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HONDURAS
ACTION PLAN FY 1988

BEST AVAILABLE

FY 1988 ACTION PLAN
FOR HONDURAS

THE MISSION OF THE USAID HONDURAS: To support the United States' foreign policy objectives of improving the living standards of the Honduran people and strengthening democratic institutions.

MAY 1986

FY 1988

ACTION PLAN

USAID/HONDURAS

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PART I. SUMMARY OF STRATEGY AND PROGRESS AGAINST GOALS

A. Strategy Summary

Our FY 1986-90 Country Development Strategy Statement (CDSS), submitted in the spring of 1984, set forth a strategy to help the Government of Honduras (GOH) stabilize the economy and decrease social pressures from rising unemployment during the first three years of the CDSS period, and progressively increase investment in long-term development throughout the period. Economic stabilization was to be achieved through GOH implementation of macroeconomic policy changes aimed at correcting current economic disequilibria and creating the policy base for a long-term, export-led growth strategy. Maintenance of social stability was to be furthered by a "first offensive" against unemployment, providing a minimum of food security, improving equity and participation of the poor in the country's economic and social development, and strengthening public and private services to better meet the basic human needs of the poor. Since the submittal of this CDSS, our assistance strategy has been refined as outlined below.

Honduras is a traditional trading partner and a firm, democratic ally of the United States. As such, there is no question that it is key to our Central American policy. Assistant Secretary of State Elliot Abrams has stated, "that our political objectives for Honduras are clear: to strengthen democracy and democratic institutions, to elicit full cooperation against the nondemocratic forces in the region, to encourage regional cooperation and solidarity and to obtain the greatest Honduran support possible for our objectives in the region and elsewhere. Our economic objectives must bolster and reinforce our overall objectives which can and would be undermined if political and social progress are not achieved". The goals of the USAID assistance program in support of these overall objectives are articulated in the Central American Initiative: economic stabilization, laying the basis for long-term growth, equity and broad participation in development, and strengthening democratic institutions.

Our development strategy is undertaken in the context of substantial support for Honduras' development efforts provided by numerous other bilateral and multilateral donors. In 1984, donor assistance to Honduras, in the form of disbursements, amounted to about \$496 million, with major bilateral donors being AID (about \$135 million), the Federal Republic of Germany (\$19 million), Japan (\$14 million), and Canada (\$6 million). Multilateral donors were led by the Inter-American Development Bank (\$135 million), followed by the World Bank (\$54 million) and the Central American Bank for Economic Integration (\$30 million). There is some degree of focus with respect to the nature of assistance by the various donors to Honduras. For example, the World Bank provides financing for major infrastructure and investment credits for the private sector. The IDB provides financing mainly for infrastructure with an emphasis on health and education. We coordinate our assistance through frequent contacts and discussions with the concerned GOH officials and with representatives of these other bilateral and multilateral agencies. In this manner, complementarity of programs is maximized and duplication of efforts is minimized. For example, AID efforts in improving primary education and delivery of child survival services at the community level are being complemented by IDB efforts in secondary and technical education, and in curative health care through the hospital system. However, these coordinative efforts could be strengthened further through the formal establishment of a consultative group for Honduras.

Within the context of the overall development efforts in Honduras, and using the Central American Initiative as a point of reference, our assistance strategy supports Honduras' broader development strategy and has both short- and long-term goals.

The short-term goals are to: encourage structural adjustment without setting off a destabilizing inflationary spiral; restore economic equilibrium; develop the policy base for sustained growth; reduce current and potential social tension stemming from high unemployment levels; and meet basic human needs. A major thrust of our program is to assist the GOH to implement its stated policy to divest itself of certain commercial enterprises by transferring, where possible, their operations to the private sector.

Over the medium-term, sustained recovery of the economy must be based on enhanced private sector willingness to invest, especially in exports. But there needs to be broader participation in the benefits of growth as reflected in improved living conditions for the large majority of Hondurans who continue to live in poverty. Therefore, our assistance efforts also have the long-term goals of improving the participation of the poor in the country's economic development, and strengthening public and private services to better meet basic human needs. This is being accomplished by improving sectoral development policies, expanding private sector production, fostering technology transfer, and developing a stronger human resource and institutional base. Our efforts in institutional development for delivering agricultural, education and health/family planning services will continue.

Over the balance of the Central American Initiative period, we will continue to support the establishment of an appropriate macroeconomic framework for economic stabilization and recuperation, complemented and reinforced by specific projects to enhance economic and human productivity. Economic productivity will be strengthened through a focus on the private sector to encourage increased production of traditional and nontraditional products and crops, with an emphasis on export expansion. Such efforts will increase agricultural production and incomes through activities such as the expansion of crop diversification, research and extension, marketing, forest development and rural infrastructure. Industrial production, exports and incomes will be increased by the provision of production, financial and marketing assistance to companies with export potential and through the private construction and operation of export processing zones. With respect to human productivity, we will focus on improving the quality of primary education, increasing technical training and certification, and expanding the availability of child survival and family planning services.

In essence and as suggested by Table I, our strategy consists of designing and then implementing a set of mutually supportive programs and projects that are directed towards achieving the goals and objectives outlined therein. The coherence and mutually supportive character of the programs and projects merit both emphasis and a brief explanation.

While the primary thrust of our ESF assistance is to facilitate the achievement of stabilization objectives, it goes significantly beyond that. In fact, both past and current ESF programs include structural reform measures which contribute measurably to other goals and objectives reflected in Table I. For example, the FY85 ESF program included agreement on actions designed to raise agricultural production through enhancing the attractiveness of bank lending to small farmers and agreement on measures designed to enhance the profitability to the private sector of increased lumber exports. In a similar fashion, many other USAID program and project interventions have important secondary effects which complement the principal goals and objectives that they have been designed to advance.

The AID goals articulated below are in consonance with those of the GOH, as set forth in its recent 1986-89 National Development Strategy. The basic goal of that Strategy is to raise the well-being of the Honduran people through increased participation in the economic, social and political systems. To carry out this strategy, the GOH has proposed total public investments of \$2.15 billion over the four-year period, with financing to be provided from domestic (about 30%) and external (about 70%) sources. The external resources required to carry out this ambitious strategy amount to \$1.5 billion. Placing this in the context of our assistance, projected Economic Support Funds (ESF), Development Assistance (DA) and food assistance resources over the FY 1986-89 period total about \$624 million or 42% of the total external requirements.

The commitments and priorities of the new Honduran government were clearly spelled-out by President Azcona in a Presidential statement made shortly after his inauguration. We believe this statement clearly demonstrates the linkage between the priorities of the GOH and our assistance program. Highlighted in President Azcona's statement are a commitment to the cause of democracy and economic development; and to the pursuit of justice, liberty and education for the Honduran people. Priorities of his government are:

- stabilizing the economy without a devaluation, while strengthening the economic process and distributing the benefits of growth equitably;
- developing the Honduran private sector and decreasing the dependence on the state;
- increasing agricultural production;
- increasing exports;
- creating employment opportunities; and
- dealing with the problems of low life expectancy and the primary education system.

TABLE I
HONDURAS - SUMMARY FRAMEWORK

GOALS	OBJECTIVES
A. Economic Stabilization	Substantial improvement in macroeconomic performance by 1990.
B. Laying the Basis for Long-term Growth	(1) Increase agricultural production by \$400 million by 1990. (2) Generate \$320 million in export earnings by 1990. (3) Generate 300,000 person-years of productive employment by 1990.
C. Equity and Broad Participation in Development	(1) Reduce the population growth rate to 2.7% by 1990. (2) Increase life expectancy to 65 years by 1990. (3) Increase the proportion of primary school students completing the sixth grade from 28% in 1984 to 45% in 1996, while reducing costs from \$963 per graduate to \$675 per graduate. (4) Provide 70,000 improved shelter and water and sanitation service solutions by 1990.
D. Strengthening Democratic Institutions	(1) Provide 1,582 Honduran citizens with educational opportunities in the United States' democratic environment by 1990. (2) Consolidate the legislative, judicial and electoral and other democratic processes affecting the rights of citizens by 1990.

B. Macroeconomic Overview

1. Economic Developments, 1983-1985

TABLE II
SUMMARY OF ECONOMIC/FINANCIAL SITUATION, 1983-1985

	<u>1983</u>	<u>1984</u>	<u>Est. 1985</u>
<u>Real Indicators</u>			
GDP Real Growth	-0.5%	2.8%	3.0%
Employment (Thousands)	933	962	993
<u>Inflation (Annual Rate)</u>			
Consumer Price Index	8.3%	4.7%	3.4%
Wholesale Price Index	7.8%	1.3%	1.2%
GDP Deflator	6.1%	4.0%	3.6%
<u>Financial Indicators</u>			
<u>Consolidated Public Sector</u>			
Expenditures (% of GDP)	31.1%	32.2%	29.8%
<u>Fiscal Deficit of the Consolidated Nonfinancial Public Sector (% of GDP)</u>			
Fiscal Deficit of the Central Government (% of GDP)	12.3%	11.9%	9.0%
Deficit in the Current Account of the Balance of Payments (% of GDP)	10.3%	11.6%	9.4%
	8.9%	11.9%	11.3%
<u>ESF Disbursements</u>			
As % of Fiscal Deficit of the Consolidated Public Sector	2.5%	9.1%	14.9%
As % of Current Account in the Balance of Payments	6.9%	18.2%	23.6%
As % of Merchandise Imports	2.4%	7.7%	9.4%
As % of Merchandise Exports	2.6%	9.1%	10.8%
<u>External Indicators</u>			
Exports/Imports (G&S)	87.8%	80.8%	82.8%
Imports (G&S)/GDP	31.1%	33.7%	34.2%
Exports (G&S)/GDP	27.3%	27.3%	28.3%
Imports under Auto-financing			
Total Imports (in %) <u>1/</u>	-	4.9%	11.3%
<u>Annual Growth Rate</u>			
Exports of Goods and Services	2.5%	8.6%	10.8%
Imports of Goods and Services	1.4%	15.6%	8.3%

Table II (continued)

	1983	1984	Est. 1985
	<u>MILLIONS OF DOLLARS</u>		
Total External Debt	1,900.1	2,222.1	2,441.4
Medium- & Long-term	1,714.0	2,037.9	2,272.0
Short-term (Excluding Central Bank)	44.0	44.0	44.0
Short-term Central Bank	142.1	140.2	125.4
Accumulation of Arrears	99.5	136.0	169.7
Net International Reserves of the Central Bank <u>2/</u>	-92.9	-84.9	-84.9
<u>Credit and Monetary Indicators</u>			
Credit Expansion of the Banking System:			
To The Public Sector	186.4	145.1	139.9
To The Private Sector	104.6	39.3	13.3
Private Sector Liquidity as % of GDP	81.8	105.8	125.6
	33.8%	34.0%	33.2%

1/ January - October, 1985

2/ Does not include deposits for arrears.

SOURCE: BCH, MHCP and JEWG Technical Support Staff calculations.

As reflected in Table II, there has been limited progress towards achieving macroeconomic outcomes consistent with growth and stabilization objectives. Following a number of years of negative economic growth in the early 1980s, GDP grew in real terms by 2.8% in 1984 and 3% in 1985. Employment in the latter two years also grew moderately. Nevertheless, real per capita income declined or remained stagnant as a result of population growth rates above or near the real rate of GDP growth. Paralleling the limited positive developments in real GDP growth, inflation declined over the past three years, falling from about 6% in 1983 to 3.6% in 1985.

President Azcona has gone on record regarding the need to maintain the value of the Honduran currency to promote public confidence, and the generation of internal savings and investment.

Although the fiscal and balance of payments current account deficits remain at high percentages of GDP, both fell marginally as a percentage of GDP between 1984 and 1985. Fiscal improvement reflects the introduction of a major tax package in May 1984 as well as successful accompanying efforts to contain the growth of public sector expenditures, which fell over 2 percentage points of GDP between 1984 and 1985.

With respect to external performance, exports grew by a respectable 10.8% in 1985 while imports grew by 8.3%. In part, these developments in export and import growth rates reflect a series of both formal and informal measures the Central Bank took to liberalize the exchange rate regime. These measures were designed to expand the profitability of exports while simultaneously reducing the percentage of imports that benefit from the provision of foreign exchange at the official rate. The percentage of imports financed through the private foreign exchange market rose from 4.9% of total imports in 1984 to over 11% of imports in 1985.

The limited character of progress to date must be emphasized. Real private sector capital formation has been exceptionally weak. In fact, real private sector capital formation in 1985 was only 62% of the figure recorded in 1981. Growth in public sector expenditures on both current and capital account, which partly offset the decline in private sector investment, was accompanied by sharp growth in the fiscal deficit of the consolidated nonfinancial public sector both absolutely and as a percentage of GDP. In spite of the marginal but welcome fall in the deficit between 1984 and 1985, it would be imprudent to continue with deficits of this magnitude given the fall in the availability of external financing due to the completion of El Cajón Hydroelectric Project and the need to control inflation through prudent levels of internal financing. Specifically, a continuation of deficits of this magnitude would require credit to the private sector to be constrained and real interest rates to be maintained at exceptionally high levels in order to contain overall credit demand to limits consistent with the real resources available to the economy and in order to hold inflation to the relatively favorable levels recorded over the past few years.

Similar qualifications apply to the marginal improvements in external performance. In spite of higher export than import growth rates in 1985, the return to positive GDP growth rates in 1984 and 1985 was associated with a widening trade gap of imports over exports. Reflecting this, the current account deficit in the balance of payments averaged over 11% of GDP in 1984/85 and was almost 9% of GDP in 1983. Although grant assistance from the U.S. and other sources has partly financed the large current account deficits in the balance of payments, the financing of these deficits has been accompanied by a rapid accumulation of external debt as well as the development of growing arrearages in principal on government guaranteed external debt of the private sector. Between 1983 and 1985, total external debt rose by 28%, arrears on publicly guaranteed external debt subject to debt renegotiation talks rose by 70% and the net international reserve fell by 34% to a level of -L225 (-\$112.5 million) million.

2. Economic Prospects, 1986-1990

In spite of the recently favorable developments in international coffee and petroleum prices and dollar interest rates, the economic situation facing Honduras is far from bright. While this topic is treated in detail in the stabilization goal section, the principal points can be usefully touched upon here.

Absent the introduction of and perseverance with a disciplined program of economic stabilization, recuperation and structural reforms throughout 1986-1990, it will not be possible to achieve substantially improved economic performance by 1990. For example, absent a credible economic program, the current account deficit in the balance of payments is projected to rise to 10.9% of GDP in 1990 from a projected figure of 6.9% of GDP in 1986. Similarly, the overall deficit of the consolidated nonfinancial public sector is projected to rise to 10% of GDP in 1990 from a projected figure of 7.4% in 1986. Moreover, the additional ESF financing requirements over and above currently programmed amounts are estimated at around \$500 million. All of these projections are based on another critical dimension of substantially improved economic performance, namely, an average annual growth rate of GDP of 4.7%. Put quite simply, the price tag on the U.S. budget of not emphasizing the economic content of foreign policy objectives is an additional \$500 million in ESF over 1986-1990, if socially acceptable growth rates are to be achieved.

C. Assumptions

In assisting Honduras to reach the goals established in the CDSS submitted in 1984, we made several key assumptions, including:

- continued high U.S. political and military interest in Honduras;
- Honduras would not be drawn into open conventional military conflict with neighboring countries, nor forced into putting down a significant domestic insurgency;
- the results of political unrest and attempts at subversion would not retard the GOH's ability to implement an economic recovery program; and
- the U.S. Congress would provide the funds and guaranties required.

Since the submittal of this CDSS, we have reviewed the principal assumptions underlying our program and have concluded that those assumptions remain operative and that the following points and assumptions, some of which are drawn from the report of National Bipartisan Commission on Central American (NBCCA), should be added:

- there would be increased economic assistance, both bilaterally and multilaterally. If delayed, 1990 target achievements would be delayed;

Note: With respect to external financing requirements recommended by the NBCCA report: \$8 billion in economic assistance was to be provided to the countries of Central America over the 1985-89 period; total external financing for Honduras over this period was to amount to \$2.3 billion; about \$1.06 billion was to be U.S. economic assistance over the FY 1985-89 period; using our FY84 Supplemental through FY89 levels for ESF, DA, and PL480, there is a \$215 million or 20% shortfall from the NBCCA recommendation.

- sustained effort by bilateral and multilateral creditors/donors would be needed;
- there would have been an end to capital flight in 1983;
- economic policy would be improved through controlled public sector deficits; curtailed public sector capital expenditures; increased private sector credit; reduced export taxes; realistic exchange rates; a more efficient banking system; and incentives for savings and investment;
- there would be an improved global economic environment with strong growth; stable or declining interest rates; low inflation; improved external demand; greater manufacture export capacity; increased export revenues; and only modest recovery in terms of trade; and
- Central American countries (including Honduras) would restructure their economies.

D. Progress Against Goals and Expectations

The following summarizes progress towards and expectations for our program goals of economic stabilization, laying the basis for long-term growth, equity and broad participation in development and strengthening democratic institutions.

Some of these goals and related objectives overlap and are complementary. For example, our support for cooperatives is principally aimed at the economic growth goal, since cooperatives are a means for achieving increases in agricultural production. Concurrently, however, such support contributes to the strengthening of democratic institutions and processes in Honduras.

The objectives established in this Action Plan build upon our past experience and comparative advantage, and are directly supportive of the goals established in the Central American Initiative (CAI), as they relate to Honduras. Although the achievement of some of these will be reflected in macro, nationwide indicators, e.g., decrease of the population growth rate, such macro objectives have been adopted only where the relative importance of our program to such objectives warrant.

1. Economic Stabilization

The macroeconomic overview, performance and prospects were previously discussed.

Over the balance of the CAI period, further improvement in economic stabilization and the initial upturn achieved by the economy in 1984/85 is contingent upon the commitment of the GOH to undertake sound monetary and fiscal policies.

Key to our ability to influence the GOH policy-makers are continued and significant levels of ESF balance of payments assistance and the supposition that the long-term policy reform measures considered critical to the recuperation of the Honduran economy will not conflict with the important shorter-term political and security interests of the U.S. in Honduras. To the extent key economic reform measures remain unimplemented or are delayed, and assuming a continued U.S. political and security commitment to Honduras, significantly higher levels of ESF over a longer timeframe will be required to sustain an acceptable level of economic growth and stability in the country.

2. Laying the Basis for Long-term Growth

Our objectives to achieve this goal are: to increase agricultural production, to foster exports, and to generate employment.

- Agricultural Production

Over the 1975-84 period, the annual average per capita agricultural production growth rate was .8%, reflecting the difficulty the agricultural sector had in keeping production ahead of a high population growth rate. In 1984 there was growth in agricultural GDP of 3.0% in real terms, which followed a growth of 2.7% in 1983. A major portion of Honduras' overall economic growth in 1984 was attributable to the increase in the production of basic grains, in which the country is self-sufficient. Preliminary figures indicate that real agricultural GDP continued to growth at 2.6% in 1985. With agriculture employing over 60% of the work force, generating 80% of exports and contributing 30% to GDP, our program will continue to concentrate in agriculture and rural development, with a principal focus on increasing production. Currently, we are reaching approximately 34,000 families, about 17% of the farm population. The direct benefits to farmers include a wide range of services, products, and technical assistance which have resulted in improved yields, income and standards of living. Yield increases directly attributable to our current efforts vary from about 20% to 300%, depending on crops, areas, and types of technology applied. With our current and planned program, it is anticipated that over 25% of Honduran farm families (approximately 300,000 individuals) will directly benefit by 1990.

- Exports

Domestic economic activity in Honduras is highly dependent on the importation of capital equipment, raw materials and intermediate goods. This, plus Honduras' limited domestic market, make the expansion of exports critical. Thus, increasing exports is an essential objective of our program. We have broadened the focus of our program from one highlighting nontraditional exports to the inclusion of traditional products, which account for about 93% of total exports. About 46% of total Honduran exports are to the United States, and about 8% to other Central American countries.

Honduras continues to have external competitive weaknesses, as evidenced by exports as a percentage of GDP having fallen from about 39% in 1980 to about 28% in 1984. Nonetheless, exports increased by 2.5%, 8.6% and 10.8% in 1983, 1984, and 1985, respectively. With respect to the composition of exports, nontraditional products -- primarily agricultural -- increased by 5% in 1984, and an estimated 3% in 1985. Nontraditional exports are important to Honduras' future development because they offer greater possibilities for growth than do traditional commodity exports. We will continue to encourage the GOH in its increasing recognition that the future engine of growth of the economy and principal hope for providing employment for the rapidly growing labor force is the change from an import substitution to an export-led economy.

The fostering of an improved environment for foreign and domestic investment, particularly in the export sector, continues to be a major objective of the GOH, fully supported by our program. An export incentives law and a temporary import law have been enacted, providing tax incentives and relief from most import duties to exporters. We expect the continued expansion of Honduran exports (particularly nontraditional) and export earnings over the 1986-90 period. This rests upon a favorable market for Honduran products, and continued efforts by the GOH to improve export competitiveness and to address policy, legal and regulatory constraints to export expansion.

- Employment

The current estimate of unemployment in Honduras is 25%. Honduras' modest growth in real GDP in 1984 and 1985, while contributing to an estimated 86,200 increase in persons employed, has fallen short of the estimated 3.5% annual expansion of the Honduran labor force. During the 1986-90 period, an additional 250,000 workers will enter the labor force. Thus, the generation of employment through the short-term provision of productive work and the longer-term creation of additional jobs are viewed to be critical to maintaining social stability in Honduras. The unemployment problem has been identified by the new government as a top priority, and we have been working with our counterparts to determine where our program can best be of assistance. In last year's Action Plan, we projected our program would result in an increase of employment of 250,000 between 1985-90. We now believe 300,000 person-years of employment can be maintained or generated as a result of our program over the FY87-90 period. If achieved, our program can thus not only help absorb new entrants into the labor force but, if accompanied by policy changes, can also contribute to decreasing the unemployment rate in Honduras. The most critical variable in addressing the unemployment problem over the longer-term is private sector-led economic growth that will expand the demand for labor. As a temporary escape valve over the short-term, we will continue to provide employment opportunities through infrastructure construction and repair. Worker employability will be enhanced through job-related skills training to improve worker productivity and opportunities for longer-term employment.

3. Equity and Broad Participation in Development

The objectives we believe critical to achievement of this broad CAI goal include reducing the population growth rate; increasing life expectancy; improving the quality and efficiency of the primary education system; and expanding shelter, and water and sanitation solutions.

- Population Growth Rate

Before 1984, it was estimated that Honduras' population growth rate was 3.4%, a rate well in excess of the economy's ability to increase per capita incomes and to create the employment opportunities needed to absorb new entrants into the labor force. It was recognized that this rate of population growth was jeopardizing the development potential and future of the country. There is recent evidence, however, that AID-supported family planning services through the private sector are reaching increasing numbers of users and that contraceptive prevalence has increased from 27% in 1981 to 35% in 1984, while total fertility over this same period dropped from 6.5 to 5.4 children. These measures of progress translate into a possible decrease in the population growth rate to 2.9% - 3.0%, a significant accomplishment. This is due in large measure to the GOH's positive policy framework and commitment to reducing this growth rate, and our efforts as the principal donor in family planning. Our future program will build upon the current positive policies and focus on expansion of family planning services, principally in the secondary cities and rural sector. We are optimistic that the concerted efforts of the GOH and the private sector can make a significant and further contribution to reducing the population growth rate, thereby improving the opportunity of all Hondurans to benefit more fully from the country's development.

- Increase Life Expectancy

Health problems in Honduras are typical of most developing countries. Infectious diseases are the primary cause of morbidity and mortality. Among the infectious diseases the most prevalent are those related to diarrhea, acute respiratory infections and malaria. Sixty to eighty percent of the population is malnourished to some degree. Infant mortality rates, at 71/1000, are high and life expectancy (62 years in 1985) is low. Progress, however, has been made as evidenced by several important indicators including: a 40% reduction in infant mortality due to diarrhea-related diseases, and a 24% reduction in overall infant mortality from all causes based upon the adoption of oral rehydration therapy in a pilot region; 20,000 fewer reported cases of malaria from 1982 to 1984, a 43% reduction; 75% immunization coverage of DPT and measles and 90% coverage of polio in 1984, as compared to coverage rates of less than 40% in 1980; and a drop in infant mortality from 88/1000 live births in the mid-70s to 71/1000 according to data collected in 1984.

Our ongoing health portfolio has contributed significantly to these improvements. We will continue to direct our future assistance at the urban and rural poor, through priority health programs, building upon the existing positive policy framework and institutional development achievements made to date. Our policy dialogue will continue to support GOH efforts regarding cost recovery, increased budget allocations for child survival services, and the further involvement of the private sector in the delivery of health care services. With the continuance of the current commitment of the government, we believe the objective of increasing life expectancy to 65 years by 1990 will be reached.

- Improving the Quality and the Efficiency of Primary Education

Honduras suffers severely from the poor quality of primary education. The strengthening of this system is critical to improving employment opportunities, reducing the population growth rate and increasing production, especially in the agricultural sector. The need to improve primary education is evidenced by the fact that, although an estimated 88.6% of Honduras' primary school children have access to school, only 20% of those entering rural primary schools complete the sixth grade. Because of high dropout and repetition rates, the system must deliver and pay for eleven student years of schooling to produce a single sixth grade graduate. The unnecessary recurrent financial and human costs of such an inefficient system are enormous. The financial costs alone have been estimated to be \$28.5 million per annum. To date our program, in response to Honduran priorities, has focused principally on expanding the access of children to the primary school system. In this regard, we have been successful, as evidenced by the 85% of children having such access. In this context, by the end of FY86 our program will result in directly providing access for 13% of the country's primary school students and training for 25% of the teachers, 29% of the school directors and 100% of the school superintendents and departmental supervisors.

Over the balance of the CAI period, and beyond, we will concentrate our efforts to improve the quality of the primary school system in Honduras. We will introduce proven educational innovations to reduce the dropout and repetition rates, lower unit costs, improve the quality of instruction, and increase academic achievement. The new government is committed to the improvement of the primary school system, and with agreement on specific policy measures required to address the needs of the system, we are optimistic that the objective in primary education can be achieved.

- Improved Shelter, and Water and Sanitation Service Solutions

In 1985 Honduras faced a shelter deficit of 450,000 units, including over 200,000 families without access to water in Tegucigalpa. These problems are due to a number of factors, including a high population growth rate and inadequate financial structures. Our Housing Guarantee (HG) program has helped address these problems through the provision of basic services, the development of mechanisms such as self-help construction and financial institutions devoted to shelter, and expansion of private sector involvement.

