percent of houses had piped-in water and 25 percent of houses had their own toilets.

### 6. Population Growth

Honduras has one of the highest (estimated to have been 3.5 percent per year over the 1970-75 period) population growth rates in the world. The rate of growth was 0.2 percent higher during the 1970-75 period than when compared with the 1960-65 period. There was a temporary decline during the 1965-70 period due to the large emigration of Salvadoreans during the war between Honduras and El Salvador.

<sup>1/</sup> Sources of 1961 data: United Nations, Demographic Yearbook, 1964, Table 33.

TABLE 14

HONDURAS: Estimates of average annual rates of  
Population Growth

1960 - 1975

PERIODS	PERCENTAGE
1960-65	3.3
1965-70	2.9
1970-75	3.5

SOURCE: CELADE, Boletín Estadístico, Santiago de Chile, 1976,  
No. 17.

The absolute size of the Honduran population has increased dramatically during the last two decades and a half. The population was estimated to have been 1,390,000 in 1950; 1,873,000 in 1960; and 3,037,000 in 1975. (Table 15). The age structure of the population has been getting increasingly younger. (Table 16).

TABLE 15

HONDURAS: ESTIMATES AND PROJECTIONS OF TOTAL POPULATION  
1920-2000\*

(In Thousands, at mid-year)

<u>Year</u>	<u>Population</u>
1920	783
1925	862
1930	948
1935	1,027
1940	1,119
1945	1,236
1950	1,390
1955	1,604
1960	1,873
1965	2,209
1970	2,553
1971	2,640
1972	2,733
1973	2,831
1974	2,933
1975	3,037
1976	3,142
1977	3,251
1978	3,362
1979	3,477
1980	3,595
1985	4,241
1990	4,997
1995	5,875
2000	6,881

\*Figures for the 1970-2000 period correspond to a projection implying a medium fertility hypothesis, or recommended projection.

SOURCE: CELADE, Boletín Demográfico, Santiago de Chile, 1976, No. 18.

TABLE 16

HONDURAS: PERCENTAGE DISTRIBUTION OF POPULATION BY LARGE AGE GROUPS  
AND GEOGRAPHIC AREA. 1950, 1961, and 1974.

	<u>1950</u>	<u>1961</u>	<u>1974</u>
<u>Total</u>	100.0	100.0	100.0
Under 15 years	40.6	47.8	48.4
15-59	53.1	47.8	47.5
60 and more	6.3	4.4	4.4
<u>Urban</u>			
Under 15 years	-	43.8	43.6
15-59	-	51.4	51.8
60 and more	-	4.8	4.6
<u>Rural</u>			
Under 15 years	-	49.0	50.1
15-59	-	46.8	45.5
60 and more	-	4.2	4.4

SOURCE: General Directorate of Statistics and Census, Population Censuses of 1950, 1961 and 1974. Tegucigalpa.