Our efforts through the HG program have resulted in the delivery of nearly 17,000 low-cost shelter solutions as well as service infrastructure since 1981. With respect to water and sanitation in the rural sector, we have focused on providing access to safe water supplies and human waste disposal systems for about 900,000 people. Both these assistance thrusts have contributed significantly to the levels of employment in the construction sector.

The new government is committed to addressing the needs for low-cost shelter and related services. We are having policy discussions with the GOH and expect to provide continued support to meet the critical housing needs in the short-term. Simultaneously, these resources will be used to leverage other financing for the sector, and to continue policy dialogue to establish the framework for the sector to address needs over the long-term. Our efforts will build on prior successes to carry out both housing and complementary infrastructure interventions in metropolitan, secondary city and hinterland areas. We will emphasize the development of a policy to ensure adequate long-term financing, maximum participation by the private sector and, to the extent possible, cost effectiveness in choosing among alternative shelter activities. Although we do not envision having available all the resources necessary to reach the infrastructure and shelter production goals of the CAI, we will contribute meaningfully to reducing the shelter and service deficits facing the country.

4. Strengthening Democratic Institutions

We have established two objectives to achieve this goal: (1) the provision of short- and long-term scholarships for Hondurans to study in the United States; and (2) the strengthening of the legislative, judicial, electoral and other democratic processes in Honduras. We will expose a substantial number of Hondurans to educational opportunities in the United States' democratic environment, and strengthen democratic processes and institutions affecting the rights of citizens. The major problems facing Honduran democratic institutions are poor management and limited funding.

- Educational Opportunities in the United States

Honduras' human resource base is weak, as evidenced by a population that is 40% illiterate, and where only 27% of the population over 10 have completed the fourth grade and only 17% have completed sixth grade. Under the Central American Peace Scholarship program, we will train about 1,600 Hondurans in the United States by 1990. By the end of FY86, we expect to have sent 102 long- and 426 short-term scholarship recipients for training. Necessary reorientation and job placement services will be provided to the long-term scholars, while those sent for short-term training will return to their places of employment. By 1990, we expect to create an ongoing association of returned CAPS scholars, thus providing a mechanism for continuing contact between returned scholars and Americans.

- Consolidation of the Legislative, Electoral, Judicial and Other Democratic Processes.

Our program supported the Honduran national elections which were successfully carried out in November 1985 and trained over 120 Honduran legislators in March 1986. The major focus of our future efforts with the judiciary will stem from an assessment scheduled for FY86. This assessment will provide the basis for our future efforts which will provide technical assistance, training and commodities to strengthen the judicial, electoral and legislative systems in Honduras. In addition, we will provide limited local currencies and regional funding to support the strengthening of the private-sector San Pedro Sula University, thus providing an option to the currently weak national university system. Lastly, we will continue our support to local communities through the provision of small grants for self-help activities and to a local umbrella organization which will analyze, finance and monitor projects developed by local voluntary organizations, thereby strengthening the capacity of these entities to contribute to Honduras' development.

II. IMPLEMENTATION PLAN

A. Goal: Economic Stabilization

1. Objective: Substantial improvement in macroeconomic performance by 1990.

a. Key Assumptions:

- Relative stability in key international commodity prices, both for Honduran exports and imports.
- Continuation of moderate real growth in countries of major importance as Honduran export markets.
- Moderate real growth in official and private international capital inflows.
- Maintenance of dollar real interest rates at or below current levels.
- Receptivity on part of officials to design and implement what could be difficult policy adjustments in an environment where the U.S. has both security and economic interests.

b. Performance Indicators: Benchmarks/Target Dates

	1984	EST 1985	PROJ 1986	PROJ 1987	PROJ 1988	PROJ 1989	PROJ 1990	AVERAGE ANNUAL GROWTH RATE 1986-1990
	====	====	====	====	====	====	====	=====
Real GDP (Millions of 1985 Dollars)	3261.7	3359.5	3493.9	3633.6	3779.0	3967.9	4206.0	4.7%
Annual Real GDP Growth Rate	2.8%	3.0%	4.0%	4.0%	4.0%	5.0%	6.0%	*/1
GDP Deflator (1985 = 100)	96.5	100.0	104.0	108.2	112.5	117.0	121.7	4.0%
Nominal GDP (Millions of Current Dollars)	3148.5	3359.5	3633.6	3930.1	4250.8	4641.9	5117.2	8.9%
Net International Reserves of the Central Bank (Level in Millions of Current Dollars)	-92.9	-84.9	-84.9	-53.9	12.4	56.0	104.8	*/1
Current Account Deficit in GDP as % of GDP	11.9%	11.3%	6.9%	6.5%	6.0%	6.0%	6.0%	*/1
Nominal (Millions of Current Dollars)	373.4	380.9	248.9	255.5	255.1	278.5	307.0	5.4%
Arrears Deposits in Central Bank (Millions of Current Dollars)	27.8	27.7	20.0	15.0	10.0	5.0	0.0	*/1
Overall Deficit of Consolidated Non-financial Public Sector as % of GDP	11.9%	9.0%	7.4%	7.0%	6.5%	6.0%	5.0%	*/1
Nominal (Millions of Current Dollars)	374.5	302.5	270.3	275.1	276.3	278.5	255.9	-1.4%
Expansion in Net Banking System Credit */2 (Annual Changes in Millions of Current Dollars)	145.1	139.0	159.7	149.9	159.1	181.8	210.2	7.1%
To Private Sector	105.8	125.6	119.7	129.5	140.0	152.9	158.6	8.9%
To Public Sector	39.3	13.4	40.0	20.5	19.1	28.9	41.6	1.0%
ESF Disbursements as % of GDP	2.2%	2.7%	3.5%	2.3%	2.6%	1.9%	2.0%	*/1

Notes: 1. Not applicable.

2. Preliminary figures; to be adjusted on an annual basis in accordance with formulation of monetary program of the Central Bank designed to achieve growth and net international reserve targets.

c. Policy Dialogue Actions:

M e a s u r e s

D i s c u s s i o n / D a t e s

MACRO ELEMENTS

Negotiation of macro performance criteria including, inter alia, ceiling on overall credit expansion, subceiling on credit to public sector and targets for net international reserves.

Negotiation on 1986 program well underway with figures in line with estimates provided in "with policy adjustment" scenario of performance indicator projections. As political conditions permit and economic conditions require, exchange rate adjustment will be included in policy dialogue. Annual basis, 1986-1990.

Review of compliance with macro performance criteria.

Annually over 1986-1990 and in accordance with disbursement schedule within each year over the period.

ILLUSTRATIVE LIST OF POSSIBLE STRUCTURAL REFORMS/MICRO ELEMENTS

Designed to improve the economic efficiency with which Honduras allocates available resources.

Negotiation on 1986 program well underway with discussion taking place in the specific action areas noted below. Annual basis, 1986-1990.

Rationalize Public Sector Operations

Introduction of zero based budgeting for GOH including decentralized institutions.

Rationalize public sector expenditures. Reduce public sector deficit. 1987.

Development and implementation of systems of budget control in each decentralized agency; quarterly submission of financial operation statements to Central Government in accordance with generally accepted accounting practices.

Enhance public sector expenditure control. Reduce fiscal deficit. 1987.

Development and submission to Central Government by decentralized public sector of quarterly reports on efficiency of public sector operations.

Establish targets for improving per unit costs of providing public sector services, e.g., per unit costs of telephone, electricity, water, port services. Enhance cost efficiency of public sector operations. 1987.

M e a s u r e s

D i s c u s s i o n / D a t e s

Independent annual audits of decentralized public institutions conducted in double-blind fashion, i.e., without advance knowledge by either auditor or decentralized institution of the pairing.

Enhance public sector budget control. 1987.

Expansion of municipal tax base.

Reduce infrastructure/services financing burden on Central Government. 1987.

Transfer to private sector of state ownership or participation in activities that can be run by private sector.

Elimination of government participation in activities that can be provided efficiently by private sector. Continuous, 1986-1990.

Enactment of legislation to replace the NAUCA I tariff system with the BTN/NAUCA II and convert the present mix of specific and ad valorem tariff rates to their ad valorem equivalents.

Modernize tariff nomenclature, harmonize nomenclature with rest of Central America and increase elasticity of tariff system. 1987.

Pass Customs Valuation Law.

Increase objectivity, predictability and transparency of customs valuation procedures. 1987.

Pass Customs Procedures Law.

Consolidate and clarify legal regimes under which importation and reexports take place. 1987.

Introduction of tolls on improved roads.

Establish user fees to cover costs of providing road services. 1987.

Study feasibility of taxing profits earned on pension fund investments.

Movement towards equalization of tax treatment across all classes of investors. 1987.

Enhance Export Competitiveness

Improve incentives provided by Export Promotion Law; augment Export Promotion Certificates (CEFEX) to cover all import taxes.

Improve incentives for export expansion, especially in non-traditional areas. 2nd half 1986.

M e a s u r e s

D i s c u s s i o n / D a t e s

Reduce bureaucratic procedures required by Temporary Import Law.

Improve incentives for export expansion, especially in non-traditional areas. 2nd half 1986.

Modify Banana Export Incentive Law and regulations.

Place incentive on company specific basis to promote exports on basis of company rather than industry performance. 2nd half 1986.

Continuation of trade covered by auto-financing.

Continued strengthening of private market forces role in determining effective exchange rate. Expand exports, rationalize imports and promote repatriation of foreign assets. Continuous, 1986-1990.

Periodic assessments of state of Honduran export performance and price competitiveness submitted to the Joint Economic Working Group (JEWG).

Maintain heightened attention to policies, e.g., exchange rate, that will permit attainment of benchmark export levels. Semiannually, 1986-1990.

Continued expansion of liberalized treatment of export earnings.

Enhance profitability of exporting in key traditional and nontraditional exports and reduce incentives for capital flight. Continuous, 1986-1990.

Issuance of import permits for "self-financed" imports within five days without requirement that GOH determine that domestic production is inadequate to substitute for imports.

Discourage GOH use of import restrictions to control current account deficit. 2nd half 1986.

The introduction of export processing zone legislation.

Promote increased investment and exports. 1987.

Presidential declaration of "Year of the Exporter" with a special recognition for exporters of both traditional and non-traditional products.

Promote exports. 1987.

M e a s u r e s

D i s c u s s i o n / D a t e s

Promote Private Investment

Introduction of tax legislation to provide for investment tax credits and tax loss carry overs.

Stimulate private sector investment. 1987

Establish private sector commission on capital market development.

Stimulate private sector capital formation through establishing conditions required for the development of an equity market. Commission named 2nd half 1986. Commission report due July 1987.

Enhance private sector participation in export marketing of lumber through transparent, objective rules.

Accomplished April 1986.

Completion by the Ministry of Finance of a study on effective rates of tariff protection.

Heighten attention to the inefficiency of the structure and level of current tariff rates with respect to promoting production and investment in areas where Honduras has a comparative advantage. 1st half 1987.

Enactment of legislation to reduce overall levels of effective protection.

Rationalize investment. Improve the economic efficiency of the tariff system. 2nd half 1988.

Review of options to permit foreign direct investment in sea coast tourism and industrial development.

Stimulate foreign private sector investment. 1988.

Reduce investment approval process to 30 days.

Stimulate foreign private sector investment. 1988.

Measures Common to All Objectives

Consolidation, elimination and rationalization of current system of tax exemptions, e.g., import duties.

Enhance fiscal revenues, rationalize imports, improve resource allocation efficiency. 1988.

Measures	Discussion / Dates
Nonextension of industrial incentives law.	Movement towards rationalization of tax structure. 2nd half 1986.
Establishment of a career judicial system.	Promote private investment. Current judicial system cannot be relied upon for constancy, fairness or equity. 1988.
Renegotiation of external private debt with public guarantee.	Restore Honduras' international creditworthiness and improve term structure of external debt. Direct link to external financing benchmark. Negotiations begun April 1986. Agreement signed 2nd half 1986.
Maintenance of interest rates at appropriate real levels to balance demand for credit with the policy-constrained limit on credit creation and reduce capital flight.	Emphasize role of price (the interest rate) rather than administrative measures to balance credit demand with credit supply. Continuous, 1986-1990.

The list of structural reforms above is illustrative. While we are reasonably confident that a substantive package of reforms will be negotiated, it is too early to be precise both with respect to content and timing. Although the quantitative impact of these reforms is extremely difficult to estimate, it is not unreasonable to estimate that, beginning in 1988 they could raise annual GDP by L200 million in constant 1985 Lempiras, equivalent to 3 to 4% of 1985 GDP.

As a result of a number of factors -- principally recent developments in world coffee and petroleum prices and dollar interest rates -- the urgency of broad exchange rate adjustment in 1986 has been markedly reduced. However, toward the latter part of 1987, when coffee and petroleum prices are expected to be less favorable to Honduras, movement on the exchange rate may be essential in order to produce outcomes compatible with substantially improved economic performance in the 1988-1990 period, as set forth the Performance Indicators above. In order to monitor the need for such movement on an anticipatory basis, as well as to heighten GOH attention to it, timely and jointly prepared assessments of Honduran export performance and international price competitiveness during 1986 and 1987 will be essential. Such assessments will form part of the projected FY86 ESF program agreement.

The first objective of the ESF program is to raise the level of GDP over and above the level that would be attained without the additional import financing provided by ESF cash transfers. This objective reflects a fundamental fact about the structure of the Honduran economy -- imports are the binding constraint on the level of GDP that can be attained because of the very heavy direct and indirect import content of production. Reflecting this, the empirical evidence suggests that Honduras' GDP can be fairly reliably forecast as equal to approximately 3.1 times the level of imports. Thus, the ability to finance imports is key. Without ESF, the ability to finance imports is simply equal to the sum of export earnings, net external capital inflows and the change in net international reserves. With ESF included as an additional source of import financing, the GDP level that can be attained will be correspondingly higher (equal to approximately 3.1 times the ESF cash transfer). On this basis, the contribution to GDP as a result of 1984 and 1985 ESF disbursements was equal to \$225 million in 1984 and \$287 million in 1985 with both figures in constant 1985 dollars. In terms of GDP growth, real GDP was 7% higher in 1984 and 9% higher in 1985 than would have been the case without ESF. This means that GDP growth would have been negative in both 1984 and 1985 had ESF disbursements not taken place.

The second objective of the ESF program is to support and/or condition disbursements of the cash transfers on adjustments in the Honduran policy framework designed to raise import capacity -- export earnings plus net normal sources of external capital inflows -- to levels that would permit the gradual reduction of ESF cash transfers without reducing the GDP growth rate to unacceptable levels.

On the basis of these observations, it is fairly easy to judge the ESF program. With respect to the first objective, the ESF program is a resounding success. In fact, it is a virtual certainty that, in the absence of quickly disbursing ESF assistance, the level of employment, output and real income in Honduras would have been significantly less than the levels that were registered. As a result, ESF has been instrumental in keeping the lid on a situation that, over the past few years, could have become socially, politically and economically explosive. In particular, ESF disbursements in 1984 and 1985 supported, respectively, approximately 66,000 jobs and 78,000 jobs. Without ESF assistance, the overall unemployment rate would have been about 5 percentage points higher in 1984 and 6 percentage points higher in 1985.

With respect to the second objective, the record is mixed. Economic adjustments in monetary, fiscal and exchange rate policies required for disbursement have not been ideal in terms of coverage, timing or magnitude. Additionally, and as set forth in Table III, performance in meeting the less than ideal ESF programs that were negotiated sometimes fell short or were subsequently relaxed to support our broader political objective. But, the reasons for the shortfalls in meeting the second objective of the ESF program need to be stated openly and forthrightly.

ESF programs do not only serve the economic dimension of U.S. foreign policy objectives. In Honduras, these other dimensions include U.S. security objectives, consolidation of the democratic process and Honduran support for U.S. regional programs. In essence, the Country Team has attempted to maximize the economic adjustment content of the programs agreed to within the context of the constraints imposed by the shifting balance of priorities among all of the individual dimensions of U.S. foreign policy objectives. This has required what, in essence, can be described without pejorative connotation as a "nibbling" strategy -- moving forward in policy adjustment coverage, magnitude and timing as broadly as possible. With respect to the economic content of U.S. foreign policy objectives, this has not been costless. In effect, broad adjustment on the exchange rate has been foreclosed as an option for political reasons even though we continue to feel it is desirable for fully meeting the second objective of fully substituting policy reforms for ESF cash transfers as the basis for achieving acceptable growth, low inflation and viable fiscal and balance of payments outcomes. Nevertheless, it is Country Team's judgment that, within the constraints imposed by overall U.S. foreign policy objectives, there has been reasonable success in meeting the second objective of the ESF program. The Country Team believes that the economic content of the programs that have been negotiated have served well overall U.S. foreign policy interests.

TABLE III

SUMMARY REVIEW OF GOH COMPLIANCE WITH FY84
SUPPLEMENTAL AND FY85 ESF CONDITIONALITY

<u>Condition</u>	<u>Results/Impact</u>
<u>\$17.5 million FY84 Supplemental ESF</u>	
Issuance of Central Bank of Honduras Board of Directors' Resolution to establish a special payments mechanism for Central American trade.	Action completed. In March 1985 the Board of Directors of the Central Bank of Honduras passed a resolution establishing a special payments mechanism for Central American trade which permits Honduran exporters to Central America to hold deposits in the Honduran banking system denominated in the currencies of the countries to which they exported. These deposits can be sold to Honduran importers at an effective rate of exchange determined by the market, thus providing additional incentives for exporters and rationalizing import prices. It is too early to realistically assess this measure's actual impact on Honduras' regional trade levels.

TABLE III (continued)

Establishment of a program to gradually discourage the repurchase of government bonds by the Central Bank of Honduras.

Action completed. The Honduran National Congress passed a law in August 1985 establishing a program providing for the emission of new types of GOH bonds. By making the effective rate of interest on these bonds rise with the length of time they are held, the bonds will have the effect of gradually reducing the importance of automatic repurchase guaranties to holders of these bonds. As of March 31, 1986, bonds of the new type represented 27% total bonds issued to finance the 1985 public debt. The continuation of such a trend will enhance monetary stability and serve to promote the development of a private capital market.

Enactment of banking law changes to guaranty that lands offered as collateral for agricultural credit be immune from expropriation for a period of up to four years.

Action completed. Too little time has elapsed to judge the impact of these changes on increasing credit flows to the rural sector.

Enactment by the Honduran Forestry Development Corporation (COHDEFOR) Board of Directors of a resolution that will expand on a nationwide basis the marketing system used presently in the South and will rationalize other COHDEFOR activities.

Action completed. Lumber export marketing has been liberalized by allowing a more direct role for the private sector. Private entrepreneurs will now act as COHDEFOR's agents, establish their own lumber yards and directly export lumber paying COHDEFOR a prearranged export fee.

Enactment of legislation and implementation of regulations to replace NAUCA I Tariff Nomenclature with that of Brussels Tariff Nomenclature (BTN)/NAUCA II and convert all specific tariffs to their ad valorem equivalents.

Action not completed. GOH did complete the technical work for the draft law. However, the necessary legislation was not submitted to Congress as a result of concerns raised by private sector interest groups.

Establishment of legal basis for the eventual sale of commercial enterprises with public sector participation, including submission of necessary draft legislation to Congress.

Action completed. A Divestiture Law has been passed by the Honduran Congress.

TABLE III (continued)

\$75 million FY85 ESF

Submission to Congress of necessary legislation to privatize, eliminate or reduce the participation of the public sector in certain functions carried out by the National Housing Finance Agency (FINAVI), the Honduran Banana Corporation (COHBANA) and the National Basic Product Supplier (BANASUPRO).

Action completed. An October 1985 law transferred FINAVI's regulatory functions to the Central Bank. The savings and loan system can now be more adequately maintained and controlled. The closing of FINAVI and creation of a Housing Fund in the Central Bank have reduced the size of the public sector involved in the shelter sector. COHBANA survives only as a small office which is expected to be eliminated by the end of 1986. BANASUPRO continues to move towards support for its owner-operated retail store franchises, in lieu of an expansion of its fully-owned retail chain.

Compliance with July and October 1985 limits on overall credit expansion, and with credit expansion to the public and private sectors.

Preliminary figures provided by GOH indicated compliance for July and October limits. Preliminary 1985 year-end data indicate that GOH has observed moderately restrictive limits on net domestic credit expansion overall and, in particular, to the consolidated public sector. The GOH's performance in 1985 represented a notable improvement compared to 1984 and especially compared to the period 1981-1983. Such restraint has served to both reduce excessive pressure on imports and help hold down domestic inflation.

Compliance regarding July and October 1985 target for the proportion of value of international trade covered by the Special Payments Regime for Central America, and/or the self-financing system.

Trade coverage was not expanded to levels required to meet July and October targets. While the GOH failed to adopt transparent, objective and official measures to expand the proportion of international trade covered by a liberalized exchange rate regime, (i.e., the Special Payments Regime for Central America and the import self-financing system) to the extent called for in the ESF agreement, the GOH did enact a number of formal and informal measures resulting in a substantial increase in liberalized trade. Although it is too early to assess the measures' impact on trade flows, the increased percentage of trade conducted at a market determined exchange rate enhances incentives for exporters while simultaneously rationalizing import prices.

TABLE III (continued)

Evidence that the GOH has adopted the necessary measures to privatize, reduce, or eliminate the non-banking functions of BANADESA.

The GOH is searching for private sector investors to sell or lease the Sula Dairy plant, and for mechanisms to close down or transfer its input stores network to the private sector.

Achieving a substantial improvement in Honduras' economic performance by 1990 must be characterized in terms of a multidimensional constellation of complementary performance indicators. The performance indicators include targets for real growth and inflation at socially desirable levels; a strengthening in the current account deficit in the balance of payments to levels that can be financed with a return to a reasonably positive figure for net international reserves of the Central Bank; and a reduction in the overall deficit of the consolidated nonfinancial public sector to levels that would permit positive real growth in credit to be provided to the private sector without generating excessive pressures on the balance of payments and prices. All of the targets must, moreover, be accommodated within the limits imposed by projected assistance flows from the U.S., both ESF and non-ESF.

It should be emphasized at the outset that these are ambitious, but also, achievable targets. Both of these observations are graphically, even starkly illustrated by Tables IV and V which follow. In order to achieve the socially acceptable growth, inflation and net international reserve targets laid out in the benchmark table, Table IV presents the "with" and "without" policy adjustment outcomes for balance of payments/fiscal performance and external financing requirements. Table V lays out the key differences in balance of payments fiscal performance and external financing requirements that result from the "with" and "without" adjustment outcomes.

TABLE IV

PROJECTED BALANCE OF PAYMENTS/FISCAL PERFORMANCE AND EXTERNAL FINANCING REQUIREMENTS
(Millions of Current Leapias)

SCENARIO A: Without Policy Adjustments	1984	EST 1985	PROJ 1986	PROJ 1987	PROJ 1988	PROJ 1989	PROJ 1990	AVERAGE
								ANNUAL GROWTH RATE 1986-1990
BALANCE OF PAYMENTS PERFORMANCE								
Exports of Goods and Services	1743.8	1932.9	2283.9	2529.9	2765.1	2950.0	3172.9	8.6%
Current Account Deficit in BOP								
as % of GDP	11.9%	11.3%	6.9%	6.9%	7.4%	10.2%	10.9%	
Nominal	746.7	761.8	497.9	541.0	631.9	950.6	1114.9	
Desired Change in Net International Reserves	-18.9	8.0	0.0	62.1	132.5	87.2	97.7	
Total Net External Financing Required	727.8	769.8	497.9	603.1	764.4	1037.7	1212.5	
Total Net External Financing	727.8	769.8	497.9	603.1	764.4	1037.7	1212.5	
of which:								
Projected Net Normal LT Capital Inflows	581.0	419.3	240.4	393.0	425.1	464.2	511.7	
Other Net Flows */1	10.8	170.5	0.0	0.0	0.0	0.0	0.0	
Gap/Required ESF Financing	-136.0	-180.0	-257.5	-210.1	-339.3	-573.6	-700.8	
Programmed ESF Financing	136.0	180.0	257.5	180.0	217.5	180.0	200.0	
Additional ESF Required	0.0	0.0	0.0	30.1	121.8	393.6	500.8	
FISCAL PERFORMANCE								
Overall Deficit of Consolidated Non-financial Public Sector								
as % of GDP	11.9%	9.0%	7.4%	8.0%	9.0%	10.0%	10.0%	
Nominal	749.0	605.0	540.5	628.8	765.2	928.4	1023.4	
Total Financing	749.0	605.0	540.5	628.8	765.2	928.4	1023.4	
External Sources (Excl. ESF)								
Internal	107.1	114.6	204.5	175.7	181.9	215.5	253.8	
Bonds and Other								
Banking System Credit	28.6	37.9	124.6	134.8	145.8	157.7	170.5	
Banking System Credit	78.5	26.7	80.0	40.9	36.1	57.8	83.3	
Programmed ESF Budget Support */2	68.0	90.0	128.7	90.0	108.8	90.0	100.0	
Additional ESF Budget Support Required	.0	.0	.0	68.4	155.7	274.8	285.9	
CREDIT POLICY IMPLICATIONS								
Expansion of Net Banking System Credit	290.1	277.9	319.4	299.3	316.2	363.6	420.4	7.1%
To the Consolidated Public Sector								
To the Private Sector	211.6	251.2	239.4	258.9	280.0	305.8	337.1	

TABLE IV (Continued)

PROJECTED BALANCE OF PAYMENTS/FISCAL PERFORMANCE AND EXTERNAL FINANCING REQUIREMENTS

(Millions of Current Lempiras)

SCENARIO B: With Policy Adjustment								AVERAGE
	1984	EST 1985	PROJ 1986	PROJ 1987	PROJ 1988	PROJ 1989	PROJ 1990	ANNUAL GROWTH RATE 1986-1990
-----	----	----	----	----	----	----	----	-----
BALANCE OF PAYMENTS PERFORMANCE								
=====								
Exports of Goods and Services	1743.8	1932.9	2283.9	2560.0	2886.9	3243.6	3673.7	12.6%
Current Account Deficit in BOP								
as % of GDP	11.9%	11.3%	6.9%	6.5%	6.0%	6.0%	6.0%	
Nominal	746.7	761.8	497.9	510.9	510.1	557.0	614.1	
Desired Change in Net International Reserves	-18.9	8.0	0.0	62.1	132.5	87.2	97.7	
Total Net External Financing Required	727.8	769.8	497.9	573.0	642.6	644.2	711.7	
Total Net External Financing	727.8	769.8	497.9	573.0	642.6	644.2	711.7	

of which:								
Projected Net Normal LT Capital Inflows	581.0	419.3	240.4	393.0	425.1	464.2	511.7	
Other Net Flows +/-	10.8	170.5	0.0	0.0	0.0	0.0	0.0	
Cap/Required ESF Financing	-136.0	-180.0	-257.5	-180.0	-217.5	-180.0	-200.0	
Programmed ESF Financing	136.0	180.0	257.5	180.0	217.5	180.0	200.0	
Additional ESF Required	0.0	0.0	.0	0.0	0.0	0.0	0.0	
FISCAL PERFORMANCE								
=====								
Overall Deficit of Consolidated Non-financial Public Sector								
as % of GDP	11.9%	9.0%	7.4%	7.0%	6.5%	6.0%	5.0%	
Nominal	749.0	605.0	540.5	550.2	552.6	557.0	511.7	
Total Financing	749.0	605.0	540.5	550.2	552.6	557.0	511.7	

External Sources (Excl. ESF)	573.9	400.4	207.2	294.8	318.8	348.1	383.8	
Internal	107.1	114.6	204.6	175.7	181.9	215.5	253.8	

Bonds and Other	28.6	87.9	124.6	134.8	145.8	157.7	170.5	
Banking System Credit	78.5	26.7	80.0	40.9	36.1	57.8	83.3	
Programmed ESF Budget Support +/-	68.0	90.0	128.7	90.0	108.8	90.0	100.0	
Additional ESF Budget Support Required	.0	.0	.0	-10.2	-56.8	-96.6	-225.9	
Total ESF Budget Support Required +/-	68.0	90.0	128.7	79.8	51.9	-6.6	-125.9	
CREDIT POLICY IMPLICATIONS								
=====								
Expansion of Net Banking System Credit	290.1	277.9	319.4	299.8	316.2	363.6	420.4	7.1%

To the Consolidated Public Sector	78.5	26.7	80.0	40.9	36.1	57.8	83.3	
To the Private Sector	211.6	251.2	239.4	258.9	280.0	305.8	337.1	

- Notes: 1. Includes net errors and omissions, accumulation of arrearages and rescheduling of short-term to long-term debt.
 2. 50% of programmed balance-of-payments support disbursements.
 3. Negative values indicate that no ESF budget support is needed.

TABLE V

KEY GAPS BETWEEN WITHOUT AND WITH POLICY ADJUSTMENTS SCENARIOS

(Millions of Leaspiras)

	1984	EST 1985	PROJ 1986	PROJ 1987	PROJ 1988	PROJ 1989	PROJ 1990
	====	====	====	====	====	====	====
1. Shortfall in Exports/Additional ESF Financing Required to Meet Growth and Net International Reserve Targets	0.0	0.0	0.0	30.1	121.8	393.6	500.9
2. Increase Over Target in Current Account Deficit in BOP as % of GDP	0.0%	0.0%	0.0%	0.4%	1.4%	4.2%	4.9%
3. Increase Over Target in Overall Deficit of the Consolidated Public Sector							
a. Nominal	0.0	0.0	0.0	78.6	212.5	371.4	511.7
b. As % of GDP	0.0%	0.0%	0.0%	1.0%	2.5%	4.0%	5.0%
4. Additional ESF Budget Support Required	0.0	0.0	0.0	78.6	212.5	371.4	511.7

The key points that derive from these tables can be stated quite simply:

- Enhanced export growth and fiscal discipline are the twin keys to achieving socially acceptable growth, inflation and net international reserve targets without generating balance of payments and fiscal outcomes that require massive additional ESF financing.

- Both the enhanced export growth and fiscal discipline requirements are achievable.

- In the case of export growth, the requirement is to raise the average annual export growth rate from 8.6% in the "without" adjustment scenario to the 12.4% average annual growth rate in the "with" adjustment scenario.

- In the case of enhanced fiscal discipline, in the "with" policy adjustment scenario, fiscal revenues over the 1986-1990 period would have to rise at a 10.0% average annual rate rather than an 8.2% rate "without" adjustment, and expenditure increases would have to fall from a 10.9% average annual rate "without" adjustment to a 7.2% average annual rate "with" adjustment, or some equivalent combination.

- If the required policy adjustments do not take place and if the U.S. were to commit itself to sustaining the growth, international reserve and inflation targets for 1990; the price tag in the form of additional ESF over and above currently programmed levels would be on the order of \$500 million.

The achievability of these targets for enhanced export growth and fiscal discipline is within reach. They are spelled out in qualitative terms as policy dialogue actions discussed above. To illustrate, a restoration of Honduras' market share in the U.S. import market relative to other Central American countries would imply additional export growth of over \$100 million. The implementation of full private sector operation of lumber export marketing, by raising Honduras export of lumber to 1977 levels, would provide an additional \$20 million in export earnings. The opening up to foreign investment of tourism operations on the north coast could probably provide an additional \$5 to \$10 million annually in direct foreign investment, plus an additional \$1 to \$2 million annually in net tourism revenues. Similar observations apply to the potential for net budget savings. Reduced payrolls in the heavily overmanned decentralized public sector could provide budget savings of \$20 to \$50 million annually. The passage of legislation that would make all tariff rates ad valorem could raise revenues by some \$15 million annually. Better administration of existing taxes could raise revenue by \$50 million annually. In brief, and both with respect to enhanced exports and fiscal discipline, there are a variety of combinations of packages of structural adjustments that could make the targets for fiscal and balance of payments performance achievable.

The key dilemma is the extent to which the mobilization of political will within the GOH can be reconciled with U.S. political interests. Our strategy will be to work to achieve policy packages for ESF disbursement that are acceptable to the GOH and compatible with both US foreign policy interests and credibility in economic content.

The PL 480 Title I Program, which finances the foreign exchange costs for the bulk of Honduras' wheat imports, also has made a significant contribution to our rural sector objectives and this impact is expected to continue. Many of the PL 480 Self-Help Measures contribute to long-term growth and policy reform in the agricultural sector.

PL 480 local currency generations for FYs 1985-90 will amount to the equivalent of \$87 million. These generations have been and will be programmed to improve production and rural income through activities such as: regional cooperatives development; crop diversification; irrigation; agricultural research; horticulture production; pasture and feed improvements; agricultural information; extension; and river basin planning. Since most of these local currency resources have complemented ongoing projects, the production impact of these activities are included under the next objective.

f. Budgetary Impact:

	FY87	FY88
	(\$ Thousands)	
DA	3,000	2,000
ESF	90,000	108,752
PL 480, Title I	14,000	15,000
GOH Local Currency	1,000	6,000

B. Goal: Laying the Basis for Long-term Growth

1. Objective: Increase agricultural production by \$400 million by 1990.

a. Key assumptions:

- The banana industry continues its present level of operations in Honduras.
- Agrarian reform implemented on a consistent and predictable basis.
- No major weather disasters nor new or expanded crop or livestock diseases.
- International commodity prices maintain reasonable levels.
- Reduced capital flight from the agricultural sector to urban centers and abroad.
- Private investment in agriculture increases.
- Stable other donor support to and public sector spending on agriculture.

b. Performance Indicators: Benchmarks/Target Dates

	<u>FY84</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>
Generate \$400 million in agricultural production by 1990. (\$ millions)	-	55	147	262	400
Increase real per capita agricultural GDP by 10% by 1990. (1986 = \$343)	-	363	377	386	400
16,000 farmers will receive supervised credit by 1990.	4,060	5,400	8,650	13,300	16,000
4,750 hectares will be irrigated by 1990.	-	775	1,900	3,150	4,750
Fifty million additional board feet of lumber will be produced by 1990. (millions)	-	11	23	35	50
Banana yields per acre will rise on 5,000 acres from 712 boxes to 1,047 by 1990.	-	836	890	964	1,047
Coffee production will increase by 29 million pounds by 1990. (millions)	2.2	18	24	27	29

	<u>FY84</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>
19,400 farmers will benefit from improved small farmer organizations.	2,400	4,347	9,427	12,547	19,400
Basic grain (corn, sorghum, beans) production will increase by 3,000 metric tons (from 28,500 metric tons to 31,500 metric tons) in southern Honduras by 1990. (The equivalent of a 10% increase in yields.) (metric tons)	120	570	1,140	2,000	3,000
224 additional cattle companies (with approximately 50 head each) will be formed by 1990. (1986 = 196)	-	114	179	199	224

1,000 kilometers (km) of farm to

market roads reconstructed by 1990.	-	250	500	750	1,000
2,500 kms. of farm to market roads will be maintained by 1990.	-	1,750	2,050	2,350	2,500
12,000 farmers will benefit from newly disseminated rural technologies by 1990	1,300	6,000	8,000	9,600	12,000
660 marketing operators will have improved their practices by 1990	-	50	250	450	660
15,000 hillside farmers using improved production practices by 1990.	-	6,000	9,000	12,000	15,000

c. Policy Dialogue Actions:

- Amend the Agricultural Development Law by December 1986: to establish procedures which allow medium- and small-scale producers to benefit from duty free provisions either as individuals or through their associations; and to make its coverage more flexible (e.g., change the duty free list from one of individual inputs to one of generic categories); and, by December 1987, to allow land rentals according to streamlined, consistent, and transparent criteria.

- Develop legislation encouraging investments in agro-industries by December 1986. For a minimum of ten years, this law would: permit duty free importation of capital goods and inputs required by agro-processing facilities using local products as raw materials; exempt agro-industries from the 5% sales tax; exempt agro-industries from corporate income tax; and provide income tax credits for agro-industry investments.

	Number	Total Cost (\$ Thousands)	
		Dollars	GOH Local Currency
Small Farmer Ag. Div. (OPG)	522-0227	480 (G)	473
Environmental Ed. II (OPG)	522-0234	75 (G)	140
Agriculture Research Foundation	522-0249	23,000 (G)	4,500
Small Scale Livestock (OPG)	522-0251	438 (G)	300
Small Farmer Organization Strengthening	522-0252	7,500 (G) 8,500 (L)	10,750
Irrigation Development	522-0268	5,000 (G) 15,000 (L)	3,750
Agricultural Marketing	522-0271	5,000 (G)	1,000
Mosquitia Relief Devlp. (Infrastructure component)	522-0278	2,421 (G)	-
Model Co-op Dev. (OPG)	522-0300	396 (G)	50
Program Development & Support	522-09103	CONT.	-
Projects which have a secondary impact which contribute to this objective:			
Economic Stabilization Facility	522-0283	597,500 (G)	-
Export Development & Services	522-0207	7,500 (G) 16,000 (L)	8,100
Privatization of State-owned Enterprises	522-0289	6,000 (G)	12,000
Strategic Planning and Technical Support	522-0269	4,000 (G)	1,500
ii. New:			
Projects which primarily contribute to this objective:			
Agribusiness Investor Support	522-0241	7,000 (G) 18,000 (L)	5,000
Forestry Development	522-0246	5,000 (G) 15,000 (L)	4,000
Land Use & Productivity Enhancement	522-0292	6,000 (G) 12,000 (L)	4,000
Private & Voluntary Organ.-OPGs (FY87-90)	522-9999	800 (G)	200

e. Narrative:

Rural Honduras is poor. Sixty percent of the rural families have annual incomes below \$250, or less than \$50 per person -- less than one dollar per week. One-third earn annual incomes ranging from \$250 to \$1,000. Only 7% receive annual incomes above \$1,000.

The rural labor force suffers massive unemployment which is worsening. Full-time jobs are available for only about 60% of the 730,000 workers in the rural labor force. Employment opportunities are expanding at 2.8% a year, but the population is growing at about 3% a year.

Agriculture employs over 60% of Honduras' work force, produces 80% of its exports and over 30% of its GDP. This sector has determined GDP growth or decline over the past 25 years.

Honduras has the largest proportion of mountainous land in Latin America. Its broken geography thwarts development, hampers marketing and the provision of services, exacerbates isolation, and retards technological improvement. Less than 20% of the potentially cultivable land is farmed. Twice as much land is left fallow and almost twice as much is eroded as is farmed. Only 14% of the potentially irrigable land is irrigated, 75% of which is planted in bananas and sugar cane. Yields for basic grains and export crops are the lowest in Central America. Only 3% of the farmers consistently use formal credit and real agricultural credit flows are only at 1970 levels. Agro-industrial activities are limited in scale and importance.

The high-level Presidential Agricultural Task Force (PATF) which visited Honduras in late 1982 presented several policy recommendations aimed at increasing production, stimulating private sector investments, improving organizational structures, and creating more viable markets. These recommendations, pursued through our policy dialogue, have resulted in a number of improved GOH agricultural policies:

- maintenance of positive interest rates for agricultural credit and applying stricter lending criteria to agriculture cooperatives;
- divestiture of government-owned wood processing operations (i.e., a \$2.75 million sawmill has been transferred to a private company, and another sawmill was liquidated);
- substantial expansion of the private sector's role in lumber marketing;
- modification of the Agricultural Development Law to encourage new technologies through duty free imports of agricultural inputs; and
- passage of a new law providing fiscal incentives to agro-industries processing Honduran produced raw materials.

As a direct result of recent policy negotiations, rural property committed as loan collateral can be held by banks for up to four years in case of default. The removal of uncertainty with respect to agrarian reform intervention will facilitate farmer access to the banking system.

We are maintaining the production-oriented rural development strategy outlined in the FY 1987 Action Plan. Program impact measurement, however, has shifted from a percent of Gross Domestic Product to an absolute figure for agricultural production. The previously used indicator made impact measurements unnecessarily vague. Natural phenomena -- such as drought, floods, and insect and disease infestations -- as well as international market conditions for coffee, sugar, beef, and banana exports affect agricultural GDP in non-predictable, uncontrollable ways. Therefore, the contribution of our portfolio to agricultural production in dollar terms has replaced the previous benchmark.

These production and income changes will be prompted by: dollar-funded projects; policy negotiations; CBI trade advantages; and activities financed with GOH local currency generated through ESF balance of payments and PL 480 Title I/III programs.

Between 1983 and 1985, the value of banana exports increased by approximately \$80 million (to \$281 million); coffee by \$40 million (to \$190 million); and shrimp and lobster by \$15 million (to \$51 million). Nontraditional agricultural exports jumped from \$26 million in 1982 to \$47 million in 1984, an 80% increase.

By the end of 1986, our efforts will have assisted over 34,000 farmers increase their incomes by over \$36 million. The biggest single benefit accrued to 6,250 coffee growers who produced over 22 million pounds of additional coffee. Other beneficiaries include 170 small livestock companies that received approximately 10,000 head of cattle; almost 4,000 small farmers, working on 7,000 hectares, who increased their basic grain yields (doubling of yields in corn is common -- tripling is not rare) and incomes while preserving their soil/water/forest base and increasing the production of fuel wood; 10,000 farmers who received cost-effective technologies; and 18,000 farmers who received fee simple, definitive titles to their land.

A base has been established for continued agricultural advances through the establishment of a private sector research organization which already has saved producers over \$250,000 in nematode and pesticide applications by recommending proper treatment levels, and has identified a citrus piercing moth which endangers Honduras' \$8 million annual citrus crop.

In addition, more effective financial services are being provided to 39,000 Credit Union Federation members. A pilot resource mobilization program has been introduced successfully, loan recoveries have been improved, investment credits have been expanded by an estimated \$5 million, and export earnings of members were increased by \$1 million.

The Mosquitia Relief and Development Project (522-0278) is financing the reconstruction of a bridge swept away by floods, the repair of several other bridges, and the repair and reconstruction of a road to maintain year-round communication within portions of the Mosquitia area which also will advance this objective. These activities will link some 30 communities and provide access for upwards of 25,000 people to market, supplies, and medical and social services. All work is being carried out with labor intensive methods and will leave a corps of experienced skilled and unskilled laborers in the area. This component also is managing the reforestation of burned over area. A tree nursery, vehicles and 100,000 seedlings are being provided. Additionally, agricultural implements (machetes, axes, hoes) and seeds were distributed to residents and newcomers to speed increases in agricultural production and self-sufficiency.

The combined effect of ongoing activities, new projects and policy negotiations between 1987 and 1990 are summarized in the first benchmark above.

The present project portfolio will contribute approximately 75% of the expected \$400 million agricultural growth. New initiatives will add approximately \$100 million.

The activities carried out to reach our export earnings and employment objectives also make significant contributions to this objective. For example, the Honduran Federation of Agricultural and Agro-industrial Producers and Exporters (FEPRO), founded in 1984 by agribusiness leaders and producers associations to capitalize on CBI trade opportunities, has successfully promoted and supported over \$8 million in investments in 12 new agribusiness ventures and \$3 million in export earnings. These activities are discussed under those other objectives.

f. Budgetary Impact:

	FY87	FY88
	(\$ Thousands)	
DA	25,691	29,500
GOH Local Currency	13,000	15,000

2. Objective: Generate \$320 million in export earnings by 1990.

a. Key assumptions:

- The GOH will have the political will to enact, revise, and enforce local laws, policies, and practices to enhance export competitiveness.
- In spite of regional political difficulties, the private sector will be willing to invest in Honduras.
- CBI legislation continues (i.e., no more products are excluded) and no additional nontariff barriers are built.
- Air and marine transportation services will provide timely and adequate services to exporters.
- International prices of Honduran exports will not fall below the 1983 to 1985 levels.

b. Performance Indicators: Benchmarks/Target Dates:

	<u>FY84</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>
AID supported projects and CBI trade benefits will generate \$80 million in nontraditional agricultural exports. (\$ millions)	0	11	28	51	80
AID-supported projects will generate \$190 million in traditional agricultural exports. (\$ millions)	2.4	29	72	127	190
AID-supported projects will generate \$50 million in non-agricultural exports. (\$ millions)	0	7	18	33	50
TOTAL FY 1987 - 90		<u>47</u>	<u>118</u>	<u>211</u>	<u>320</u>

c. Policy Dialogue Actions:

- By December 1986, decisions on investment approvals should be reached within 30 days.
- By December 1986, reduce paperwork, processing time, procedural steps and controls that impede or delay export activities and the promotion of foreign investment, i.e., the time for qualifying firms to use the Temporary Import Law should be reduced to 15 days, the time for clearing each import shipment under the law should be reduced to one day, and the benefits of the Export Promotion Law should be increased to compensate fully for the taxes and surcharges paid by exporters on their imported inputs, estimated at 24% of the value of imports.

- By mid-1986, eliminate the uncertainties exporters face obtaining foreign exchange from the Central Bank for necessary imported inputs by giving them the highest priority among claimants for foreign exchange and processing their requests within a maximum of seven days.
- By mid-1986, provide foreign exchange for remittance of profits by foreign companies within 30 days of requests.
- By October 1986, restructure the GOH export and investment promotion programs by centralizing them in one office to be presided over by members of ministerial rank, and which will report to the Economic Cabinet and the President.
- Undertake efforts to emphasize that a major increase in exports is one of the GOH's highest priorities. In public declarations by the President, and in Presidential directives submitted to the Ministers (and through the Ministers to all levels of government employees), the facilitation of exports will be set as the first order of importance. The President will declare 1987 the "Year of the Exporter", and a program of events and awards will be established to recognize successful export accomplishments.
- Enact legislation to encourage and facilitate the establishment and use of privately-owned and operated Export Processing Zones (EPZs) by September 1986.
- Continue to enhance private sector participation in the export marketing of lumber.

d. <u>Projects:</u>	Number	Total Cost (\$ Thousands)	
		Dollars	GOH Local Currency
i. Continuing:			
Projects that primarily contribute to this objective:			
Export Development and Services	522-0207	7,500 (G) 16,000 (L)	8,100
Artisan Product Marketing (OPG)	522-0250	510 (G)	121
Program Development & Support	522-9106	CONT.	-
Projects which have a secondary impact which contributes to this objective:			
Small Business Development	522-0205	600 (G)	4,400
Agriculture Research Foundation	522-0249	23,000 (G)	4,500
Advisory Council for Human Resource Development (CADERH) - OPG	522-0257	6,325 (G)	4,450

	Number	Total Cost (\$ Thousands)	
		Dollars	GOH Local Currency
Strategy Planning and Technical Services	522-0269	4,000 (G)	1,500
GEMAH Institutional Strengthening (OPG)	522-0256	1,000 (G)	240
ITEC Institutional Strengthening (OPG)	522-0287	480 (G)	132
Small Farmer Coffee Improvement	522-0176	4,250 (G) 16,000 (L)	14,500

ii. New:

Projects that primarily contribute to this objective:

Private & Vol Organ. - OPGs	522-9999	400(G)	100
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Projects which have a secondary impact which contributes to this objective:

Forestry Development	522-0246	5,000 (G) 15,000 (L)	4,000
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e. Narrative:

USAID's development strategy is based on the premise that private sector-led growth resulting in the generation of foreign exchange and employment is the most reasonable way to address the present weak economic conditions.

Our private sector strategy aims to generate employment and foreign exchange by eliminating policy, legal, and regulatory barriers to the development of private enterprise; shift the main policy direction to the development of exports; eliminate the direct involvement of the GOH in productive activities; promote investment and joint ventures geared to exports; enhance the role of the private sector in the policy formation process; strengthen the technical and managerial skills of the private sector and its capacity to organize and to venture into new areas; and develop the private capital market to provide debt and equity financing.

We emphasize stimulating traditional and nontraditional export industries based on the trade opportunities offered by Caribbean Basin Initiative (CBI), and Honduras' competitive advantage in relatively low-cost and trainable labor, and proximity to the U.S. market.

One of the important constraints facing the Honduran private sector is its weak organization, primarily with regard to promoting nontraditional exports. We already have initiated action to address this problem with the establishment of the Foundation for Entrepreneurial Research and Development (FIDE) which provides support services for nontraditional export enterprises.

There has been some movement toward an improved investment climate and in simplifying procedures. The Ministerial Advisor to the President recently convened a meeting of representatives of public and private sectors to reactivate the Council for Investment Promotion (COPI). FIDE has been working to simplify procedures of the Temporary Import Law and to facilitate transactions under the law. The time required to process documents has been reduced about 30%, but significant further decreases can be achieved.

As mentioned above, FIDE is providing assistance to nontraditional Honduran industrial enterprises to enable them to become successful exporters. FIDE's goal is the creation of jobs, income and foreign exchange through exports. In 16 months of operations, FIDE has established itself as a respected supplier of services for the export community. It provides assistance in production, management, finance, marketing, and liaison with government agencies. It has contracted with the International Executive Service Corps (IESC) to survey three subsectors: wood products, apparel and electrical/electronic products.

In the apparel subsector, IESC evaluated 30 apparel and three textile manufacturers, of which 15 manufacturers were considered to have the potential to initiate or expand exports. FIDE has agreements with 11 of them and, to date, has assisted six to export approximately \$1.1 million value-added in Honduras creating approximately 220 jobs. FIDE is projecting total exports of \$6 million and 1,200 new jobs by the end of 1986 in this subsector alone.

In the wood products subsector, some 22 producers were evaluated and FIDE signed agreements with 14 of them. FIDE-assisted contracts in this subsector have resulted in export value-added of \$300,000. By the end of 1986, FIDE projects a total of \$4 million in wood products exports, creating 800 jobs. In the agro-industrial subsector, nine enterprises signed agreements with FIDE. Exports to date total \$700,000, with products already introduced to the U.S. market expected to total \$1.5 million by late 1986, creating 300 new jobs.

In the electrical/electronics subsector, IESC surveyed ten companies to assemble products for the local market. Several firms were identified with immediate export potential. FIDE has signed agreements to provide consultant services to private sector intermediaries, and has other technical cooperation agreements with the United Nations Development Program's office and the Ministry of Economy.

FIDE projects that its combined efforts will result in total exports of \$11.5 million and job creation of 2,300 by the end of 1986. It also is working to develop privately owned and operated Export Processing Zones (EPZs). With the proper legislation, some 10-15,000 jobs can be created in Honduras in five years, 25-30,000 in ten years, and 80-100,000 by the year 2000.

Export-oriented activities in the agricultural sector are being undertaken through the Honduran Federation of Agricultural and Agro-industrial Producers and Exporters (FEPRO). FEPRO provides export development services to producer associations and individual investors. Systems are being developed to enable cacao and vegetable producers to increase their production of export quality crops. Joint ventures between domestic and foreign investors in pineapple, plantain, ornamentals, spices, and shrimp are being promoted.

These and other efforts have resulted in: the investment of \$8 million in 12 new or expanded export enterprises with increased exports of \$3 million and the creation of 1,400 jobs; the export by cooperatives of melons and cucumbers to the U.S. winter market at the rate of \$1 million annually; and the recuperation of coffee production with export earnings of \$13 million annually. Agricultural projects will produce total export earnings of \$40 million in 1987 and \$92 million in 1990.

USAID also is developing an improved in-country capacity to provide modern management and skills training to complement productive activities. With the establishment of the Honduran Managers' Association (GEMAH) and the Advisory Council on Human Resources Development (CADERH), which are discussed under our employment objective, we are exploring other areas to improve and expand managerial skills. Our efforts in vocational skills training and certification, which will begin in FY87, will train and certify 100 workers and supervisors for wood products export industries during FY 1987, 150 during FY 1988, and 250 during FY 1989; train and certify 1,000 workers and supervisors for apparel export industries annually between FY 1987 and FY 1990; and train 1,000 business managers and supervisors in topic specific management, supervisory, and management support skills annually during FY 1987 and FY 1990.

f. Budgetary Impact:

	FY87	FY88
	(Thousands of dollars)	
DA	6,100	150
GOH Local Currency	9,000	10,500

3. Objective: Generate 300,000 person-years of productive employment by 1990.

a. Key assumptions:

- Growth of private sector production and investment will result in substantial employment generation.
- Labor-management relations will be stable.
- Continued significant levels of ESF assistance.

b. Performance Indicators: Benchmarks/Target Dates:

INCREMENTAL PERSON-YEARS OF EMPLOYMENT GENERATED
(Thousands)

	<u>FY 84</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>
Attributed to ESF Balance of Payments Support to Honduras <u>1/</u>	30	66	56	54	50
Attributed to Non-ESF Sources: <u>2/</u>					
Commercial Agriculture	-	8.0	14	20	25
Export Processing Zones	-	-	2	2.	2.
Irrigation Development	-	0.1	0.2	0.25	0.15
TOTAL ANNUALLY (FY 87-90)		74.1	72.2	76.25	77.15
TOTAL CUMULATIVE		74.1	146.3	222.55	299.7

1/ Represents incremental person-years of employment made possible by ESF balance of payments support.

2/ Includes DA, CBI programs, and private foreign investment which can be linked directly to our projects.

OTHER INDICATORS

	<u>FY 84</u>	<u>FY 87</u>	<u>FY 88</u>	<u>FY 89</u>	<u>FY 90</u>
Persons in private businesses receiving technical and managerial training. (000s)	-	2	3	4	5
Persons in export industries receiving training. (000s)	-	2.1	2.2	2.2	2
Investment in agriculture increased by \$41.6 million. (\$ millions)	-	21.3	28.9	35.2	41.6
Investment in industrial sector increased by \$37.2 million. (\$ millions)	-	9.2	23.2	37.2	-

c. Policy Dialogue Actions:

- Enact legislation to encourage and facilitate the establishment and use of privately-owned and operated Export Processing Zones by the 1st quarter, FY87.
- Reform the 1978 Small- and Medium-Industries and Artisan Development Law to provide new incentives for labor intensive industries by the 4th quarter, FY87.
- Private sector involvement in determining training priorities and assuring appropriate quality controls for training through trade certification will become an accepted norm by FY88.

d. Projects:

	Number	Total Cost (\$ Thousands)	
		Dollars	GOH Local Currency

i. Continuing:

Projects that primarily contribute to this objective:

Employment Generation Program			40,000
Small Business Development	522-0205	600 (G)	4,400
GEMAH Institute. Streng.(OPG)	522-0256	1,000 (G)	240
Human Res. Devl. Council- CADERH (OPG)	522-0257	6,325 (G)	4,450
FUNADEH - PADF (OPGs)	522-0263	132 (G)	868
ITEC Institutional Streng.(OPG)	522-0287	480 (G)	132

Projects which have a secondary impact which contributes to this objective:

Economic Stabilization Facility	522-0283	597,500 (G)	-
Export Development & Services	522-0207	7,500 (G) 16,000 (L)	8,100
Artisan Product Marketing (OPG)	522-0250	510 (G)	121
All Agriculture Projects listed under Objective B.1	Various	247,212	71,372
All Shelter Projects Listed under Objective C.4	Various	98,255	21,950

(ii) New

Projects that primarily contribute to this objective:

Private & Vol. Organ. - OPGs	522-9999	800 (G)	200
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e. Narrative:

In 1984, the unemployment rate was estimated at 25%. During the period 1986-1990, approximately 250,000 additional workers are projected to enter the Honduran labor force. Therefore, there is a critical need to create short-term additional employment opportunities to prevent unemployment from reaching politically destabilizing levels.

Our short-term strategy is to stabilize the economy and reduce current and potential social tension stemming from a high unemployment level. Employment generation is the top priority of President Azcona's administration.

Over the longer term, economic growth, coupled with an increase in private investment, especially in the area of nontraditional exports must be achieved. Our objective is to provide 300,000 person-years of work over the 1986-90 period through increasing agricultural commercial and private sector production, and enhancing employment by developing stronger human resources through training.

Increased investment, both foreign and domestic, is essential for meeting our employment objective. Despite the progress made during the last two years through passage of the Temporary Import Law, the Export Promotion Law, and other measures; the serious disincentives to investment and constraints to export promotion remain. Several of the most significant are: the distorted image of the political, security and economic climate in Honduras which continues to have a dampening effect on business and investment; the excessive red tape and complicated GOH controls on imported raw materials, equipment, foreign exchange and repatriation of profits; an improving though still overvalued exchange rate; and an inadequate judicial system.

The USAID is working to assist the GOH remove obstacles the public sector now places on investment; improve access to foreign exchange; redress for investors the competitive disadvantage (vis-a-vis neighboring countries) of an overvalued exchange rate; and develop Export Processing Zones. (See discussion under the exports and agriculture objectives for a description of the investment impact of our program.)

ESF balance of payments support will continue to have a major impact on employment generation. Over 50,000 person-years of work were generated in 1985 as a result of this assistance. This includes achievements of the Employment Generation Program which is financed with local currency generated as a result of ESF support. This Program provided 350 person-years of work as of March 1986. Some 7,300 person-years of employment will be provided by the end of FY 1990 through approximately 55 public works projects such as water supply systems, erosion control, reforestation and repair of public buildings.

Other programs financed by local currency generations resulting from ESF support also have contributed significantly to employment generation in the past two years.

Our Housing Guarantee Program contributed 1,056 person-years of employment in FY85. Implementation of the existing HG pipeline will generate 6,267 person-years of employment through FY 1990. Other shelter and primary education construction projects will generate over 3,000 additional person-years of work.

The agricultural sector is largest employer in Honduras and our efforts in achieving the agricultural production objective will contribute significantly to employment. For example, the Irrigation Development project, which will finance infrastructure construction in five areas of the country, will generate 750 person-years of employment through its implementation and additional employment through increases in commercial agricultural production made possible by irrigation.

The Export Development and Services Project will create 2,300 new jobs by the end of FY 1986. Total employment generation for the period FY 1987 - 90 under this Project is projected at 10,000 persons-years of work of which 6,000 are related to Export Processing Zones (EPZs).

Our portfolio of small business development projects ranges from micro-enterprises (OPGs for AITEC/ACCION International and Aid to Artisans), to small-scale enterprise (FUNADEH), to small- and medium-size businesses. To date, these activities have resulted in 525 new jobs created and 530 persons who have maintained or upgraded their employment as artisans.

Under the Advisory Council for Human Resources Development (CADERH) and ITEC Institutional Strengthening projects, private sector trade advisory committees were organized and specific competencies for semiskilled and skilled workers in the trade areas of welding, industrial mechanics, wood working, accounting and bookkeeping are being defined; and a skills certification system and competency-based curricula are being developed. Under the Honduran Managers' Association (GEMAH) project, during FY 1985 over 40 training courses were offered to 800 entrepreneurs and managers. Increases in industrial productivity of up to 10% have been attributed to this new training.

Projects and activities addressing other objectives also have significant employment impacts as secondary benefits.

f. Budgetary Impact:

	<u>(FY87)</u>	<u>(FY88)</u>
	(Thousands of dollars)	
DA	2,945	2,700
GOH Local Currency	45,000	60,000

C. Goal: Equity and Broad Participation in Development

1. Objective: Reduce the population growth rate to 2.7% by 1990.

a. Key assumptions:

- Continued GOH support for family planning.
- Societal opposition to family planning remains at the limited current level.
- The level of private sector family planning services apart from those of ASHONPLAFA remains stable.

b. Performance Indicators: Benchmarks/Target Dates:

	FY 84	FY 87	FY 88	FY 89	FY 90
Contraceptive prevalence will increase (% women age 15 to 45)	35	37	40	43	45
Increase numbers of contraceptive users (000)	64	80	110	140	175
Increase annual voluntary sterilizations (000)	6	8	12	17	22
Population growth rate (%)	3.3	3.0	2.9	2.8	2.7

c. Policy Dialogue Actions:

Virtually all the major policy decisions have been made. These include a GOH population policy to limit population growth; a Ministry of Health (MOH) population program to extend family planning services; norms permitting liberal access to voluntary sterilization services; norms permitting rural MOH personnel to prescribe orals and insert IUDs; contraceptives included in basic medicine lists for all levels of the health care system; and duty free import of contraceptives. Our efforts will be to see that these policy decisions will be maintained.

d. Projects:

	Number	Total Cost (\$ Thousands)	
		Dollars	GOH Local Currency

i. Continuing:

Projects which primarily contribute to this objective:

Health Sector I (population funds)	522-0153	3,050 (G)	124
Leadership Pop. Education (OPG)	522-0240	320 (G)	-
Private Sector Pop. Prog. (OPG)	522-0286	9,810 (G)	2,937
Program Development & Support	522-9104	CONT. (G)	-

ii. New:

Projects which primarily contribute to this objective:

Health Sector II (population funds)	522-0216	5,000 (G)	1,250
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c. Narrative:

Overall contraceptive prevalence has increased from 27% in 1981 to 35% in 1984. In Tegucigalpa, during the same period, contraceptive prevalence increased from 47% to 56%. Total fertility rates, the average of number of children a woman bears, has dropped from 6.5 to 5.4 during the same period. The crude birth rate has dropped from 44/1000 at the beginning of the decade to 37/1000. The consequence of these changes is that the population growth rate could be lower than the official 3.4% rate, possibly as low as 2.9%.

The GOH's most recent National Development Strategy (1986-1989) calls for reducing the population growth rate and limiting average family size. To accomplish this, the Strategy recommends programs in population education and the delivery of family planning services. The MOH family planning division has ambitious plans to increase the number of active users of contraceptives. Training of MOH staff in family planning methods has been carried out, and mass media promotion campaigns have begun. The major bottleneck is in the logistic system, which is receiving priority attention. The Social Security Institute (IHSS) provides family planning services to urban-based clientele. In 1984, IHSS accounted for 2% of all contraceptive users.

The other major donor to public sector family planning is UNFPA. It provides technical assistance, training, pays salaries for MOH personnel, and supports mass media promotion campaigns. We are in constant contact with UNFPA representatives and our two programs are complementary.

In the private sector, our program is with the local private IPPF affiliate, the Honduran Family Planning Association (ASHONPLAFA). To date, ASHONPLAFA has been the major source of family planning services in Honduras through one large clinic in Tegucigalpa. We are assisting ASHONPLAFA to establish five new regional family planning centers, each staffed and equipped to deliver the full range of family planning services, including voluntary sterilizations. This will enable ASHONPLAFA to decentralize its functions and to develop a more flexible management style so as to meet the demand for family planning in rural areas.

f. Budgetary Impact:

	FY87	FY88
	(Thousands of Dollars)	
DA	3,724	4,350
GOH Local Currency	1,000	1,500

2. Objective: Increase life expectancy of the population to 65 years in 1990.

a. Key assumptions:

- Continued preferential support for child survival activities over hospital care.
- Ministry of Health (MOH) supports key institutional development activities by continuing to provide competent, interested counterparts and by making timely decisions.
- Effective coordination between major international donors is maintained.

b. Performance Indicators: Benchmarks/Target Dates:

	FY 84	FY 87	FY 88	FY 89	FY 90
Reduce infant mortality (/1000)	78	69	66	63	60
% of children (ages 0-1) vaccinated against DPT, polio and measles (%)	50	65	70	75	80
Diarrhea mortality rates reduced to 70 per 100,000	116	100	90	80	70
Incidence of the following diseases reduced to or maintained at the indicated rates (no./100,000)					
Whooping cough	13.7	12	10	8	7
Measles	98	80	60	40	20
Polio	1.3	.2	.2	.1	.1
Tetanus	.9	.6	.6	.5	.5
Diphtheria	0	0	0	0	0
Annual number of detected malaria cases (000)	27	25	25	24	23
Maternal Child Health (MCH) PL 480 Title II beneficiaries (000)	100	116	124	131	138
Active cases of TB treated (%)	45	90	90	90	90
Life expectancy (years)	58	62	63	64	65

c. Policy Dialogue Actions:

The MOH has already made many of the important policy decisions in support of primary health care. It has developed a cluster of priority health programs (i.e., maternal and child health, nutrition, diarrhea disease control, respiratory disease control, immunizations, environmental health, and malaria control). The budget share for these activities has gone up steadily in recent years, at a time when the overall MOH budget has been reduced. Our efforts will be to assure that the MOH continues to make policy and budgetary commitments to child survival activities and that these policies are implemented effectively. In addition, we will continue to support GOH efforts regarding cost recovery and the further involvement of the private sector in the delivery of health care services.

d. Projects:

Number	Total Cost (\$ Thousands)	
	Dollars	GOH Local Currency

i. Continuing:

Projects which primarily contribute to this objective:

Health Sector I (health funds)	522-0153	12,048 (G) 15,652 (L)	13,658
Commun. Health. Self-Motiv. (OPG)	522-0303	400 (G)	125
Mosquitia Health Care Strengthening (OPG)	522-0304	75 (G)	25
FUHRIL Institutional Strengthening (OPG)	522-0305	150 (G)	1,600
Mosquitia Relief & Development (health component)	522-0278	3,958 (G)	-
Program Development & Support	522-9108	CONT.	-
PL480 Title II, MCH and FFW (FY85-90)	-	16,990 (G)	6,971

ii. New:

Projects which primarily contribute to this objective:

Health Sector II (health funds)	522-0216	12,000 (G) 8,000 (L)	6,650
Private and Vol. Organ. -OPGs	522-9999	800 (G)	200

e. Narrative.

Health problems in Honduras are typical of most developing countries. Infectious diseases are the primary cause of morbidity and mortality. Among the infectious diseases, the most prevalent are those related to diarrhea, acute respiratory infections and malaria. Sixty to eighty percent of the population is malnourished to some degree. Infant mortality rates (currently 71/1,000 live births) are high. Life expectancy (62 years) is low.

In 1974, the MOH launched a program to extend basic health services to rural areas. That program was remarkably successful initially, but after a few years began to suffer both from insufficiently developed support systems (i.e., logistics, maintenance, supervision, continuing education, planning, and management), and from political and policy changes. AID and the MOH jointly assessed the health sector problems in 1979 and 1980. This resulted in the design of the Health Sector I Project, whose objectives are to address the support system constraints and to strengthen certain basic technologies such as oral rehydration, immunizations, vector control and family planning. Since its commencement in 1980, the project has helped the MOH improve health status significantly.

Past accomplishments are as follows:

- 20,000 fewer reported cases of malaria from 1982 to 1984, a 43% drop;
- 75% immunization coverage of DPT and measles and 90% coverage of polio in 1984, as compared to coverage rates of less than 40% in 1980;
- 40% reduction in infant mortality due to diarrhea-related diseases, and a 24% reduction in overall infant mortality from all causes in a control group receiving ORT;
- infant mortality has dropped from 88/1000 live births in the mid-70's to 71/1000.

In the area of policy dialogue and reform, the following have been accomplished:

- a drug sale policy has been adopted;
- a cost recovery policy for hospitals (30% of each hospital's recurrent costs to be generated through fees for services) has been adopted;
- a cost control policy for hospitals permitting more discretionary use of generated funds at the hospital level;
- increased budget allotments for child survival care;
- a basic list of medicines for each delivery level, which includes contraceptives, has been adopted; and
- a national breast-feeding program.

Although malnutrition is a function of poverty, illiteracy, difficulty of access to resources, and thus cannot be significantly affected by health interventions alone, the elements of a child survival nutrition program are in place. The local currency-financed PROALMA project, designed to promote proper breast-feeding practices among health professionals at the institutional level, as well as mothers at the community level, has been remarkably successful and contributes to the decline in infant mortality through its effects on the child nutrition and immune status.

PL 480 Title II supplementary food reaches over 116,000 children at risk, and pregnant and lactating women. An additional 6,000 recipients in those categories are reached through women's clubs with Food for Work assistance. Nutrition education activities also are supported by the Health Sector I Project, as well as by UNICEF. Growth monitoring is slowly being introduced into rural MOH health centers, with support from Health Sector I and from UNICEF.

The lack of reliable, current information in Honduras on nutrition status is a major handicap to the implementation of a coherent nutrition program because of the inability to target adequately the most at risk populations. We are funding a nutrition study to determine the prevalence and causes of malnutrition.

One component (\$4 million) of the Mosquitia Relief and Development Project (522-0278) is introducing basic health services to the most remote part of Honduras. To date, over 12,000 people have been seen in health sweeps and vector control programs have been implemented. Medical sweeps covering 30 villages have been made with malaria and tuberculosis testing, vaccination and screening of the childhood population for malnutrition. Malnourished children are being treated in health centers and vector control carried out through antimalarial programs. Five new health clinic are nearing completion and a new area hospital being constructed to serve the rapidly growing Mosquitia population. Miskitos have been trained in the promotion of latrine construction and provision of water to provide permanent community development capability in the area.

The Community Health Self-Motivation (Urban Barrios) OPG addresses what may become the most important health problem of the next decade -- providing health care to the rapidly increasing urban poor. The activity is designed to experiment with different options to see which can provide the most cost effective delivery mechanism.

The proposed Health Sector II effort, directed at the rural and urban poor, will build upon the institutional development achievements of the Health Sector I Project and will focus on the expanded delivery of child survival services. A self-financing health care activity will be a component of the Health Sector II Project and will be a new effort aimed at exploring private sector prepaid health delivery systems, beginning in San Pedro Sula.

Under the Rural Water and Sanitation Project (522-0166), which contributes principally to our shelter objective, progress is being made in providing water to rural communities through the digging of 1,252 wells and the installation of 250 simple gravity flow systems. Household sanitation has been improved through the installation of 28,724 water seal and 24,490 pit latrines. These efforts, plus those by other donors, are giving Honduras a reasonable chance of achieving the target of 90% covered for drinking water by 1990.

Recently, other donors have become more active in the health sector. UNICEF has begun its "Child Survival" package at funding of about \$5 million. The IDB is considering a hospital support package at a cost of about \$11 million, requiring considerable recurrent cost support. The Spanish government has several advisors in place and several more planned. The MOH is seeking funding for the other priority health projects developed under the PAHO/Contadora health effort. We and the other major donors are meeting on a regular basis to assist the MOH find ways to better coordinate donor efforts so that it can more effectively manage and support its program.

f. Budgetary Impact:

	FY87	FY88
	(Thousands of dollars)	
DA	2,559	4,250
PL 480 Title II MCH and FFW	2,766	2,850
GOH Local Currency	3,000	3,500

3. Objective: Increase the proportion of primary school students completing the sixth grade from 28% in 1984 to 45% in 1996, while reducing costs from \$963 per graduate to \$675 per graduate.

a. Key Assumptions:

- Completion of primary school directly impacts on the quality of life.
- Continued willingness on the part of parents, teachers and students to accept innovation in instructional materials and practices.
- Sustained support of local schools by community members.
- Primary education will continue to be a priority area of education.

b. Performance Indicators: Benchmarks/Targets Dates:

1st (%)	1984	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996
Academic Achievement*												
First Grade	50	--	65	70	75	80	81	82	83	84	85	85
Second Grade	49	--	--	56	61	66	69	72	75	77	79	82
Third Grade	50	--	--	--	60	65	70	75	75	80	80	85
Fourth Grade	45	--	--	--	--	53	58	64	70	76	80	82
Fifth Grade	55	--	--	--	--	--	63	67	71	75	79	82
Sixth Grade	60	--	--	--	--	--	--	68	73	77	81	85
Promotion Rate (%)												
First Grade	54	--	62	69	69	71	73	74	76	77	78	79
Second Grade	72	--	--	80	81	82	83	84	85	86	87	88
Third Grade	75	--	--	--	83	86	87	88	89	90	91	92
Fourth Grade	9	--	--	--	--	84	86	88	89	90	91	92
Fifth Grade	6	--	--	--	--	--	88	90	92	93	94	95
Sixth Grade	2	--	--	--	--	--	--	94	94	95	95	95
Repetition Rate (%)												
First Grade	27	--	22	20	18	17	16	15	14	13	12	11
Second Grade	16	--	--	11	10	10	9	8	8	7	7	7
Third Grade	12	--	--	--	9	9	9	9	8	8	8	7
Fourth Grade	12	--	--	--	--	7	7	7	7	6	6	6
Fifth Grade	10	--	--	--	--	--	5	5	5	5	5	5
Sixth Grade	5	--	--	--	--	--	--	2	2	2	2	2
Dropout Rate (%)												
First Grade	19	--	17	16	15	15	14	14	13	13	12	12
Second Grade	12	--	--	10	10	10	9	9	9	8	8	8
Third Grade	12	--	--	--	11	11	10	10	9	9	8	8
Fourth Grade	--	--	--	--	--	10	10	10	9	9	9	8
Fifth Grade	--	--	--	--	--	--	8	8	8	7	7	7
Sixth Grade	--	--	--	--	--	--	--	4	4	4	4	4
Year/Graduate	10.5	--	10.5	10.0	10.0	9.6	9.4	9.3	9.1	8.7	8.4	7.9
Cost/Graduate (\$)	963	--	982	975	950	900	850	800	750	725	700	675
Graduates 6th/Entrants 1st (%)	28	28	28	28	29	29	29	33	36	40	42	45

* Percent of minimum competencies (the basic curriculum objectives that students are required to learn in order to pass to the next grade) mastered, as measured by standardized tests developed under the Primary Education Effort.

c. Policy Dialogue Actions:

- Ministry of Education (MOE) shifts principal priority in its primary education program to improving quality and cost effectiveness of existing primary school system by the 4th quarter, FY86.
- Adoption of specific cost-reduction strategies (locally-available construction materials and donated local labor) for school construction and maintenance by 1st quarter, FY88.
- Adoption of innovations needed to improve primary school instruction:
- Educational radio by 2nd quarter, FY87;
- Standardized achievement testing by 2nd quarter, FY87.
- Institutionalization of greater community participation in primary education:
- Participation in school construction and maintenance by 1st quarter, FY87;
- Participation in experimental teacher aide program by 3rd quarter, FY87.
- Institutionalization of a permanent capability to undertake field test of important possible policy alternatives to the traditional delivery of educational services through the establishment of a MOE policy alternatives research unit by 2nd quarter, FY87.

d. Projects:

	Number	Total Cost (\$ Thousands)	
		Dollars	GOH Local Currency

i. Continuing:

Projects which primarily contribute to this objective:

Rural Primary Education	522-0167	2,850 (G) 16,850 (L)	7,000
Primary Education Efficiency	522-0273	17,000 (G) 8,000 (L)	16,000
Mosquitia Relief & Devel. (education component)	522-0278	900 (G)	-
Program Development & Support	522-9105	CONT	
PL 480 Title II, SF (FY85-90)		7,583 (G)	3,684

ii. New:

None

e. Narrative:

The weak human resource base in Honduras is a fundamental constraint to social and economic development in all critical sectors. Without a solid foundation of basic literacy and numeracy skills, the ability of the population of Honduras to significantly improve its productivity and quality of life is severely limited. The weakness of the human resource base is so fundamental and pervasive that quick fix solutions, such as literacy campaigns, offer little hope of significant improvement. While the dimensions of the problems of illiteracy and lack of basic education skills are uncertain due to lack of recent census data, only a major, long-term effort to make the inefficient primary school system function properly offers a real and lasting solution to the fundamental human resource weakness in Honduras. We intend to support such a long-term effort.

The Rural Primary Education Project (522-0167) is responding effectively to the CAI recommendation that the net primary school enrollment nationwide be increased from 86% in 1985 to 90% by 1990. Through FY 86, 1,900 new classrooms will have been completed and enrollment increased to 88.6%. All components of the Rural Primary Education Project -- in-service teacher training, the computerized management information system, school construction, and school maintenance -- have had positive impact on primary education in Honduras. Project resources have served as incentives for constructive policy dialogue in which the GOH has been encouraged to concern itself more with instructional quality and less with the expansion of physical infrastructure.

The first phase of the Primary Education Efficiency Project (522-0273), new in FY86, includes a core package of four elements designed to improve the quality of education, including new primary school textbooks, educational radio broadcasts to schools, a new academic testing and evaluation system, and in-service teacher training.

The project will continue to strengthen and institutionalize the successful MOE Management Information System. A permanent unit will be created in the MOE to study long-range policy options and new modes of instruction, supervision, community involvement, and administration. Based on the success of the regionally-funded Print Media for Farm Families Project, we will expand circulation of the El Agricultor newspaper and assist to make it financially self-supporting. Finally, local currency will be used to help finance a new program of low-cost, community-based school construction and school maintenance.

The project will increase the proportion of primary school students who succeed in finishing the sixth grade by improving the internal efficiency of the system. Improved instruction will result in improved academic achievement, which, in turn, will lead to reduced repetition and dropout rates. More learning will take place, primary school completion rates will increase, and per graduate costs will be reduced. Research has demonstrated repeatedly that retaining students through the upper primary grades has impact on a number of important development indicators, including agricultural productivity, family health and nutritional status, acceptance of family planning, and income. The problems of inefficiency in the primary school system -- academic failure, absenteeism, repetition, and dropout -- are most serious in the first four grades, the focus of the first phase of this project.

Instruction is of poor quality in all grades, and a partial program, providing services only to the lower grades, would simply move some of the inefficiency into the upper grades. Furthermore, continuity of curriculum, evaluation instruments, and instructional materials from one grade to the next is important, and a project offering modern new services to some grades while leaving others with antiquated and inadequate resources would be confusing and frustrating to students and teachers. Therefore, based on experience gained during the first phase, a follow-on project will improve instruction in the remaining primary grades, five and six.

The other major activity in the education sector is the education component of the Mosquitia Relief and Development Project (522-0278). This component provides funding for a Cooperative Agreement with the International Rescue Committee (IRC) to develop radio education services for the dispersed indigenous population of the remote Mosquitia. Educational services include a bilingual education program series for use in primary schools that have indigenous students who do not speak Spanish, practical nonformal education programming for adults, and regular news and announcement services. We intend to provide additional local currency support in FY87 and FY88 for operating costs associated with the educational radio activity while plans for permanent institutionalization of the project's services are refined and implemented.

The PL 480 Title II School Feeding (SF) program, implemented by the MOE and CARE, also supports primary education in Honduras. Through this program, school lunches are provided to about 330,000 first graders each day, thus encouraging school attendance.

f. Budgetary Impact:

	FY87	FY88
	(Thousands of dollars)	
DA	5,050	6,950
PL 480 Title II School Feeding	1,298	1,250
GOH Local Currency	1,500	2,000

4. Objective: Provide 70,000 improved shelter, and water and sanitation service solutions to low-income families by 1990.

a. Key Assumptions:

- The private sector will participate in the production and financing of low-cost solutions.
- Improved access to affordable housing, and water and sanitation services by the poor will enhance their health and assets base, thereby permitting them to share in the benefits of development.
- The GOH places a high priority on providing low-income families with affordable shelter and infrastructure solutions.

b. Performance Indicators: Benchmarks/Target Dates:

	<u>AREA SERVED</u>	<u>FY84</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>	<u>TOTAL FY87-90</u>
Potable Water	Urban		1,436	2,154	3,590		7,180
	Rural	5,000	5,600	3,900	4,050	4,125	17,675
Waste Disposal	Urban	184	1,712	2,568	4,280		8,560
	Rural	13,781	3,625	3,467	3,609	3,679	14,380
Water and Sewer	Urban	2,238	1,125	1,688	2,814		5,627
Other Upgrading	Urban		104	156	260		520
Home Improvements	Urban	114	1,627	2,025	3,375		7,027
	Rural	3,475	375	1,810	1,275	1,650	5,110
New Shelter	Urban	1,882	1,233	875	1,458	-	3,566
	Rural	-	150	725	513	657	2,045
TOTAL*		26,674	16,987	19,366	25,224	10,101	71,640
Land Titles	Urban	1,500	1,751	2,626	4,377	-	8,755

* Represents number of families. Proposed Central American Bank for Economic Integration (CABEI) regional program could augment figures by 3,000 shelter and 6,500 water and/or sewer solutions.

c. Policy Dialogue Actions:

- The GOH develops a rational shelter finance policy to provide for the mobilization of sufficient domestic capital resources to meet the current shelter deficits and the future needs of the population by June 1987.
- The public sector commits itself to providing only those essential services that cannot be effectively provided by the private sector by December 1986.
- The public sector institutions develop action plans to implement its commitment to operating on a full cost-recoverable basis, reflecting the cost of resources, administrative costs, and the opportunity cost of capital by June 1987.

d. Projects:

	Number	Total Cost (\$ Thousands)	
		Dollars	GOH Local Currency

i. Continuing:

Projects which primarily contribute to this objective:

Shelter for the Urban Poor I	522-HG-005	10,800 (HG)	5,000
Urban Upgrading	522-HG-006	10,350 (HG)	2,500
Private Sector Shelter Program	522-HG-007	25,075 (HG)	2,000
Shelter for the Urban Poor II	522-HG-008	25,000 (HG)	10,000
	522-0206	450 (G)	
Rural Housing Improvement	522-0171	200 (G)	900
		3,300 (L)	
Rural Water and Sanitation	522-0166	1,200 (G)	8,575
		19,500 (L)	
Bay Island Development	522-0233	380 (G)	475

ii. New:

Projects which primarily contribute to this objective:

Co-op Housing Foundation (OPG)	522-0317	2,000 (G)	
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e. Narrative:

Prior to the mid-seventies, the Honduran policy toward shelter focused on government built, conventionally finished and subsidized houses, affordable to and benefiting middle-income families. Moreover, there was no housing finance available to low-income families, and both the private and public construction programs excluded housing affordable to low-income families.

Since the mid-seventies, the objectives of our shelter program have been to reverse these trends by supporting: the development of rational housing policies to encourage the provision of housing suitable for low-income families; increased private sector participation in the financing, construction and marketing of low-cost housing; the improved delivery of basic water and sanitation services to low-income families; and the development of financial mechanisms to ensure a continued flow of resources to the low-cost shelter sector.

Relying primarily on the Housing Guaranty (HG) resources, we have been directly responsible for the adoption by the GOH of a rational national shelter policy which emphasizes that: government activities in the sector

should focus on low-income households; minimum required technical standards should be utilized; mechanisms need to be developed to capture sufficient domestic savings for shelter finance; and there should be a clear definition of institutional roles among the shelter sector institutions, as well as integration of housing into national and regional planning. As a result, there is a much greater emphasis on providing housing affordable to low-income families, and steps are being taken to involve the private sector, including PVOs, in furnishing low-cost shelter solutions to both urban and rural households.

Major municipalities have begun to institutionalize the capability to deliver basic infrastructure to low-income neighborhoods (e.g., water, sewage disposal, street paving) on a scale far exceeding previous levels, and to develop the financial mechanisms (i.e., betterment tax systems) to ensure the sustainability of the upgrading activities. Both the national and municipal institutions have accepted the concept of replacing force account construction with contracting private sector firms. The National Housing Institute (INVA) has begun to operate some projects under the turnkey concept whereby the private sector has responsibility for design, construction and sales.

Greater emphasis is being placed on interest rate charges consistent with market rates of interest, a precondition for attracting private capital to the sector. Lending institutions have begun to recognize full cost recovery at real rates of return is essential for their own financial viability. The capacity of the private sector to produce low-cost units on a scale far superior to that of the public sector has been demonstrated. We have supported these policy changes and operational improvements with substantial and sustained technical assistance and training activities.

Due to a combination of factors, including a high population growth rate, low per capita income levels, and inadequate financial structures attributable to the general economic recession in the country, Honduras is experiencing a shelter crisis. The shelter deficit was estimated at 450,000 units in 1985. Annual production of 57,000 new and upgraded units is required between 1986-90 to reduce by 5% the existing shelter deficit and to meet new demand. This shelter crisis affects both the country's urban and rural sectors, and is of such a magnitude that the ambitious CAI targets of increasing urban infrastructure coverage by 25% by 1990 and raising shelter production by 25% annually cannot be met with available resources.

We will apply HG, local currency, and DA financing to meet the most critical housing needs in the short-term. Simultaneously, the resources will be used to leverage other (Honduran and other donor) financing for the housing sector, and to continue the policy dialogue to establish the framework for addressing the shelter sector needs over the long-term. Short-term investments will build on prior successes to carry out both housing (new units and home improvements) and complementary support infrastructure interventions in metropolitan, secondary city and hinterland areas. The strategy will promote adequate long-term domestic capital financing, maximum participation of the private sector and, to the extent possible, cost effectiveness in choosing among alternative shelter activities.

In the country's two metropolitan areas (Tegucigalpa and San Pedro Sula) and key secondary cities (e.g., La Ceiba, Danli, Comayagua, Choluteca) we will use existing HG authorizations and ESF local currency funds to further ongoing efforts in new unit construction and installation of support infrastructure.

Resources for new construction will be managed through a fiduciary account established in the Honduran Central Bank. The principal implementing agency will be the country's private sector Savings and Loan Association complemented by INVA and qualified PVOs, such as the Honduran Federation of Housing Cooperatives (FEHCOVIL). The implementation agencies' role will be to identify housing projects, and prepare investment packages for Central Bank consideration. All new unit construction will be performed by the private sector.

Support infrastructure (e.g., water connections, sewerage connections) activity in the metropolitan areas and the secondary cities will also be financed by HG and ESF local currency resources. The implementing agencies will be the local municipalities, which will prepare proposals for GOH consideration and contract with private firms for construction.

In the hinterland, our shelter strategy will emphasize cost effective home improvement and support infrastructure interventions. Current data reveal that the average cost of rural housing improvements is approximately \$500/unit, while access to water and sanitation can be provided for as little as \$125 and \$100, respectively. Financing for home improvements will be provided through DA and ESF local currency channels. DA resources will finance a bilateral grant in FY 1988 of \$2 million to the Cooperative Housing Foundation (CHF) to expand the activities initiated with FEHCOVIL under a centrally-funded grant. In addition, an ESF local currency housing grant will be made in FY 1987 as a follow-on effort to the dollar-funded Rural Home Improvement Program through local PVOs, thereby enhancing their participation in the shelter sector.

Infrastructure in the rural area will be effected through the ongoing Rural Water and Sanitation Project, conducted by the Ministry of Health with assistance from international PVOs, and other activities such as the Bay Island Development Project. Activities under these projects will be complemented by water and sewerage interventions carried out through the ongoing ESF local currency-financed Employment Generation Program.

Given the uncertain availability of Housing Guaranty resources, we are basing our longer-term involvement in the housing sector on a mix of DA and local currencies designed to take increasing advantage of the implementation capability of international and local PVOs. Should the HG program continue, our strategy will be revised to consider the inclusion of this resource.

f. Budgetary Impact:

	FY87 (Thousand of dollars)	FY88
DA	-	2,000
HG	-	-
GOH Local Currency	6,000	6,000

D. Goal: Strengthening Democratic Institutions

1. Objective: Provide 1,582 Honduran citizens with educational opportunities in the United States' democratic environment by 1990.

a. Key assumptions:

- Training costs in the U.S. will be at the projected rate.

b. Performance Indicators: Benchmarks/Target Dates:

	<u>FY84</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>	<u>FY91</u>	<u>FY92</u>	<u>FY93</u>
350 individuals returned from the U.S. after long-term training, and provided reorientation and job placement assistance	-	30	70	130	210	270	330	350
814 sent to the U.S. for short-term training. 99% returned to their positions of employment	-	250	500	750	814			
One returned participant association created by 1990	-	-	-	-	1			

c. Policy Dialogue Actions:

None.

d. Projects:

Number	Total Cost (\$ Thousands)	
	Dollars	GOH Local Currency

i. Continuing:

Projects which primarily contribute to this objective:

Central American Peace Scholarships Program	597-001	24,957 (G)	633
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ii. New:

None

e. Narrative:

We began implementation of the Central American Peace Scholarships Program on March 29, 1985. With six months of implementation in FY85, 42 long-term academic scholars and 196 short-term technical trainees were sent to the United States; to date in FY86, 11 long-term academic and 40 short-term technical trainees have started programs in the U.S. We are continuing to process documentation for approved scholars under CAPS. Screening of over 900 applications for CAPS scholarships is in progress. Selection of 150 additional scholarship recipients will be made in June, 1986. We plan to send a total of 60 long-term academic scholars and 182 short-term technical trainees to the U.S. under CAPS in FY86.

In FY86, we will initiate a recruitment program to reach future graduates of Honduras' public high schools. This effort will solicit nominations of five graduates from each school, with CAPS selection criteria applied to the final selections.

We will continue to work with Honduran organizations to develop specialized short-term training courses for rural and urban disadvantaged groups. Training areas will include small business management, health, agriculture and education. Special courses will be developed in FY86 to provide training opportunities for minority groups such as the Miskito indigenous population.

USAID continues to receive a significant number of requests from various GOH ministries for more traditional human resources development training for ministry personnel. With the termination of LAC Training Initiative Project funding, we are unable to meet these legitimate training needs requests. Funding under CAPS for traditional development training is minimal. We encourage AID/W to reevaluate the use of CAPS resources for this type of training or initiate a new development training activity that we could buy into.

We will provide increased emphasis on the strengthening of returned scholar/participant activities. Development of a more effective follow-up

program will begin in FY86 in preparation for providing follow-up services to increasing numbers of returned scholars. An alumni association will be included, as will job information and placement services.

f. Budgetary Impact:

	FY87	FY88
	(Thousands of dollars)	
DA	-	-
LAC Regional Funding	5,000	5,000
GOH Local Currency	318	315

2. Objective: Consolidate the legislative, judicial, electoral and other democratic processes affecting the rights of citizens by 1990.

a. Key Assumptions:

- Honduras will continue to develop and strengthen its commitment to democratic processes.
- GOH will continue interest in upgrading the quality and ability of its legislature, judiciary and electoral processes.
- Judicial Reform Commission will continue to receive support from within the GOH.

b. Performance Indicators: Benchmarks/Target Dates:

	<u>FY84</u>	<u>FY87</u>	<u>FY88</u>	<u>FY89</u>	<u>FY90</u>
95% (120) of all Congressmen receive training in various operational functions for which they are responsible by 1990.	-	30	75	100	120
400 justices of peace and municipal judges receive training in the implementation of the new penal code by 1990.	-	150	300	400	-
A functional national registry of persons in place by FY88.		50% Complete	100% Complete		
A functioning legislative support research center in place by FY88.			Complete		

c. Policy Dialogue Actions:

- Implementation by Congress of a continuous program of legislative training.
- Creation of a professional judicial career system.

d. Projects:

Number	Total Cost (\$ Thousands)
	Dollars GOH Local Currency

i. Continuing:

Projects which primarily contribute to this objective:

Special Development Activities	522-0169	CONT. (G)	-
FOPRIDEH Instit. Streng. (OPG)	522-0266	500 (G)	5,000

d. <u>Projects:</u>	Number	Total Cost (\$ Thousands)	
		Dollars	GOH Local Currency

ii. New:

Projects which primarily contribute to this objective:

Strengthening Democratic Institutions (of which \$4.85 million would be from the LAC regional Administration of Justice Project 596-0133)	597-0296	6,550 (G)	3,950
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e. Narrative:

To date, we have supported: the National Elections Tribunal (TNE) with commodities and logistics support during the recent national elections; the national judiciary, through the regionally-funded Administration of Justice project, with training, observational trips, and commodities; and the Honduran legislature through a four-day Legislative Orientation Training Seminar, conducted for over 120 Honduran legislators.

With the successful national elections in November 1985, Honduras has chosen democratically elected officials at all levels of government. This was the first time in 50 years that successive constitutionally elected governments were installed in Honduras. In support of these elections the regional Strengthening Democracy project (597-0003) financed commodities, technical assistance and election observers. We also supported a local PVO, the Federation of Honduran Women's Associations, that conducted successful voter registration and voter awareness programs (200,000 attended the sessions), and a civic action campaign prior to the national elections.

The State Department's Human Rights report indicates that Honduras maintains a good record. The GOH continues to show interest in cooperating with both local and international human rights organizations, and in investigating allegations of human rights abuse. The existing abuses most accurately reflect problems within the judicial system, rather than inherent political or human rights abuse. These judicial problems will be addressed under our program.

We will support Honduran efforts to consolidate their democratic institutions through the Strengthening Democratic Institutions project that includes judicial reform, improvement of the electoral process, and support for the Honduran legislature.

The judiciary reform objectives include: development of a strong, well-trained, responsible and fully independent judiciary; updating of criminal laws and procedures; accelerating the hearing and trial process; and educating the citizenry to the rights and responsibilities of the judiciary. The ultimate objective is to establish and restore public confidence in a fair and non-politicized judicial system. A judicial reform commission has been formed and is codifying the bylaws to establish an independent judicial career structure; training courses conducted in new penal codes (100 judges will be trained in FY86); and commodity procurement training conducted for court system personnel. These immediate actions will help improve a weak and politicized justice system.

The electoral objective is to increase the confidence of the Honduran populace in the integrity of the electoral process. Our efforts will support reform of the civilian registration process of the National Registry of Persons (RNP) through the TNE by refining voter registration lists, establishing a new national voter registry, instituting a system of maintenance of the registration process, and supporting voter and civic awareness programs. The Center of Electoral Assistance and Promotion (CAPEL) will provide the technical assistance.

Although the 1985 national election was commended for the absence of fraud, the weakness of the registration system was apparent. Only through extraordinary security measures and a high level of voter enthusiasm was the prospective of voter fraud avoided. Reform of the voter registration process is sorely needed.

A strong, independent legislature, supportive of a democratic central government, will provide improved balance within the arms of government. Our strategy is to assist the legislature in its efforts to become more independent by supporting activities that expand the informational base for institutional decision-making and improve administrative capacity. This assistance will help expand the committee system and improve the legislative procedures; establish a legislative research center; and provide observational and training visits to other regional and U.S. legislatures.

The Special Development Activities (522-0169) project, which supports local communities to carry out small, self-help activities; and FOPRIDEH Institutional Strengthening OPG (522-0266), which supports a local PVO umbrella organization, also contribute to achieving this objective. In addition, we will provide limited assistance through local currencies and regional funding to support the strengthening of the private-sector University of San Pedro Sula University, thus providing an option to the currently weak national university system.

f. Budgetary Impact:

	FY 87	FY 88
	(Thousands of dollars)	
DA	\$1,800	100
LAC Regional Funding	\$1,600	1,800
GOH Local Currency	3,000	3,000

E. Consolidation, Mortgage, Pipeline, New Projects, and Project Amendments

This Action Plan anticipates that the number of dollar-funded activities being managed between FY86 and FY88 will drop by one-third, from 48 in FY 86 to 32 in FY88.

During FY86, final disbursements will occur for 14 projects and final obligations will be made for eight projects. Four new activities will commence during FY86 (one related to our macroeconomic performance objective, two related to our agricultural production objective, and one related to our primary education objective).

During FY87, final disbursements will occur for nine projects and final obligations will be made for four projects. Two new activities will commence during FY87 (one related to our democratic process objective and one related to our agricultural production objective with important implications for our export earnings and macroeconomic performance objectives).

During FY88, final disbursements will occur for nine projects and final obligations will be made for five projects. Four new activities will commence during FY88 (two related to our agricultural production objective, one related to our life expectancy objective, and one related to our shelter and services objective).

Forty-four percent of the planned total life of project funding for the ten activities begun during the FY 1986 to FY 1988 period will be funded during that period, leaving a mortgage of only 56% (\$84.5 million). The balance of our post-FY88 mortgage (\$217 million) is mostly (\$190 million) for the ESF program which addresses our macroeconomic performance objective.

Assuming timely disbursements under the ESF program and continued stability in Honduras, our pipeline should drop by over 60% between the end of FY 1985 and the end of FY 1988, from \$168 million to \$67 million.

The following priority ranking of the new FY87 and FY88 activities emphasizes bolstering agricultural production and export earnings, meeting basic human needs for primary health care and shelter, and strengthening Honduras' democratic system. These build upon experience and successes of the our current activities.

Priority Ranking of Projects New in FY87:

	FUNDING		
	FY87	FY88	LOP
1. Forestry Development 522-0246	4.0	4.0	20.0
2. Strengthening Democratic Institutions 522-0296	1.7	-	1.7

Priority Ranking of Projects New in FY88:

1. Land Use and Productivity Enhancement 522-0292		4.0	18.0
2. Agribusiness Investor Support 522-0241		4.0	25.0
3. Health Sector II 522-0216		6.5	25.0
4. Cooperative Housing Foundation (OPG) 522-0317		2.0	2.0

1. NEW PROJECTS:

Goal: Laying the Basis for Long-term Growth.

Objective: Increase agricultural production by \$400 million by 1990.

PROJECT TITLE: Forestry Development

PROJECT NUMBER: 522-0246

PROJECT FUNDING: (\$000)

<u>FY 87</u>	<u>FY 88</u>	<u>LOP</u>
1,000 (G)	1,000 (G)	5,000 (G)
3,000 (L)	3,000 (L)	15,000 (L)

Functional Account: Agriculture, Rural Development and Nutrition

Project Purpose: To increase exports of forest products through private sector involvement in production and marketing.

Problem: The forestry sector in Honduras is hampered by an excessive level of government intervention in production and marketing activities. This intervention, exercised through the Honduran Forestry Development Corporation (COHDEFOR) has been detrimental to the formation and development of private sector logging, sawmill, and lumber export firms. As a consequence of these factors, the country has not been able to adequately exploit its forest resources to generate export revenues.

Proposed Project: The project will assist the GOH in refocusing COHDEFOR's activities away from direct production and marketing, and towards industry regulation and natural resource protection. The primary components will be: (1) strengthening of COHDEFOR forest management and regulatory activities; (2) forest management; (3) forest industry; and (4) training. The project will be geared to a series of incentives to facilitate the formation and development of private firms in the forestry sector.

To accomplish this, financial and technical assistance will be provided to COHDEFOR, and credit for operating capital and technical assistance in business management marketing and rational use of natural resources will be made available to private operators. Small farmers, campesino groups, and cooperatives will be eligible to receive financing for small-scale enterprises. Key indicators of success will include an increase in private sector investment in forestry sector, increase in marketing through private sector groups, reduced GOH participation and investment in forestry production and marketing, increased campesino employment, reduced wastage in processing of food, reduced forest coverage loss, and increased export income from wood products.

Beneficiaries: Project beneficiaries will include private sector entrepreneurs, rural cooperatives and associations, and small farmers.

Goal: Strengthening Democratic Institutions

Objective: Consolidation of the legislative, judicial, and electoral and other democratic processes affecting the rights of citizens by 1990.

PROJECT TITLE: Strengthening Democratic Institutions

PROJECT NUMBER: 522-0296

PROJECT FUNDING: (\$000)

<u>FY 87</u>	<u>LOP</u>
1,700 (G)	1,700 (G)

Functional Account: Selected Development Activities

Project Purpose: To improve the quality and capabilities of the Honduran judicial, legislative and electoral systems.

Problem: The judicial, legislative and electoral systems encounter different problems requiring varying solutions. The Honduran judiciary faces a myriad of problems. It lacks the security and the backing of a strong public ministry. It also lacks qualified, well-trained, dedicated and independent individuals. No regulations exist concerning judicial careers. The conditions under which judges work are poor, e.g., few support staff, supplies or office equipment. The Ministry of Justice and municipal judiciary buildings are in shambles. In addition, the Ministry requires a more professionalized investigative unit, including trained medical examiners. Also, the role of district attorney must be enhanced. These weaknesses result in a poorly functioning system with little pride or respect for judges or the law.

The regionally-funded Administration of Justice Project has identified and financed the initial training of judges, administrative and support personnel. However, at present, no effective training program exists for legal, administrative or technical support personnel within the Honduran judicial system.

With regard to the electoral process, the key requirement is to systematize and modernize the national registration process in preparation for the 1988 municipal elections and the 1989 national elections.

In legislative affairs, members of the Congress recently participated in a general orientation seminar regarding the functioning of the legislature, and an overview of the Honduran constitution and ways to improve legislative performance. However, the Congress still does not function in a totally professional environment. Members require further orientation on specific support mechanisms such as committees. Support staff needs upgrading. An institutional memory and research capability must be integrated into a resource center. The legislative chamber requires reorganization in terms of space management, and office equipment must be installed.

Proposed Project: This effort will basically cover three main areas:

(1) Judicial system - in-country training for judges and justices; judicial career development; professionalization of investigative units; analyses of the current judicial organization and system; purchases of office supplies; and some rehabilitation of important buildings. Initially, training will deal with the new penal code. A regionally-funded Judiciary Sector Assessment is planned for 1986. It is expected that this assessment will develop more precisely the priority problems to be addressed.

(2) Electoral System - technical assistance and commodities for developing the national registration process, commodities for the municipal and national elections, and support for observers.

(3) Legislative System - specific orientation seminars for committees, materials and personnel for the resource center, support for physical infrastructure, technical assistance and office equipment.

The activities undertaken will serve to strengthen the judicial, electoral, and legislative systems. This will improve the public perception of the judiciary and legislative branches, while enhancing the image of the electoral process in the movement towards consolidated democratic institutions.

In addition, an exploratory look will be taken at the municipal governments, particularly in terms of strengthening municipal management, acquainting mayors with the laws and studying other deficiencies in local governments.

Beneficiaries: The direct beneficiaries will be the approximately 450 justices and judges, the 134 legislative deputies and their support staff, municipal governments and their constituents, and the people of Honduras.

Goal: Laying the Basis for Long-term Growth

Objective: Increase agricultural production by \$400 million by 1990.

PROJECT TITLE: Land Use and Productivity Enhancement (LUPE)

PROJECT NUMBER: 522-0292

PROJECT FUNDING: (\$000)

<u>FY 88</u>	<u>LOP</u>
1,000 (G)	6,000 (G)
3,0000 (L)	12,000 (L)

Functional Account: Agriculture, Rural Development and Nutrition

Project Purpose: To increase incomes and productivity in the agricultural sector, and improve the management and protection of Honduras' natural resource base.

Problem Addressed: In a primarily rural and agriculture-oriented economy such as Honduras', the natural environment (soils, water, range, forest) is the foundation for development progress. While the country's promise for sustained economic growth is dependent, in large part, on increases in agricultural production and productivity, the resource base needed to support that growth is being squandered through destructive agricultural practices. The small hillside farmer has been forced by population pressures to clear and cultivate on ever steeper slopes. Thus, erosion has increased and productivity substantially decreased. Fuelwood cutting to support growing urban populations also puts great pressure on the resource base.

Furthermore, there is lack of appropriate land use policies and effective policy and planning fora. Agencies charged with conserving and managing natural resources are institutionally weak and are hampered by conflicting interests.

Proposed Project: Major components of this project will be similar to those contained in the current Natural Resources Management Project, with the addition of appropriate farm technologies and coastal zone protection components. There will be, of course, some changes based up on experiences gained through the current project, and modifications designed to meet requirements of new ecological zones.

Under the Natural Resources Planning and Administration component, the project management unit, which is responsible for collecting and using natural resources data, planning ongoing and expansion activities and overall interagency and intraagency coordination, will be strengthened.

The Land Use Productivity Extension Component is the impact-oriented, rural development component. Work will continue in the current two natural resources regions and be initiated in five new regions. Fifty new watershed management units (extension offices), working with 12,000 farm families by the end of the project, will be established. Extension emphases will include soil and water conserving production practices, agro-forestry and women in development activities, crop diversification, and rural technology dissemination. Many of the production-oriented appropriate technologies being distributed and applied under the current Rural Technologies Project, as well as other production-oriented techniques, will be further adapted and distributed as a component of the extension effort.

In collaboration with the Ministry of Natural Resources' Renewable Resource Division, the South Coast Protection component will improve the management and protection of the deteriorating mangrove and estuarine environment in southern Honduras.

Beneficiaries: The primary beneficiaries will be 12,000 small farm families whose farming practices will be improved, and who will realize an increase in income and productivity.

Goal: Laying the Basis for Long-term Growth.

Objective: Increase agricultural production by \$400 by 1990.

PROJECT TITLE: Agribusiness Investor Support

PROJECT NUMBER: 522-0241

PROJECT FUNDING: (\$000)

<u>FY 88</u>	<u>LOP</u>
1,000 (G)	7,000 (G)
3,000 (L)	18,000 (L)

Functional Account: Agriculture, Rural Development and Nutrition

Project Purpose: Stimulate agribusiness development in secondary cities throughout the country.

Problem: Urban drift is a critical phenomenon in Honduras. To illustrate, while the population of the country is growing at approximately 3% yearly, cities are expanding at an annual rate of over 6%. The upshot of this migration trend is the destabilization of the economies in the countryside, especially in secondary cities. This destabilization is manifested in high rates of unemployment, local market contraction and limited investment opportunities outside of the two major metropolitan areas.

Proposed Project: The proposed solution to the problem is a three component intervention consisting of: (1) local infrastructure development; (2) Agribusiness Development Centers (ADCs); and (3) the establishment of a financial facility from existing or new sources, to be implemented in selected secondary growth poles throughout the country.

The infrastructure component will provide services needed to attract agro-industry to the secondary growth poles, e.g., the installation of sewerage, water, electricity, and roads. It is anticipated that this activity will be implemented through private sector chambers of commerce.

The Agribusiness Development Centers component will support and nurture the market driven expansion of established agro-industries, create new ones and provide infrastructure for financially troubled, but commercially viable agribusiness ventures. This will be accomplished by the creation of private sector Agriculture Development Centers through which technical assistance in administration, accounting, finance, technical areas of agricultural processing and credit will be provided to agro-industrial entrepreneurs.

The financial support fund will address the constraints faced by the agribusiness community in the financial markets (e.g., low collateral, high risk, high loan monitoring cost). The credit line will have a subordinate loan line for selected business activities, a risk sharing line, market interest rates and will include working capital and investment capital.

Beneficiaries: Entrepreneurs, small farmers and the rural unemployed residing in the secondary growth pole areas selected for investment.

Goal: Equity and Broad Participation in Development

Objective: Increase the life expectancy of the population to 65 by 1990.

PROJECT TITLE: Health Sector II

PROJECT NUMBER: 522-0216

PROJECT FUNDING: (\$000)

	<u>FY 88</u>	<u>LOP</u>
Population	2,500 (G)	5,000 (G)
Health	2,000 (G)	12,000 (G)
Health	2,000 (L)	8,000 (L)

Functional Accounts: Health (\$20.0 million) and Population Planning (\$5.0 million)

Project Purpose: To expand the coverage of the health system.

Problem: Honduras has historically been ranked among the lowest three nations of this hemisphere in terms of its health status. Although dramatic improvements have been made in the last decade, 71 of every 1000 children born still die before the age of one; and more than 60% of the population is malnourished, taking a tremendous toll in lost human potential and productivity. Infectious diseases remain the leading cause of morbidity and mortality, and as much as 20% of the population has no regular access to a basic package of health services.

The ongoing Health Sector I project has strengthened the institutional capacity of the Ministry of Health (MOH) by improving its efficiency, effectiveness, coverage and use. The MOH's planning, management, logistics, maintenance, supervision, and in-service training systems all have been improved in preparation for an expansion of coverage.

Proposed Project: In this second phase, Health sector II will build up on the achievements of the ongoing project in seeking to expand coverage of a basic package of health services. The basic package will include maternal and child immunization, oral rehydration, vector control, and respiratory disease control services. Rather than expanding the MOH's facilities and personnel to accomplish this objective, the emphasis will be on expanding these services within the infrastructure and budget constraints of the MOH. Some limited facility construction is planned in urban areas to keep up with urbanization. The development of a number of additional rural delivery points are contemplated as well. The focus, however, will be on service expansion through greater efficiencies.

The major components of Health Sector II will be operations research on more cost-effective delivery systems, administrative strengthening, improved services delivery in rural and urban areas, expanded local production of drugs, and a pilot activity directed towards the establishment of a self-financing private sector health program in San Pedro Sula.

Administrative strengthening will rely on technical assistance and will be aimed at building on achievements in supply management, maintenance, planning, supervision, and especially in financing, cost control and cost recovery.

The improved service delivery component will provide financing in public health education, community organization, in-service training and, to a limited extent, commodities to support a basic package of services, including immunizations, oral rehydration, growth monitoring, vector control, breast feeding, family planning and respiratory disease control.

The pilot self-financing private sector health program activity will be started with seed capital from this Project. These funds will be used to initiate a health maintenance care organization in San Pedro Sula.

Beneficiaries: Urban and rural poor, throughout the country, especially individuals in the high risk groups (i.e., pregnant and lactating women and children under the age of one year).

Goal: Equity and Broad Participation in Development

Objective: Provide 70,000 improved shelter, and water and sanitation service solutions to low-income families by 1990.

PROJECT TITLE: Cooperative Housing Foundation (CHF) - OPG

PROJECT NUMBER: 522-0317

PROJECT FUNDING: (\$000)

<u>FY 88</u>	<u>LOP</u>
2,000	2,000

Functional Account: Selected Development Activities

Project Purpose: To encourage and facilitate the mobilization and investment in shelter and community services for low-income families by private sector organizations.

Problem: The AID-sponsored "Diagnostic and Prognosis of the Housing Needs in Honduras" 1985-2005, projects a doubling of population to eight million by 2005, 34% which will be in urban areas. Meeting housing needs in 1990 requires the construction of 11,390 homes and the improvement of an additional 2,200 in Tegucigalpa and San Pedro Sula, the construction of 4,070 homes and the improvement of an additional 1,190 in other urban centers, and the construction of 25,650 homes and the improvement of an additional 11,900 in rural areas.

In order to address this problem, USAID will enter into an agreement with the Cooperative Housing Foundation (CHF) for the provision of technical assistance and the administration of a rural shelter improvement fund. CHF will be responsible for developing and identifying projects for financing from housing associations, housing cooperatives and village associations. CHF also will be responsible for providing guidance to such organizations.

Assistance in developing proposals and preliminary review will be done by CHF's resident directors and local professional staff. Following approval of proposals, CHF's resident staff will provide technical assistance, monitoring and evaluation services to credit unions, mutual savings and loan associations, and commercial banks for carrying out a shelter program for low-income families.

CHF will support and strengthen local institutions. Loans from ESF local currency generations to local institutions will include requirements to ensure on-lending to beneficiaries at market interest rates. As part of the individual subproject design process, interest rates to the final beneficiaries will be set with the concurrence of USAID.

In addition to financing CHF's services, AID funds will be used to make two types of grants. Institutional Support Grants will be made to assist credit unions with vehicle and equipment purchases, initial staffing, or up-front operating costs required to undertake a given subproject. Subprojects will be designed to ensure that these costs are recouped, as applicable, by the local implementing institutions.

A second general category of grants will be made to village-based associations which have limited experience with housing programs, but have not yet established a firm track record of credit worthiness. The purpose of the grants will be to strengthen the institutions.

Beneficiaries: Project beneficiaries will be low-income residents of the rural areas.

2. PROJECT AMENDMENTS:

Goal: Laying the Basis for Long-Term Growth.

Objective: Increase agricultural production by \$400 million by 1990.

PROJECT TITLE: Small Farmer Coffee Improvement (Amendment)

PROJECT NUMBER: 522-0176

PROJECT FUNDING:	(\$000)	<u>Original</u>	<u>Amendment</u>	<u>Total</u>
		1,250	3,000	4,250 (G)
		<u>9,000</u>	<u>7,000</u>	<u>16,000 (L)</u>
TOTAL		10,250	10,000	20,250

	<u>FY 87</u>	<u>FY 88</u>	<u>LOP</u>
	2,307	-	4,250 (G)
	4,000	-	16,000 (L)

Functional Account: ARDN

Project Purpose: The purpose of this Amendment is to continue interventions directed at increasing yields and raising levels of real income while mitigating the impact of coffee rust on small coffee producers.

Problem: Coffee production in Honduras is unique in that thousands of small producers account for a large percentage of production. Almost 80% of the land in coffee production is in the hands of 93% of the farmers. This causes coffee rust to be a serious threat to the livelihood of small coffee producers. In addressing this threat, the small producer faces two choices -- increase yields to meet the rust threat or slowly lose income from coffee.

Accordingly, the Small Farmer Coffee Improvement Project was started in FY 1981 to assist the producer to increase yields through a technification package, credit and extension services. Success in this endeavor has been tangible and significant increases in yields in the project area have been attained. Demand for technification and extension services as well as credit is high. This, combined with a fortuitous rise in world coffee prices, has prompted the USAID to amend the original Project.

This Amendment will provide funding for continuing and expanding extension activities by agents from the Honduran Coffee Institute (IHCAFE), strengthening the training for village-based paratechnicians, increasing technical assistance, increasing the credit component, and institutionalizing a quality control component for coffee in IHCAFE.

Proposed Project Amendment: This \$10 million Amendment will enable USAID to continue and expand the financial and technical assistance currently being provided to the Honduran small coffee producer. This new assistance will allow a further institutionalization within IHCAFE of its capability to address the needs of Project beneficiaries.

Improvements in extension methodology and further institutionalization of IHCAFE's capability to provide this service will be supported through this Amendment. An increase in staff from 77 to 92 extension agents and from 10 to 15 credit agents will be provided for through this increased funding.

Training of IHCAFE staff will continue and be expanded through provision of short courses, seminars and workshops in both the United States and Central America. Credit agents will receive training in a heavily on-the-job oriented mode in the United States through work with the USDA's Farmers Home Administration.

Village-based extension assistants known as "paratecnicos" will be increased from 120 to 200 individuals. Similarly, and as a complement to this expansion, small farmer training will be continued and expanded through the provision of short-term courses in herbicide and pesticide use, conservation practices and farm management.

A new element of the Project will be a grant to the Honduran Agricultural Research Foundation (FHIA) which will permit collaboration with IHCAFE in a program to achieve the goals of reducing coffee production costs and developing alternative crops for coffee producing areas. FHIA will assist IHCAFE in developing improved technological recommendations on soils and proper fertilizer applications.

Overall credit amounts will be increased in order to address the need for more technification of coffee plots due to the magnitude of coffee rust. Credit expansion will also allow renovation of coffee plots to continue through new plantings and pesticide use, and will provide total credit funding to sustain a meaningful intervention from credit reflows in the long run.

Funding also will be directed towards reactivating existing coffee producing facilities or "beneficios". Additional funds will be used to develop a country plan to furnish central administration, professional management and uniform operating procedures for these facilities.

Finally, a diversification element, administered by IHCAFE will be added to the Project. Diversification will include the elimination of old plantations for replanting in other crops, activation of idle lands into productive crops such as cardamom or cacao and small animal raising enterprises.

Beneficiaries: Project beneficiaries will include small- and medium-size coffee producers in Honduras, workers in related services, and coffee exporters.

Goal: Laying the Basis for Long-Term Growth.

Objective: Increase in agricultural production by \$400 million by 1990.

PROJECT TITLE: Agricultural Research Foundation (Amendment)

PROJECT NUMBER: 522-0249

PROJECT FUNDING:	(\$000)	<u>Original</u>	<u>Amendment</u>	<u>Total</u>
		20,000	3,000	23,000 (G)

<u>FY 87</u>	<u>FY 88</u>	<u>LOP</u>
3,790	4,000	23,000 (G)

Functional Account: ARDN

Project Purpose: Improve efficiency in the generation and dissemination of technology for the production and marketing of agricultural commodities.

Problem: Over the past decade, Honduran food production has not kept pace with the country's population growth. As a consequence, per capita food availability has declined and real farmer incomes are far below potential levels. Perhaps the most critical factor to increasing both the food supply and grower income is development of the human resource base. This resource is essential to the adoption of existing technology, the development of new technology and the dissemination and effective use of the scientific advancements. Trained personnel in Honduras for agricultural outreach are few. Moreover, the public sector structure for technology diffusion is not organized in a manner that facilitates effective outreach and, sustainable increases in agricultural production and productivity through extension.

Proposed Project Amendment: The proposed Amendment addresses the deficiencies associated with technology diffusion by linking private sector research and extension capabilities with relevant public sector entities to develop an integrated research and outreach network capable of developing, adapting and disseminating appropriate cultural practices in a timely fashion. The Amendment will focus on incorporating mass communications, professional extension agents, paratechnicians, farmer leaders, farmer organizations and private sector agricultural input firms into a comprehensive technology transfer system. It will employ the Farming Systems (FS) methodology to carry out on farm research and extension, thereby building on the investigation capability established at the Honduran Agricultural Research Foundation (FHIA) and the Enlace Tecnológico (Technical Linkages) experience gained under several public sector efforts. Most research and outreach activity will be conducted with groups of farmers to maximize coverage.

A totally private sector extension service will be formed to cover specific regions of the country and/or crops. In addition, we will explore possibility of requiring partial farmer payment for outreach services.

A training program for farmer leaders will be established in which they will receive practical training in such matters as disease and insect identification, demonstrations plots, extension techniques and group dynamics and they will serve as the liaison between the extension agent and the farmer group.

Beneficiaries: Direct beneficiaries will be the growers producing for export and domestic markets, as well as extension agents and para-technicians.

Goal: Laying the Basis for Long Term Growth.

Objective: Increase agricultural production by \$400 million by 1990.

PROJECT TITLE: Small Farmer Organization Strengthening (Amendment)

PROJECT NUMBER: 522-0252

PROJECT FUNDING:	(\$000)	<u>Original</u>	<u>Amendment</u>	<u>Total</u>
		1,400	6,100	7,500 (G)
			8,500	8,500 (L)
TOTAL		<u>1,400</u>	<u>14,600</u>	<u>16,000</u>

	<u>FY 87</u>	<u>FY 88</u>	<u>LOP</u>
	1,000	1,600	7,500 (G)
	2,000	2,000	8,500 (L)

Functional Account: ARDN

Project Purpose: To establish a viable system for delivering productive inputs (e.g., credit, technology, market services and management skills) to growers in order to increase agricultural productivity and diversify the production base.

Problem: While the agricultural sector has the human and physical resource base to generate sufficient food to satisfy both domestic demand and provide a surplus for export, increase small farmer income and contribute significantly to growth of the economy as a whole, a complex of impediments severely constrains realization of its potential. Critical among the impediments is the extremely limited access of the vast majority of farmers to the factors (e.g., credit, managerial expertise, technology and markets) needed to increase production and productivity. Cooperatives have been deemed as appropriate channels to facilitate farmers ability to reach these factors. However, through mismanagement, and natural and governmental matters beyond their control, the cooperatives have slipped into a state of extreme debt and a lack of credit worthiness and stability, thereby limiting their potential role in increasing agricultural production.

Proposed Project Amendment: The initial Project Agreement (signed in FY85) aimed to start the institution building process to enhance the managerial and administrative skills, and the service delivery capacities of the cooperative federations and cooperatives in addressing the productive needs of their constituents. Technical assistance and training opportunities are being provided to facilitate the process that will be ongoing during the period of this Amendment.

The Amendment will integrate components to financially stabilize the federations and cooperatives and, given the improved financial and managerial situations, a credit mechanism will be established to enhance productive activities.

The financial stabilization element will consist of a program of debt refinancing and equity participation mechanisms to facilitate cancellation of intermediary outstanding debt while providing for the injections of new capital to foster institutional growth. Management of debt cancellation activities will be the responsibility of a financial stabilization organization. The organization will rest entirely in the private sector, will be guided by a Board of Directors made up of eminent representatives from the Honduran banking and agricultural communities, and will have final approval authority over the distribution and use of the debt cancellation funds.

The credit component will consist of short-term production and medium-term investment credits that will be made available to intermediary organizations which have complied with the project participation criteria as established by the financial stabilization organization. The short-term production financing will be made available to constituents of qualified participating intermediary organizations. These lines of credit, one through a trust account with the Honduran Agricultural Development Bank (BANADESA) and a second through a Honduran Central Bank rediscount line with private banks, will employ strict eligibility criteria for lending and explore the use of new collateral and loan guarantee mechanisms.

Beneficiaries: The beneficiaries of the project will be approximately 20,000 small- and medium-size farmers who are members of the intermediary organizations. These farmers are characterized by meager per capita incomes, low educational levels, poor living conditions and inadequate caloric intake. They will receive the benefits of the improved agricultural service system, which, in turn, will contribute to increased farmer incomes and improvement in the quality of life.

Goal: Laying the Basis for Long-term Growth.

Objective: Generate 300,000 person-years of productive employment by 1990.

PROJECT TITLE: Human Resources Development Council - CADERH - OPG
(Amendment)

PROJECT NUMBER: 522-0257

PROJECT FUNDING:	(\$000)	<u>Original</u>	<u>Amendment</u>	<u>Total</u>
		1,325	5,000	6,325 (G)
	<u>FY 87</u>	<u>FY 88</u>	<u>LOP</u>	
	2,745	2,500	6,325 (G)	

Functional Account: Education and Human Resources

Project Purpose: Increase employment through increasing the availability of trained personnel.

Problem: The current product of the vocational training system in Honduras does not meet the requirements of the private sector relative to numbers, quality and relevance. Without the capability to produce trained, quality personnel on short notice, the country will be unattractive to potential international and national investors.

The National Institute for Professional Training (INFOP), financed through a 1% payroll tax levy on the private sector, trains approximately 35,000 people annually. Despite this number, the outcoming student is inadequately trained and fails to meet minimum certifiable requirements for employment, thereby leading the USAID and others to conclude that one of the most important problems facing the private sector is the lack of trained human resources. For example, there are no local sources of training for preparing wood product and apparel industries' employees who are needed for these industries to compete in the international market. In the apparel industry, training is required for operators, cutters, markers, pattern makers, supervisors, and maintenance mechanics. In the wood products industry, training is needed in design, production, wood treatment, finishing, packaging, cost accounting, and production marketing. In-plant training resources are limited in the private sector and INFOP.

Proposed Project Amendment: This Amendment will be an expansion of the current project with the Council for Human Resources Development (CADERH) - OPG. The project will provide technical assistance and other resources to: (1) expand in-plant training activities based on employer specific training needs analyses; (2) respond to extraordinary requests by local and international firms for assistance from international trainers on short notice; and (3) expand CADERH's private sector controlled trade certification system into a variety of basic occupational clusters; (4) establish a fund for financing new training programs for industries and businesses which can have a

marked impact on balance of payments and employment rates (i.e., wood products, apparel, agro-industry, etc.); (5) establish an instructional technologies center which will assist training centers and private sector firms in obtaining appropriate training materials and strengthen in-plant training initiatives; and (6) provide training and additional resources for assuring higher quality and more relevant instruction in INFOP training programs.

The project will have the active participation of the Council for Human Resource Development (CADERH), the National Institute for Professional Training (INFOP), the Foundation for Entrepreneurial Research and Development (FIDE), and The Federation of Agricultural Exporters (FEPRO).

A key objective is to establish training programs for the apparel and wood products industries to assure quality and cost-effective production for export. CADERH, FIDE, and INFOP will plan specific training programs which will be conducted by INFOP, other training institutions and international trainers. CADERH will assist producers in forming trade advisory committees to further define training needs, to improve linkages with INFOP, and to identify specific competencies for CADERH's trade certification system. Many of the initial training programs will include INFOP instructors to assure they have sufficient knowledge and resources for conducting subsequent training. Open-entry/open-exit and multi-media competency based instructional strategies, involving CADERH's private sector advisory committees for identifying competencies and validating curricula for meeting specific occupational certification standards will be used.

Beneficiaries: Beneficiaries include the business community that will help increase export earnings, the employees of businesses and industries who will upgrade their job skills and productivity, and unemployed youth and adults who will obtain job entry level skills through training programs.

F. Project Documentation and Authorization Schedule

Project Documentation Required	Authorizing Authority	Month Due
FY 1987:		
1. Forestry Development (522-0292) PP, Authorization	USAID	11/86
2. Strengthening Democratic Institutions (522-0291) PID	USAID	1/87
PP, Authorization	USAID	6/87
3. Advisory Council for Human Resources Development (CADERH) - OPG (522-0257) PP Amendment, Authorization Amendment	USAID	12/86
4. Private and Voluntary Organizations - OPGs (522-9999) Authorizations	USAID	6/86

FY 1988;

1. Land Use and Productivity Enhancement (522-0292)		
PID	USAID	1/88
PP, Authorization	USAID	6/88
2. Agribusiness Investor Support (522-0241)		
PID	AID/W	11/87
PP, Authorization	To Be Determined	5/88
3. Health Sector II (522-0216)		
PID	AID/W	6/87
PP, Authorization	To Be Determined	11/88
4. Cooperative Housing Foundation - OPG (522-0317) Authorization	USAID	2/88
5. Private and Voluntary Organizations - OPGs (522-9999) Authorizations	USAID	6/87

G. Programs

1. PL 480

a. Title I/III

Honduras is self-sufficient in basic grains (corn, rice, beans and sorghum) with occasional supply shortages due mainly to rain patterns. Wheat production is negligible, and Honduras has depended over the past four years for its supply entirely on PL 480 I/III and small donations from the European Economic Community (EEC), Canada and Argentina. The Title I/III program proposed will provide wheat to be milled into wheat flour by private sector companies. Honduras wheat demand for FY86 is estimated at 110,000 metric tons. Carry over inventories from FY85 and donations from other donors will reduce Title I requirements to about 82,000 MT, valued at approximately \$11 million.

At this time, no significant disincentives to domestic food production appear to result from Title I wheat imports. However, basic grain production over the last five years has averaged a 2.9% growth rate -- among the lowest yields in Central America.

Storage and distribution facilities for wheat have been expanded over the last three years and do not represent a constraint to imports. Port facilities and transportation from port to mills represent two bottlenecks that preclude larger bulk shipments. We have recently undertaken, with assistance from USDA's Office of Transportation, a feasibility study for the construction of expanded storage facilities at Puerto Cortes. These facilities will have a storage capacity of 20,000 MT of bulk grains and its unloading equipment will have a capacity to load/unload up to 4,000 MT per day, compared to the present 1,000 MT capacity. Construction of this private sector-financed facility is expected to begin in early in 1987.

Sales proceeds will continue to be programmed in support of key agricultural development activities such as irrigation, cooperative development, and other complementary activities of our program.

Present food policies need improvement. The new government is expected to take actions to eliminate nominal price controls. However, marketing problems continue to exist. The Honduran Agricultural Marketing Institute (IHMA) is responsible for basic grain price stabilization. It has been ineffective in this role. We believe that several of IHMA's functions can be better performed by the private sector, and the privatization of many of IHMA functions is a major component of our policy dialogue with the GOH. We also plan to undertake a FY 86 agricultural marketing project designed to improve the domestic marketing of food crops and livestock focused upon the private sector.

Title I/III resources will play a more important part in our policy dialogue with GOH. Some of the issues that we intend to discuss with GOH will be: the need to include small- and medium-farmers as beneficiaries of the Agricultural Development Law; agro-industrial investment incentives; adequate banana legislation to reward individual performance; the role of IHMA; forestry policies; water legislation; creation of an institute for handling information and statistics; creation of a higher agricultural education council, which will be responsible for both academic and nonacademic training; and GOH policies and measures to replace milk imports with domestic production to make Honduras self-sufficient in production.

Although we do not believe Title I wheat imports are a significant disincentive to domestic production, we are concerned that wheat is substituting for corn in tortillas which are widely consumed, especially by low-income families in Honduras. In addition, imported wheat may substitute for locally grown potatoes and grain sorghum. To address this concern, we plan to analyze the impact of the PL 480 Title I/III program on the demand for local food products and nutrition. The analysis also will ascertain the developmental impact of self-help measures included in recent agreements and activities funded through the generation of sales proceeds. If this evaluation determines that a Title III program is desirable, we will develop such a program for implementation in FY87, if time permits.

Table VI
PL 480 TITLE I/III REQUIREMENTS
(Dollars in Millions, Tonnage in Thousands)

COMMODITIES	Estimated FY 1986		Estimated FY 1987		Projected FY 1988	
	\$	MT	\$	MT	\$	MT
Title I						
Inedible Tallow	2.0	5.0	1.0	2.5	1.0	2.5
Wheat	11.0	82.0	13.0	97.0	14.0	103.7
Corn	<u>2.0</u>	<u>-17.5</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	15.0	104.5	14.0	99.5	15.0	106.2

b. Title II

The PL480 Title II program is linked to our life expectancy and primary education objectives. The Maternal and Child Health and Food for Work (FFW) programs contribute to health and nutrition status, while the School Feeding (SF) program contributes to school attendance. The following discussion presents the PL480 Title II program according to the customary reporting format.

Although statistics on malnutrition are both outdated and unreliable, the Ministry of Health estimates that up to 80% of the under five age group suffers from some degree of malnutrition.

For the last three decades we have been financing PL 480 Title II food commodity imports into Honduras. During this time, the total quantity of donated food has amounted to approximately 305 million pounds, with an estimated CCC value of \$48.7 million. This food is provided to pregnant and lactating mothers and their children, and primary school children.

Given the length of time the program has been in existence and its size, the question needs to be asked, what has been the impact of this food assistance? Has nutritional status been improved? Does the school feeding program encourage school attendance? Could locally produced foods be used instead of U.S. imports? Can we demonstrate that the Title II program effectively contributes to overall USAID objectives?

In the absence of sufficient information to answer these questions, USAID has decided to conduct an evaluation of the PL 480 Title II program. Depending on the evaluation's results and recommendations, we will decide on the future of the program. The program levels of other food donors, developmental impact, and possible institutional dependency on donated food are among the factors to be considered. We believe that that some form of a supplementary feeding program directed at nutritionally at-risk population groups is needed. However, the nature of such a program, its fit within our overall objectives and management capacity need to be defined more clearly.

This evaluation will complement a USAID-supported nationwide nutrition study to determine the prevalence of malnutrition, the data gathering portion of which will be carried out by the end of 1986. Results should be available to propose the future Title II program direction by next year's Action Plan submittal. In the meantime, beneficiary levels for both the CARE and CRS/Caritas programs will be held constant.

We believe that, although the CARE program proposals are adequately planned, they are not sufficiently supported by the GOH and much needs to be done to improve logistics at the regional distribution centers.

The CRS/Caritas program was evaluated last year. Results were more positive than expected. Many of the administrative and internal control weaknesses have been addressed and important community development activities are being carried out. With the addition of a few staff members, the program will meet the nutritional monitoring requirements.

CARE Maternal Child Health (MCH) Program

The Program operates in 16 of Honduras' 18 geographical departments. The Bay Islands and Mosquitia are specifically excluded due to potential difficulties in the transport of commodities and supervision.

The impact of this program on nutritional status is unknown. As a result of the country-wide survey on nutrition status, it is expected that better targeting of food assistance will result. Much more needs to be done, however, to integrate supplementary feeding into the MOH's nutrition activities.

Future program levels will be determined by both the program evaluation and by the nutrition study discussed above. Pending these results, MCH beneficiaries are planned at about the 125,000 level.

CARE School Feeding (SF) Program

In accordance with Ministry of Education (MOE) policy, preschool children have priority over primary school children and rural schools have priority over marginal urban schools, which in turn have priority over urban schools. The rationale for this prioritization is based on economic need. Approximately 300,000 out of a total primary school population of approximately 750,000 are reached through the CARE/MOE SF Program. Through a similar program, which the MOE carries out jointly with the European Economic Community, approximately another 200,000 recipients are reached.

The MOE provides all of the funding required to manage the SF Program. The majority of this funding comes from ESF local currency generations. CARE is presently managing the distribution of the school feeding commodities to approximately 350 centralized distribution points for approximately 4,000 schools. These include approximately 110 schools in the Central District to which commodities are distributed directly.

No Honduran-specific information exists on the impact of school feeding programs on school attendance. Pending the results of our scheduled evaluation, program beneficiaries are planned at the 330,000 level.

CARE Food For Work (FFW) and Refugee Feeding (RF) Programs

The major goal of the Food For Work and Refugee Feeding programs is to help Miskito refugees in the Mosquitia region of Honduras become economically self-sufficient and integrated into the socioeconomic structure of the Mosquitia. This program is being implemented by World Relief. World Relief provides all of the funding required to manage the refugee feeding program and to cover the transportation costs.

The target population consists of Nicaraguan Miskito refugee families who have crossed into the Mosquitia region of Honduras. Approximately 10,000 of the refugees will receive assistance from CARE. The World Food Program (WFP) also is providing food assistance to the Miskito refugees in the form of beans, vegetable oil and non-fat dry milk.

It is expected that these programs will continue to operate for at least another three years.

Catholic Relief Services (CRS) MCH and FFW Programs

CRS, under an agreement with Caritas, its local counterpart, has responsibility for preparing annual food requests and obtaining free entry of PL 480 Title II commodities. It obtains and transfers to Caritas a GOH/MOH program support grant, and provides some equipment and materials for food-for-work projects.

Caritas implements MCH activities through housewives' clubs and FFW activities through field volunteers. Both these programs impact on health and nutrition through the provision of supplemental food (MCH) and through the promotion of home gardens, chicken coops, and wells and latrines (FFW). Pending results of the upcoming evaluation, program beneficiaries will remain at the 25,000 level.

Other Donors

Over the last five years, food assistance in Honduras has experienced a significant increase as a result of the continued and incremental participation of other international donors, namely, the World Food Program (WFP), the Cooperacion Hondurena-Alemana de Alimentos poor Trabajos (COHAAT) and the European Economic Community (EEC). In addition, Spain and Argentina make occasional donations of food to the GOH. Two thousand metric tons of milk donated by EEC are used in the MOE's school feeding program, thus supplementing CARE/MOE SF activities. The EEC provided assistance in 1985 to approximately 200,000 beneficiaries and CARE to some 300,000.

COHAAT's FFW program is carried out exclusively in the southern part of Honduras, in Choluteca and Valle. In these two departments, CARE implements MCH and School Feeding activities.

The WFP's food assistance supports a variety of projects, i.e., MCH, basic grains production, basic infrastructure and productive activities, literacy, forest development, and refugees. WFP works throughout Honduras. Some of WFP's projects could overlap with those implemented by COHAAT, CARE and CRS.

As a result of the evolution of food assistance donated to Honduras and a desire to complement efforts, we and the WFP initiated an International Food Donors Coordination Committee in October 1985. Currently, the following institutions are represented on the committee: WFP, EEC, CARE, CRS, COHAAT, the National Planning Council (CONSUPLANE) and USAID. USAID, WFP and CONSUPLANE form the working group of the committee.

Budgetary Impact

Eighty-five percent of the PL 480 Title II program in Honduras is implemented through CARE. The total costs of CARE program are financed through local currency generated under the ESF program. One hundred percent of the cost of the CY 1986 GOH/CARE agreements was covered with these funds, as opposed to previous years in which the GOH directly budgeted counterpart funds to cover the program's costs.

	FY 87	FY 88
	(Thousand of dollars)	
PL 480 Title II	4,064	4,100
GOH Local Currency	1,800	1,784

2. Local Currency Plan

The basic purpose of local currency program is to support the development strategy of the GOH and AID, including the Central America Initiative's objectives goals and objectives (see Table VII).

Local currency generated through the ESF program is used to finance private and public sector development activities that directly support or complement Honduran and USAID objectives. The PL 480 Title I program also supports both public and private sector initiatives. Local currencies also are instrumental in expanding the work of U.S. and Honduran private voluntary organizations, through financing of numerous programs.

With regard to the public sector, local currency generations finance counterpart for USAID-financed programs and projects and those of international financial institutions (IFIs). As such, the funds are instrumental in ensuring effective implementation. These generations also provide budget support for GOH programs such as labor intensive, productive public infrastructure programs (sewerage, potable water, etc.).

In the private sector, local currency resources provide lines of credit to small- and medium-size enterprises, to cooperatives and to other private sector entities. Privatization of state-owned enterprises, small business, export development and services, and agricultural diversification are among the private sector activities supported by local currency funds.

The Trust Fund component of the local currency program assists USAID in financing its operating expenses, provides funding for financial reviews of local currency agreements, supports small project efforts of the Peace Corps, provides funding for local technical support of USAID's program, and supports language training and travel costs associated with participant training. The program also supports strengthening democratic institutions, e.g., voter registration in connection with the recent national elections.

Activities financed through PL480 Title I/III sales proceeds include diversified crop marketing, regional cooperative development, small farmer water resources development, farmer training, agricultural research and extension, fisheries, horticulture, forestry and land titling.

In 1985, a mechanism to finance the expansion of nontraditional exports was developed through the local currency program. A rotating fund with a shared risk feature was established to permit local commercial banks to provide loans and other services to nontraditional exporters, under a series of options in risk for the bank. Under this shared risk program, the commercial bank has the option of choosing between assuming 100% of the risk and earning a higher profit margin or assuming only 40% of the risk with a lower profit margin. The program encourages banks to lend to nontraditional exporters by offering a rate of return based upon the risk assumed by the bank.

Local currency generations equivalent to \$4.75 million in 1985 and early 1986 supported the Employment Generation Program, which provides short-term employment through productive public work activities thus helping to provide short-term relief for the country's serious unemployment problem.

In FY85, ESF obligations totalled \$147.5 million. Of this amount, \$80.0 million was disbursed. The remaining \$67.5 million has been disbursed in two tranches during the first half of 1986. The first tranche (\$35.0 million) was disbursed on January 30, 1986 and has been jointly programmed by the USAID and the Ministry of Finance and Public Credit for the following: counterpart for USAID- and IFI-financed projects, budget support for GOH programs; additional funding for rotating funds for USAID-supported projects, the Employment Generation Program; USAID Trust Funds; credit for improved coffee production; and support for private voluntary organizations operating in Honduras.

The second tranche (\$32.5 million) was disbursed on May 6, 1986. This and the FY86 \$61.248 million ESF disbursement will generate L187,496,000. On the public sector side, we will give priority to USAID and IFI-supported project counterpart needs, as well as GOH programs supporting or complementing our goals and objectives.

USAID is reviewing a preliminary proposal to use available local currency for a private sector Endowment Program. Local currency would be made available to the Central Bank of Honduras on the basis of which it would issue GOH bonds to selected private sector institutions. These bonds would be held by the private sector institutions to maturity, with the USAID and individual institutions having previously reached agreement on the uses to be made of annual interest earnings and redemption value of the bonds upon maturity. After our in-depth joint review with the GOH of the feasibility of this, we may initiate such a program on a pilot basis. We will continue to give priority to other private sector uses of local currency, such as for support to PVO and cooperative programs impacting on agricultural production activities.

Given the large amount of local currency presently available for both public and private sector uses, and the important role this resource plays for our DA-funded projects, special attention is being given to the dependency this could create. Specifically, the financial analysis section of project documents for new and amended projects will describe a descending level of ESF-generated local currency support as projects are implemented. Relatively high levels of local currency will be programmed as GOH counterpart contribution for initiation of projects. This amount will diminish in concert with a required plan showing how the project will become self-financing and eventually capable of providing for its local currency requirements for the continuation of activities beyond AID's support.

Currently, the local currency program operates through three program accounts: the Economic Recuperation Program (522-0230); the Economic Stabilization Facility (522-0283); and PL480 Title I/III. The program has a relatively large portfolio of local currency-financed projects that are making significant contributions to USAID and GOH objectives. But managing and monitoring the program is time consuming. For example, each local currency agreement requires an annual financial review. To reduce our staff workload, two steps have been taken.

A fiduciary account system was initiated with selected local commercial banks which should significantly reduce the administrative burden of managing the private sector program. Under this system, private sector recipients of local currency project funding would be required to sign a fiduciary agreement with a local commercial bank. This arrangement places the direct disbursement, management and monitoring burden in the hands of private banks. For a commission, the banks will disburse funds and manage each project's finances, implementation and accounting, with related reports to be submitted to USAID on a quarterly basis. This innovative approach to managing a large local currency portfolio will provide for adequate controls of funds and reduce the need for USAID financial reviews. It also will reduce the workload on our staff and provide for ongoing analyses of each project's progress. Interest earned on funds deposited with commercial banks will be used to extend activities related to each project's purpose.

We have established a special fund under the Trust Fund account to provide for annual project financial reviews, conducted by private accounting firms. This mechanism reduces considerably the workload for staff. We are currently reviewing the possibility of procuring these services under an Indefinite Quantity Contract arrangement.

TABLE VII
LOCAL CURRENCY PROGRAMMING -- HONDURAS
(LFS. 000)

MISSION OBJECTIVES #	1984	1985	1986	1987	1988	* NOTE	EXPLANATION OF MISSION OBJECTIVES
PUBLIC SECTOR							
1. Counterpart-A.I.D.	1,2,3,4,5,6,7,8	21,973	8,000	30,000	30,000	1.	Substantial improvement in macroeconomic performance by 1990.
a. Ag. & Rural Projects		12,244				2.	Increase agricultural production by \$400 million by 1990.
b. Education		4,250				3.	Generate \$320 million in exports earnings by 1990.
c. Health & Nutrition		3,909				4.	Generate 100,000 person years of productive employment by 1990.
d. Others		1,570				5.	Reduce the population growth rate to 2.7% by 1990.
2. USAID Project Revolving Funds	1,2,3,4,8	5,000	3,000	2,000	2,000	6.	Increase life expectancy to 65 years by 1990.
3. IFI Projects	1,2,4,5,6	35,132		10,000	10,000	7.	Increase the proportion of primary school students completing the sixth grade from 25% in 1984 to 45% in 1990, while reducing costs from \$987 per graduate to \$675 per graduate.
a. Ag. & Rural Development		20,718				8.	Provide 70,000 improved shelter and water- and sanitation service solutions by 1990.
b. Education		1,000				9.	Provide 1,582 Honduran citizens with education opportunities in the United States' democratic environment by 1990.
c. Health		6,400				10.	Consolidate the legislative, judicial and electoral and other democratic processes affecting the rights of citizens by 1990.
d. Other Development Activities		6,915					
4. PVCs SGR Budget	4,5,6,7,8	2,193		2,000	2,000		
5. SGR Budget Support	1,2,3,4,6,7,8	37,659	30,000	20,000	20,000		
6. National Registry Persons							
7. Employment Generation	4	13,000	17,000	20,000	20,000		
8. Democratic Initiatives	9,10		1,750	6,000	6,000		
9. CAPS	9		600				
10. Privatization/CONADI		33					
SUBTOTAL PUBLIC SECTOR		115,000	59,750	90,000	90,000		
1. PRIVATE SECTOR							
1. Private Initiative Investment Funds	1,2,3,4,8	30,000	9,948	20,000	15,000		
2. A.I.D. Trust Funds	2,4,8,9,10	16,000	5,000	10,000	15,000		
a. Operating Expenses		11,000					
b. Technical Support Fund		4,900					
c. Training		500					
d. Financial Reviews		150					
e. Trade Corps-Honduras SDA Prog.		250					
3. Investiture of Public Enterprises Fund	1	19,000		5,000	5,000		
4. Credit Program	1,2,3,4,7,8,9,10			35,000	35,000		
a. Discount Mortgage Loans Land Sale		3,000					
b. Coffee Prod. Investment		4,000					
c. Shelter Upgrading		15,000					
5. Other Private Sector Initiatives	2,4,7	25,000	41,300	10,000	10,000		
6. Reserve Fund	N/A	2,000	5,000	10,000	10,000		
SUBTOTAL PRIVATE SECTOR		115,000	61,248	90,000	90,000		

TABLE VII
LOCAL CURRENCY PROGRAMMING -- HONDURAS
(LPS. 000)

MISSION OBJECTIVES +	1984	1985	1986	1987	1988	+ NOTE EXPLANATION OF MISSION OBJECTIVES
TOTAL (PRIVATE AND PUBLIC SECTORS)		230,000	122,496	160,000	190,000	
PL-480, TITLE I			25,000	18,000	12,000	
1. 1983/1984 Counterpart to AID and IFI Projects.	2,7	10,668,000				
2. Emergency Relief for Southern Honduras 1983	2	3,400,000				
3. Agricultural Credit Line (BANADESA)	2	10,000,000	2,000,000			
4. National Agricultural Marketing Institute	2	6,000,000	1,000,000			
5. Agrarian Reform - INA	2	9,500,000	1,500,000			
6. Counterpart for AID & IFI Projects - 1985	2,7	4,255,472				
7. Budget Support for Other SON Agricultural Programs	2		15,594,300			
8. Cooperative Sector Support	2		3,000,000			
9. Agricultural Communications for Technology Transfer	2		668,328			
10. Contingency Fund	2	176,528				
TOTAL		44,500,000	23,762,628	25,000	0	0
TITLE III				15,000	15,000	
Agricultural Education				12,000	12,000	
Honduran Agricultural Research Foundation			2,500,000			
TOTAL			2,500,000	27,000	27,000	
GRAND TOTAL		44,000,000	26,492,628	147,496	207,000	217,000

** Includes support for private investment, producer organizations, PVOs, and private educational services.

USAID/HONDURAS
FY 88 ACTION PLANTable VIII
SUMMARY BUDGET TABLE DA & ESF FUNDING BY OBJECTIVE
(In Thousands of Dollars)

Act/Project Title	L/G Number	DB- JEC-1	- FY 1986 -		- FY 1987 -		- FY 1988 -		TOTAL PROJECT COST		FISCAL YEAR (OF OBLIGATION)		
			OBLIGA TIONS	EXPENDI TURES	OBLIGA TIONS	EXPENDI TURES	OBLIGA TIONS	EXPENDI TURES	Authd	Planned	INITIAL	FINAL	
Objective 1: Macroeconomic Performance													
ES Economic Stabilization Facility	6	283	1	61,248	127,500	90,000	91,248	108,752	108,752	147,500	597,500	85	90
FN Strategic Plann & Tech. Support	6	269	1	1,400	125	0	1,500	0	875	2,500	2,500	85	86
EH Development Administration	6	174	1	0	440	0	0	0	0	2,500	2,500	82	84
SE Strategic Plann & Tech. Support	6	269	1	400	275	0	1,000	0	225	1,500	1,500	85	86
SE Privatization State Enterprises	6	289	1	1,000	200	3,000	1,500	2,000	2,200	0	6,000	86	88
TOTAL FOR OBJECTIVE 1				64,048	128,540	93,000	95,248	110,752	112,052	154,000	610,000		
				GRANTS	64,048	128,540	93,000	95,248	110,752	112,052	154,000		
				LOANS	-	-	-	-	-	-	-		
Objective 2: Agricultural Production													
FN Agricultural Sector II	6	150	2	0	330	0	0	0	0	4,000	4,000	79	84
FN Agricultural Sector II	L	150	2	0	218	0	0	0	0	21,000	21,000	79	83
FN Rural Technologies	6	157	2	1,950	1,200	0	900	0	700	9,000	9,000	79	86
FN Rural Trails & Access Roads	6	164	2	0	247	0	0	0	0	730	730	80	85
FN Rural Trails & Access Roads	L	164	2	0	2,145	0	3,706	0	0	20,970	20,970	80	83
FN Natural Resources Management	6	168	2	1,000	750	200	600	0	421	2,743	3,900	80	87
FN Natural Resources Management	L	168	2	3,300	1,750	1,952	1,249	0	2,000	12,252	12,252	80	87
FN Small Farmer Titling & Services	6	173	2	0	450	0	450	0	450	2,500	2,500	82	91
FN Small Farmer Titling & Services	L	173	2	0	1,000	0	1,000	0	2,000	10,000	10,000	82	91
FN Small Farmer Coffee Improv.	6	176	2	693	950	2,307	1,157	0	875	1,250	4,250	81	87
FN Small Farmer Coffee Improv.	L	176	2	3,000	2,700	4,000	2,700	0	1,517	9,000	16,000	81	87
FN Co-op Dev. -FACACH (OPG)	6	177	2	0	147	0	0	0	0	500	500	81	83
FN Agricultural Credit	6	178	2	0	74	0	0	0	0	1,000	1,000	82	83
FN Small Farmer Livestock	6	209	2	1,000	1,082	0	614	0	718	3,000	3,000	83	86
FN Small Farmer Livestock	L	209	2	0	2,920	0	2,450	0	2,112	10,000	10,000	83	84
FN Rural Trails & Access Roads II	6	214	2	815	182	300	320	0	300	1,315	1,315	85	87
FN Rural Trails & Access Roads II	L	214	2	3,600	1,000	1,145	4,000	0	3,000	18,685	18,685	85	89
FN Small Farmer Ag Diversif (OPG)	6	227	2	0	112	0	0	0	0	480	480	83	84
FN Ag.-business Investor Support	6	241	2	0	0	0	0	1,000	250	0	7,000	88	91
FN Ag.-business Investor Support	L	241	2	0	0	0	0	3,000	500	0	18,000	88	91
FN Forestry Development	6	246	2	0	0	1,000	500	1,000	1,000	0	5,000	87	89
FN Forestry Development	L	246	2	0	0	3,000	1,500	3,000	3,000	0	15,000	87	90
FN Agriculture Research Foundation	6	249	2	2,670	1,490	3,790	1,800	4,000	2,000	20,000	23,000	84	92
FN Small Scale Livestock - (OPG)	6	251	2	0	185	0	100	0	0	438	438	84	85
FN Small Farmer Organ. Strength.	6	252	2	1,000	560	1,000	840	1,600	1,000	1,400	7,500	85	91
FN Small Farmer Organ. Strength.	L	252	2	0	0	2,000	200	2,000	1,800	0	8,500	87	91
FN Irrigation Development	6	268	2	1,000	50	1,000	800	1,000	800	0	5,000	86	89
FN Irrigation Development	L	268	2	2,500	30	2,500	1,500	2,500	2,000	0	15,000	86	90
FN Agricultural Marketing	6	271	2	250	0	1,250	500	6,000	1,000	0	7,500	86	88
FN Land Use & Productivity Enhan.	6	292	2	0	0	0	0	1,000	400	0	6,000	88	90
FN Land Use & Productivity Enhan.	L	292	2	0	0	0	0	3,000	1,000	0	12,000	88	90
FN Model Co-op Dev. (OPG)	6	300	2	0	263	0	133	0	0	396	396	85	85

H. Summary Budget Tables

USAID/HONDURAS
FY 88 ACTION PLAN

Table VIII
SUMMARY BUDGET TABLE DA & ESF FUNDING BY OBJECTIVE
(In Thousands of Dollars)

Acct/Project Title	L/G	Number	JEC- Title	- FY 1986 -		- FY 1987 -		- FY 1988 -		TOTAL		FISCAL YEAR		
				OBLIGA TIONS	EXPENDI TURES	OBLIGA TIONS	EXPENDI TURES	OBLIGA TIONS	EXPENDI TURES	PROJECT COST	OF OBLIGATION	INITIAL	FINAL	
FN Program Development and Support	6	9103	2	900	763	203	640	200	400	5,292	CONT	79	CONT	
FN Private and Vol Organ. - OPGs	6	9999	2	0	0	200	0	200	200	0	800	87	90	
EH Environmental Ed. II (OPG)	6	234	2	0	43	0	0	0	0	75	75	83	83	
FD Mosquitia Relief & Dev.	6	278	2	0	2,188	0	68	0	0	2,642	2,642	85	85	
TOTAL FOR OBJECTIVE 2				23,678	22,829	25,847	27,727	29,500	29,443	158,668	273,433			
GRANTS				11,278	11,066	11,250	9,422	16,000	10,514	56,761	96,026			
LOANS				12,400	11,763	14,597	18,305	13,500	18,929	101,907	177,407			
Objective 3: Export Earnings														
FN Export Development and Services	6	207	3	1,400	628	0	300	0	400	2,400	2,400	84	86	
FN Export Development and Services	L	207	3	200	1,320	0	2,000	0	2,000	7,200	7,200	84	86	
SD Export Development and Services	6	207	3	0	1,038	3,100	887	0	1,000	5,100	5,100	84	87	
SD Export Development and Services	L	207	3	0	1,479	2,800	2,700	0	4,000	8,800	8,800	84	87	
SD Artisan Product Marketing (OPG)	6	250	3	0	229	0	0	0	0	510	510	84	85	
SD Program Development and Support	6	9106	3	418	271	100	425	50	100	1,947	CONT	79	CONT	
SD Private and Vol Organ. - OPGs	6	9999	3	0	0	100	0	100	100	0	400	87	90	
TOTAL FOR OBJECTIVE 3				2,018	5,165	6,100	6,312	150	7,600	25,957	24,410			
GRANTS				1,818	2,166	3,300	1,612	150	1,600	9,957	8,410			
LOANS				200	2,999	2,800	4,700	0	6,000	16,000	16,000			
Objective 4: Employment														
EH GEMAH Inst. Strengthening (OPG)	6	256	4	200	313	0	213	0	0	1,000	1,000	84	86	
EH Hum Res Dev Council CADERH-OPG	6	257	4	455	434	2,745	1,000	2,500	800	1,325	6,325	84	88	
EH ITEC Institutional Streng (OPG)	6	287	4	93	305	0	170	0	0	480	480	85	86	
SD Chamber of Commerce (OPG)	6	204	4	0	5	0	0	0	0	100	100	82	83	
SD Small Business Development	6	205	4	0	111	0	200	0	228	600	600	84	84	
SD FUNADEH (OPG)	6	263	4	0	37	0	57	0	33	132	132	85	85	
EH Private and Vol Organ. - OPGs	6	9999	4	0	0	200	0	200	200	0	800	87	90	
TOTAL FOR OBJECTIVE 4				748	1,205	2,945	1,640	2,700	1,261	3,637	9,437	9,437		
GRANTS				748	1,205	2,945	1,640	2,700	1,261	3,637	9,437			
LOANS				-	-	-	-	-	-	-	-			
Objective 5: Population														
PN Health Sector I	6	153	5	1,100	1,000	575	1,000	0	368	2,480	3,050	81	87	
PN Commercial Retail Sales (OPG)	6	201	5	0	53	0	0	0	0	1,205	1,205	83	85	
PN Fam Plan Serv Del Support (OPG)	6	225	5	0	5	0	0	0	0	775	775	84	84	
PN Leadership Pop. Education (OPG)	6	240	5	0	179	0	0	0	0	320	320	83	83	
PN Private Sector Pop. Prog. (OPG)	6	286	5	2,961	2,097	3,099	2,900	1,800	2,150	9,810	9,810	85	88	
PN Health Sector II	6	216	5	0	0	0	0	2,500	500	0	5,000	88	92	
PN Private and Vol Organ. - OPGs	6	9999	5	0	0	0	0	0	0	0	0	87	90	
PN Program Development and Support	6	9104	5	75	97	50	100	50	50	307	CONT	79	CONT	

USAID/HONDURAS
FY 88 ACTION PLANTable VIII
SUMMARY BUDGET TABLE DA & ESF FUNDING BY OBJECTIVE
(In Thousands of Dollars)

Acct/Project Title	L/G Number	OB- JEC- TIVE	- FY 1986 -		- FY 1987 -		- FY 1988 -		TOTAL PROJECT COST		FISCAL YEAR OF OBLIGATION		
			OBLIGA TIONS	EXPENDI TURES	OBLIGA TIONS	EXPENDI TURES	OBLIGA TIONS	EXPENDI TURES	Authd	Planned	INITIAL	FINAL	
TOTAL FOR OBJECTIVE 5			4,136	3,431	3,724	4,000	4,350	3,068	14,897	20,160			
GRANTS			4,136	3,431	3,724	4,000	4,350	3,068	14,897	20,160			
LOANS			-	-	-	-	-	-	-	-			
Objective 6: Life Expectancy													
HE Health Sector I	6	153	6	3,200	2,315	2,259	3,072	0	1,671	8,574	12,048	80	87
HE Health Sector I	L	153	6	0	2,528	0	5,528	0	880	15,652	15,652	80	85
HE Commun. Hlth. Self-Motiv. (OPG)	6	303	6	0	150	0	100	0	150	400	400	85	85
HE Mosquitia Hlt Care Stren. (OPG)	6	304	6	0	47	0	28	0	0	75	75	85	85
HE FUHRIL Instit. Strength. (OPG)	6	305	6	60	90	0	60	0	0	150	150	85	86
HE Health Sector II	6	216	6	0	0	0	0	2,000	1,000	0	12,000	88	92
HE Health Sector II	L	216	6	0	0	0	0	2,000	1,000	0	8,000	88	92
HE Private and Vol Organ. - OPGs	6	9999	6	0	0	200	0	200	200	0	800	87	90
HE Program Development and Support	6	9108	6	200	167	100	225	50	75	871	CONT	79	CONT
FI Mosquitia Relief & Dev.	6	278	6	0	2,211	0	1,403	0	0	3,958	3,958	85	85
TOTAL FOR OBJECTIVE 6				3,460	7,508	2,559	10,416	4,250	4,976	29,680	53,083		
GRANTS				3,460	4,980	2,559	4,888	2,250	3,096	14,028	29,431		
LOANS				0	2,528	0	5,528	2,000	1,880	15,652	23,652		
Objective 7: Primary Education													
EH Rural Primary Education	6	167	7	0	959	0	0	0	0	2,850	2,850	80	85
EH Rural Primary Education	L	167	7	0	7,235	0	0	0	0	16,850	16,850	80	85
EH Primary Education Efficiency	6	273	7	3,000	0	1,500	2,000	3,000	4,000	0	17,000	86	95
EH Primary Education Efficiency	L	273	7	600	0	3,500	3,000	3,900	2,000	0	8,000	86	88
FJ Mosquitia Relief & Dev.	6	278	7	0	698	0	0	0	0	900	900	85	85
EH Program Development and Support	6	9105	7	181	317	50	226	50	100	2,637	CONT	79	CONT
TOTAL FOR OBJECTIVE 7				3,781	9,209	5,050	5,226	6,950	6,100	23,237	45,600		
GRANTS				3,181	1,974	1,550	2,226	3,050	4,100	6,387	20,750		
LOANS				600	7,235	3,500	3,000	3,900	2,000	16,850	24,850		
Objective 8: Shelter and Services													
FN Rural Housing Improvement	6	171	8	0	80	0	0	0	0	200	200	81	83
FN Rural Housing Improvement	L	171	8	0	885	0	0	0	0	3,300	3,300	81	84
HE Rural Water & Sanitation	6	166	8	0	310	0	247	0	0	1,200	1,200	80	85
HE Rural Water & Sanitation	L	166	8	2,387	3,317	0	3,722	0	3,150	19,500	19,500	80	86
HE Bay Islands Development (OPG)	6	233	8	0	98	0	0	0	0	380	380	83	84
SD Shelter for the Urban Poor II	6	206	8	0	146	0	283	0	0	450	450	85	85
SD Co-op Housing Foundation (OPG)	6	317	8	0	0	0	0	2,000	250	0	2,000	88	88
TOTAL FOR OBJECTIVE 8				2,387	4,836	0	4,252	2,000	3,400	25,030	27,030		
GRANTS				0	634	0	530	2,000	250	2,230	4,230		
LOANS				2,387	4,202	0	3,722	0	3,150	22,800	22,800		

USAID/HONDURAS
FY 88 ACTION PLAN

Table VIII
SUMMARY BUDGET TABLE DA & ESF FUNDING BY OBJECTIVE
(In Thousands of Dollars)

Acct/Project Title	L/G Number	- FY 1986 -		- FY 1987 -		- FY 1988 -		TOTAL PROJECT COST		FISCAL YEAR	
		OBLIGA TIONS	EXPEN DITURES	OBLIGA TIONS	EXPEN DITURES	OBLIGA TIONS	EXPEN DITURES	Authd	Planned	INITIAL	FINAL
Objective 9: Peace Scholarships No Bilateral Funding											
Objective 10: Consolidation of Democratic Processes											
SD Special Dev. Activities	G 169 10	100	100	100	100	100	100	400	CONT	81	CONT
SD FOPRIDEM Instit'l Streng. (OPS)	G 266 10	107	249	0	170	0	72	500	500	85	86
SD Strengthening Democratic Insti.	G 296 10	0	0	1,700	350	0	1,000	0	1,700	87	87
TOTAL FOR OBJECTIVE 10		207	349	1,800	620	100	1,172	900	2,200		
GRANTS		207	349	1,800	620	100	1,172	900	2,200		
LOANS		-	-	-	-	-	-	-	-		
TOTAL FOR ALL OBJECTIVES		1104,463	1183,072	1141,025	1155,441	1160,752	1169,072	1436,006	11,065,353		
GRANTS		88,876	1154,345	1120,128	1120,186	1141,352	1137,113	1262,797	800,644		
LOANS		15,587	28,727	20,897	35,255	19,400	31,959	1173,209	254,709		

TABLE IX
FY 1988 FUNDING REQUEST
(\$THOUSANDS)

ESF	108,752
DA	52,000
PL 480 TITLE I/III	15,000
PL 480 TITLE II	4,100
TOTAL	<u>179,852</u>

III. MANAGEMENT PLANS AND OBJECTIVES

III. MANAGEMENT PLANS AND OBJECTIVES

A. Operating Expense Resources and Staffing Requirements

1. Staffing

USAID/Honduras will be basically fully staffed to enable us to cope with the expanded program resulting from the Central American Initiative by the end of FY86. We are proposing no new additions to direct hire staff to support our program. A level of 35 USDH and 36 FNDH is straight-lined for FYs 87 and 88. We have requested and received three resident hire slots and are budgetting for two new IDIs in FY87 and for one additional IDI in FY88. Requirements for additional support staff have surfaced and modest increases in FN PSCs will be completed in FY86 to retain effectiveness and efficiency in supporting the program. Even with this increased staff, we believe that our total staff to project ratio or support personnel to project ratio or any other ratios developed using "rules of thumb" will compare favorably to those of other USAIDs in the LAC Bureau or other bureaus. Insuring that over \$50 million in Development Assistance funds each year are expended in a prudent and responsible manner requires a substantial staff. If the oversight responsibilities for the local currency programs generated under our ESF and PL 480 programs are included in the ratio computations, our staffing levels look even more reasonable.

Regardless of the favorable ratios, we are concerned about the cost of running this USAID. Since personnel is a major cost element in our OE budget, the Director conducted an intensive review with each Office Director of all personnel currently on board and the additional staff being proposed to insure that the USAID remains lean and cost-effective. The operative rule in formulating our OE budget was to charge new personnel to projects where such charging made sense. To the extent possible, we are using local currency trust funds and a variety of projects to fund a number of contractors that were previously covered under operating expenses. The attached tables reflect our proposed staffing for FY87 and FY88 and are, in our judgment, the minimum level necessary to carry out our responsibilities.

USAID/Honduras also provides full accounting support to both RIG/Honduras and USAID/Belize. We estimate that approximately five person-years of USAID/Honduras' operating expense staff is devoted to these organizations. Our staffing levels should be reviewed with this factor in mind.

TABLE X
 USAID/HONDURAS OE WORKFORCE TABLE
 POSITIONS ENCUMBERED AS OF SEPTEMBER 30
 FY87

O F F I C E	TYPE OF POSITION										TOTALS
	USDH	US CONT	IDI	RES HIRE	PASA	FSN DH	FSN CONT	TCN			
Office of Director	3				3						6
Office of Management	3	4		2	5	21					35
Office of Development Programs	2				2	3					7
Office of Development Finance	5				1	3					9
Office of Economic and Program Analysis	3					1					4
Office of Private Sector Program	2					2					4
Office of Engineering	2				5	1					8
Office of Rural Development	6		2		5	7					20
Office of Human Resources Development	6				4	5					15
Office of Controller	3	1		1	11	20					36
T O T A L S	35	5	2	3	0	63	0	0	0	0	144

TABLE X (continued)
 USAID/HONDURAS OE WORKFORCE TABLE
POSITIONS ENCUMBERED AS OF SEPTEMBER 30
FY88

O F F I C E	TYPE OF POSITION										TOTALS
	USDH	US CONT	IDI	RES HIRE	PASA	FSN DH	FSN CONT	TCN			
Office of Director	3					3					6
Office of Management	3	4		2		5	21				35
Office of Development Programs	2					2	3				7
Office of Development Finance	5					1	3				9
Office of Economic and Program Analysis	3						1				4
Office of Private Sector Program	2						2				4
Office of Engineering	2					5	1				8
Office of Rural Development	6		2			5	7				20
Office of Human Resources Development	6		1			4	5				16
Office of Controller	3	1		1		11	20				36
T O T A L S	35	5	3	3	0	36	63	0			145

2. Operating Expenses

We have negotiated a trust fund which defrayed the cost of running our USAID by \$1.5 million in FY85. In FY86, the trust fund will be used to cover almost \$2.0 million in USAID operational costs and this figure will increase to \$2.3 million in FY87 and \$2.5 million in FY88. These amounts represent a significant contribution by the GOH in sharing the cost of maintaining the USAID in Tegucigalpa. The GOH has contributed or will contribute more than 25% of our operating expense cost during the FY85 to FY88 period. The trust fund amounts that are being budgetted for FYs 86, 87, and 88 are the maximum amounts that we can realistically use since all of our local cost expenses are being covered.

Since the prime driving force behind operating expenses is personnel, the total Operating Expense budgets for FY87 and FY88 reflect modest increases completed by the end of FY86 that we believe are necessary to carry out our program. In FY86, we received two professional resident hire slots and one secretarial resident hire slot that were used to employ an Assistant Management Officer, an Assistant Budget and Accounting Officer, and a secretary. We believe that Honduras is an excellent training ground for IDI's and we have budgetted two new IDIs in FY87 and one new IDI in FY88. This level of three IDIs is consistent with our normal contingent of interns. The net result of this essential U.S. direct hire staff is to push our total OE cost up for the expense category of U. S. Direct Hire by \$380,000 from FY86 to FY88.

Expenses for our Foreign National Direct Hire Staff increases by \$328,000 from FY86 to FY88. We have continued to fill vacancies as they occur with professional staff and use our contract positions for sub-professionals. Since our professionals are paid considerably more than our clerical staff, the cost in the direct hire foreign national category increases. In addition, we are budgetting a 7% salary increase in both FY87 and FY88 for our foreign national staff. The budgetted salary increase also explains why our contract personnel expense increases from FY86 to FY88.

In an attempt to reduce our costs of operation, we are in the process of withdrawing from certain FAAS functions. We estimate that this action will result in at least \$50,000 in FAAS cost savings, as well as improved service and greatly increased property accountability.

TABLE XI FY88 ACTION PLAN
 FY88 Annual Budget Submission TABLE VIII - FY86
 USAID/HONDURAS

<u>EXPENSE CATEGORY</u>	<u>FUNC. CODE</u>	<u>OBJECT CLASS</u>	<u>DOLLARS</u>	<u>TRUST FUNDS</u>	<u>TOTAL</u>	<u>UNITS</u>
<u>U.S. DIRECT HIRE</u>	U100		<u>2622.3</u>		<u>2622.3</u>	<u>XXXXXX</u>
U.S. CITIZENS BASIC PAY	U101	110	<u>1856.1</u>		<u>1856.1</u>	<u>35.2</u>
PT/TEMP U.S. BASIC PAY	U102	112				
DIFFERENTIAL PAY	U103	116	<u>318.3</u>		<u>318.3</u>	<u>XXXXXX</u>
OTHER AID/W FUNDED CODE 11	U104	119	<u>3.0</u>		<u>3.0</u>	<u>XXXXXX</u>
OTHER MISSION FUNDED CODE 11	U105	119				<u>XXXXXX</u>
EDUCATION ALLOWANCES	U106	126	<u>117.6</u>		<u>117.6</u>	<u>32.0</u>
RETIREMENT - U.S. DIRECT HIRE	U107	120	<u>129.9</u>		<u>129.9</u>	<u>XXXXXX</u>
LIVING ALLOWANCES	U108	128				<u>XXXXXX</u>
OTHER AID/W FUNDED CODE 12	U109	129	<u>46.4</u>		<u>46.4</u>	<u>XXXXXX</u>
OTHER MISSION FUNDED CODE 12	U110	129	<u>8.2</u>		<u>8.2</u>	<u>XXXXXX</u>
POST ASSIGNMENT - TRAVEL	U111	212	<u>7.0</u>		<u>7.0</u>	<u>6.0</u>
POST ASSIGNMENT - FREIGHT	U112	22	<u>46.2</u>		<u>46.2</u>	<u>6.0</u>
HOME LEAVE - TRAVEL	U113	212	<u>24.3</u>		<u>24.3</u>	<u>9.0</u>
HOME LEAVE - FREIGHT	U114	22	<u>11.6</u>		<u>11.6</u>	<u>9.0</u>
EDUCATION TRAVEL	U115	215	<u>6.0</u>		<u>6.0</u>	<u>4.0</u>
R AND R TRAVEL	U116	215	<u>32.7</u>		<u>32.7</u>	<u>24.0</u>
OTHER CODE 215 TRAVEL	U117	215	<u>15.0</u>		<u>15.0</u>	<u>4.0</u>
<u>FOREIGN NATIONAL DH</u>	U200		<u>118.1</u>	<u>822.3</u>	<u>940.4</u>	<u>XXXXXX</u>
BASIC PAY	U201	114	<u>89.0</u>	<u>635.4</u>	<u>724.4</u>	<u>33.3</u>
OVERTIME, HOLIDAY PAY	U202	115		<u>30.0</u>	<u>30.0</u>	<u>1.2</u>
ALL OTHER CODE 11 - FN	U203	119				<u>XXXXXX</u>
ALL OTHER CODE 12	U204	129	<u>29.1</u>	<u>156.9</u>	<u>186.0</u>	<u>XXXXXX</u>
BENEFITS FORMER FN PERSONNEL	U205	13				<u>XXXXXX</u>
<u>CONTRACT PERSONNEL</u>	U300		<u>265.7</u>	<u>603.2</u>	<u>868.9</u>	<u>XXXXXX</u>
PASA TECHNICIANS	U301	258				
U.S. PSC - SALARY/BENEFITS	U302	113	<u>195.0</u>		<u>195.0</u>	<u>6.5</u>
ALL OTHER U.S. PSC COSTS	U303	255				<u>XXXXXX</u>
F.N. PSC - SALARY/BENEFITS	U304	113	<u>65.7</u>	<u>603.2</u>	<u>668.9</u>	<u>60.1</u>
ALL OTHER F.N. PSC COSTS	U305	255	<u>5.0</u>		<u>5.0</u>	<u>XXXXXX</u>
MANPOWER CONTRACTS	U306	259				
JCC COSTS PAID BY AID/W	U307	113				
<u>HOUSING</u>	U400		<u>761.1</u>	<u>60.5</u>	<u>821.6</u>	<u>XXXXXX</u>
RESIDENTIAL RENT	U401	235	<u>66.0</u>		<u>66.0</u>	<u>4.0</u>
RESIDENTIAL UTILITIES	U402	236		<u>10.5</u>	<u>10.5</u>	<u>XXXXXX</u>
MAINTENANCE AND RENOVATION	U403	259		<u>5.0</u>	<u>5.0</u>	<u>XXXXXX</u>
QUARTERS ALLOWANCES	U404	127	<u>404.3</u>		<u>404.3</u>	<u>31.7</u>
RESIDENTIAL FURNITURE/EQUIP.	U405	311	<u>235.0</u>		<u>235.0</u>	<u>XXXXXX</u>
TRANS./FREIGHT - CODE 311	U406	22	<u>50.0</u>		<u>50.0</u>	<u>XXXXXX</u>
SECURITY GUARD SERVICES	U407	254		<u>45.0</u>	<u>45.0</u>	<u>XXXXXX</u>
OFFICIAL RESIDENCE ALLOW.	U408	254	<u>3.8</u>		<u>3.8</u>	<u>XXXXXX</u>
REPRESENTATION ALLOWANCE	U409	252	<u>2.0</u>		<u>2.0</u>	<u>XXXXXX</u>

FY 1988 ACTION PLAN TABLE XI (continued)
 FY 1988 Annual Budget Submission TABLE VIII - FY 1986 (continued)

<u>EXPENSE CATEGORY</u>	<u>FUNC. CODE</u>	<u>OBJECT CLASS</u>	<u>DOLLARS</u>	<u>TRUST FUNDS</u>	<u>TOTAL</u>	<u>UNITS</u>
<u>OFFICE OPERATIONS</u>	U500		1333.5	503.2	1836.7	XXXXXX
OFFICE RENT	U501	234	75.2	12.5	87.7	XXXXXX
OFFICE UTILITIES	U502	234				XXXXXX
BUILDING MAINT./RENOVATION	U503	259		8.0	8.0	XXXXXX
OFFICE FURNITURE/EQUIPMENT	U504	310	283.8		283.8	XXXXXX
VEHICLES	U505	312	56.8		56.8	XXXXXX
OTHER EQUIPMENT	U506	319	30.0		30.0	XXXXXX
TRANSPORTATION/FREIGHT	U507	22	50.5		50.5	XXXXXX
FURN/EQUIP/VEH REPAIR/MAINT.	U508	259	109.5	91.9	201.4	XXXXXX
COMMUNICATIONS	U509	230		112.0	112.0	XXXXXX
SECURITY GUARD SERVICES	U510	254				XXXXXX
PRINTING	U511	24				XXXXXX
RIG/II OPERATIONAL TRAVEL	U512	210				
SITE VISITS - MISSION PERS.	U513	210	50.0	75.0	125.0	* 240.0
SITE VISITS - AID/W PERS.	U514	210	20.0		20.0	8.0
INFORMATION MEETINGS	U515	210	5.0		5.0	4.0
TRAINING ATTENDANCE	U516	210	30.0		30.0	19.0
CONFERENCE ATTENDANCE	U517	210	20.0		20.0	18.0
OTHER OPERATIONAL TRAVEL	U518	210				
SUPPLIES AND MATERIALS	U519	26	57.2	115.0	172.2	XXXXXX
FAAS	U520	257	470.0		470.0	XXXXXX
CONSULTING SVCS - CONTRACTS	U521	259				XXXXXX
MGT./PROF. SVCS. - CONTRACTS	U522	259				XXXXXX
SPEC. STUDIES/ANALYSES CONT.	U523	259				XXXXXX
ALL OTHER CODE 25	U524	259	75.5	88.8	164.3	XXXXXX
TOTAL O.E. BUDGET			5100.7	1989.2	7089.9	XXXXXX
RECONCILIATION			2823.7		2823.7	XXXXXX
OPERATING BUDGET REQUIREMENTS						XXXXXX
636C REQUIREMENTS	U600	32				
TOTAL ALLOWANCE REQUEST	U000		2277.0	1989.2	4266.2	
OTHER INFORMATION:						
DOLLARS REQUIRED FOR LOCAL CURRENCY EXPENSES				-0-		
EXCHANGE RATE USED (MARCH 31, 1986)				L2:\$1		

*Includes a portion of the \$142.9 in PD&S for local cost support that we received in FY86.

FY 1988 ACTION PLAN TABLE XI (continued)
 FY 1988 Annual Budget Submission TABLE VIII - FY 1987

<u>EXPENSE CATEGORY</u>	<u>FUNC. CODE</u>	<u>OBJECT CLASS</u>	<u>DOLLARS</u>	<u>TRUST FUNDS</u>	<u>TOTAL</u>	<u>UNITS</u>
<u>U.S. DIRECT HIRE</u>	U100		2971.5		2971.5	XXXXXX
U.S. CITIZENS BASIC PAY	U101	110	2023.9		2023.9	40.4
PT/TEMP U.S. BASIC PAY	U102	112				
DIFFERENTIAL PAY	U103	116	392.7		392.7	XXXXXX
OTHER AID/W FUNDED CODE 11	U104	119	4.0		4.0	XXXXXX
OTHER MISSION FUNDED CODE 11	U105	119				XXXXXX
EDUCATION ALLOWANCES	U106	126	107.0		107.0	37.0
RETIREMENT - U.S. DIRECT HIRE	U107	120	141.7		141.7	XXXXXX
LIVING ALLOWANCES	U108	128				XXXXXX
OTHER AID/W FUNDED CODE 12	U109	129	50.4		50.4	XXXXXX
OTHER MISSION FUNDED CODE 12	U110	129	13.3		13.3	XXXXXX
POST ASSIGNMENT - TRAVEL	U111	212	20.6		20.6	11.0
POST ASSIGNMENT - FREIGHT	U112	22	99.0		99.0	11.0
HOME LEAVE - TRAVEL	U113	212	50.5		50.5	18.0
HOME LEAVE - FREIGHT	U114	22	27.6		27.6	18.0
EDUCATION TRAVEL	U115	215	6.6		6.6	4.0
R AND R TRAVEL	U116	215	17.7		17.7	11.0
OTHER CODE 215 TRAVEL	U117	215	16.5		16.5	5.0
<u>FOREIGN NATIONAL DH</u>	U200		123.3	991.3	1114.6	XXXXXX
BASIC PAY	U201	114	90.0	773.6	863.6	35.2
OVERTIME, HOLIDAY PAY	U202	115		35.0	35.0	1.3
ALL OTHER CODE 11 - FN	U203	119				XXXXXX
ALL OTHER CODE 12	U204	129	33.3	182.7	216.0	XXXXXX
BENEFITS FORMER FN PERSONNEL	U205	13				XXXXXX
<u>CONTRACT PERSONNEL</u>	U300		180.0	720.4	900.4	XXXXXX
PASA TECHNICIANS	U301	258				
U.S. PSC - SALARY/BENEFITS	U302	113	130.0		130.0	5.0
ALL OTHER U.S. PSC COSTS	U303	255				XXXXXX
F.N. PSC - SALARY/BENEFITS	U304	113	50.0	720.4	770.4	63.0
ALL OTHER F.N. PSC COSTS	U305	255				XXXXXX
MANPOWER CONTRACTS	U306	259				
JCC COSTS PAID BY AID/W	U307	113				
<u>HOUSING</u>	U400		717.9	64.5	782.4	XXXXXX
RESIDENTIAL RENT	U401	235	69.6		69.6	4.0
RESIDENTIAL UTILITIES	U402	236		11.5	11.5	XXXXXX
MAINTENANCE AND RENOVATION	U403	259		3.0	3.0	XXXXXX
QUARTERS ALLOWANCES	U404	127	437.0		437.0	32.0
RESIDENTIAL FURNITURE/EQUIP.	U405	311	168.5		168.5	XXXXXX
TRANS./FREIGHT - CODE 311	U406	22	37.0		37.0	XXXXXX
SECURITY GUARD SERVICES	U407	254		50.0	50.0	XXXXXX
OFFICIAL RESIDENCE ALLOW.	U408	254	3.8		3.8	XXXXXX
REPRESENTATION ALLOWANCE	U409	252	2.0		2.0	XXXXXX

FY 1988 ACTION PLAN TABLE XI (continued)
 FY 1988 Annual Budget Submission TABLE VIII - FY 1987 (continued)

<u>EXPENSE CATEGORY</u>	<u>FUNC. CODE</u>	<u>OBJECT CLASS</u>	<u>DOLLARS</u>	<u>TRUST FUNDS</u>	<u>TOTAL</u>	<u>UNITS</u>
<u>OFFICE OPERATIONS</u>	U500		<u>1390.9</u>	<u>519.6</u>	<u>1910.5</u>	<u>XXXXX</u>
OFFICE RENT	U501	234	<u>140.6</u>	<u>50.0</u>	<u>190.6</u>	<u>XXXXX</u>
OFFICE UTILITIES	U502	234				<u>XXXXX</u>
BUILDING MAINT./RENOVATION	U503	259		<u>10.0</u>	<u>10.0</u>	<u>XXXXX</u>
OFFICE FURNITURE/EQUIPMENT	U504	310	<u>267.4</u>		<u>267.4</u>	<u>XXXXX</u>
VEHICLES	U505	312	<u>96.0</u>		<u>96.0</u>	<u>XXXXX</u>
OTHER EQUIPMENT	U506	319				<u>XXXXX</u>
TRANSPORTATION/FREIGHT	U507	22	<u>53.5</u>		<u>53.5</u>	<u>XXXXX</u>
FURN/EQUIP/VEH REPAIR/MAINT.	U508	259	<u>121.1</u>	<u>91.9</u>	<u>213.0</u>	<u>XXXXX</u>
COMMUNICATIONS	U509	230		<u>118.0</u>	<u>118.0</u>	<u>XXXXX</u>
SECURITY GUARD SERVICES	U510	254				<u>XXXXX</u>
PRINTING	U511	24				<u>XXXXX</u>
RIG/II OPERATIONAL TRAVEL	U512	210				
SITE VISITS - MISSION PERS.	U513	210	<u>60.0</u>	<u>80.0</u>	<u>140.0</u>	<u>26.0</u>
SITE VISITS - AID/W PERS.	U514	210	<u>20.0</u>		<u>20.0</u>	<u>9.0</u>
INFORMATION MEETINGS	U515	210	<u>10.0</u>		<u>10.0</u>	<u>7.0</u>
TRAINING ATTENDANCE	U516	210	<u>35.0</u>		<u>35.0</u>	<u>20.0</u>
CONFERENCE ATTENDANCE	U517	210	<u>25.0</u>		<u>25.0</u>	<u>20.0</u>
OTHER OPERATIONAL TRAVEL	U518	210				
SUPPLIES AND MATERIALS	U519	26	<u>104.4</u>	<u>81.0</u>	<u>185.4</u>	<u>XXXXX</u>
FAAS	U520	257	<u>380.0</u>		<u>380.0</u>	<u>XXXXX</u>
CONSULTING SVCS - CONTRACTS	U521	259				<u>XXXXX</u>
MGT./PROF. SVCS. - CONTRACTS	U522	259				<u>XXXXX</u>
SPEC. STUDIES/ANALYSES CONT.	U523	259				<u>XXXXX</u>
ALL OTHER CODE 25	U524	259	<u>77.9</u>	<u>88.7</u>	<u>166.6</u>	<u>XXXXX</u>
TOTAL O.E. BUDGET			<u>5383.6</u>	<u>2295.8</u>	<u>7679.4</u>	<u>XXXXX</u>
RECONCILIATION			<u>2992.7</u>		<u>2992.7</u>	<u>XXXXX</u>
OPERATING BUDGET REQUIREMENTS						<u>XXXXX</u>
636C REQUIREMENTS	U600	32				
TOTAL ALLOWANCE REQUEST	U000		<u>2390.9</u>	<u>2295.8</u>	<u>4686.7</u>	
OTHER INFORMATION:						
DOLLARS REQUIRED FOR LOCAL CURRENCY EXPENSES				<u>0</u>		
EXCHANGE RATE USED (MARCH 31, 1986)				<u>L2:\$1</u>		
Estimated Wage Increases - FY 1986 to FY 1987				<u>7.0%</u>		
Estimated Price Increases - FY 1986 to FY 1987				<u>5.0%</u>		

FY 1988 ACTION PLAN TABLE XI (continued)
 FY 1988 Annual Budget Submission TABLE VIII - FY 1988

<u>EXPENSE CATEGORY</u>	<u>FUNC. CODE</u>	<u>OBJECT CLASS</u>	<u>DOLLARS</u>	<u>TRUST FUNDS</u>	<u>TOTAL</u>	<u>UNITS</u>
<u>U.S. DIRECT HIRE</u>	U100		<u>3009.9</u>		<u>3009.9</u>	<u>XXXXXX</u>
U.S. CITIZENS BASIC PAY	U101	110	<u>2062.2</u>		<u>2062.2</u>	<u>40.4</u>
PT/TEMP U.S. BASIC PAY	U102	112				
DIFFERENTIAL PAY	U103	116	<u>396.1</u>		<u>396.1</u>	<u>XXXXXX</u>
OTHER AID/W FUNDED CODE 11	U104	119	<u>5.0</u>		<u>5.0</u>	<u>XXXXXX</u>
OTHER MISSION FUNDED CODE 11	U105	119				<u>XXXXXX</u>
EDUCATION ALLOWANCES	U106	126	<u>140.8</u>		<u>140.8</u>	<u>44.0</u>
RETIREMENT - U.S. DIRECT HIRE	U107	120	<u>144.3</u>		<u>144.3</u>	<u>XXXXXX</u>
LIVING ALLOWANCES	U108	128				<u>XXXXXX</u>
OTHER AID/W FUNDED CODE 12	U109	129	<u>51.5</u>		<u>51.5</u>	<u>XXXXXX</u>
OTHER MISSION FUNDED CODE 12	U110	129	<u>13.4</u>		<u>13.4</u>	<u>XXXXXX</u>
POST ASSIGNMENT - TRAVEL	U111	212	<u>19.8</u>		<u>19.8</u>	<u>8.0</u>
POST ASSIGNMENT - FREIGHT	U112	22	<u>63.8</u>		<u>63.8</u>	<u>8.0</u>
HOME LEAVE - TRAVEL	U113	212	<u>30.3</u>		<u>30.3</u>	<u>13.0</u>
HOME LEAVE - FREIGHT	U114	22	<u>17.1</u>		<u>17.1</u>	<u>13.0</u>
EDUCATION TRAVEL	U115	215	<u>6.6</u>		<u>6.6</u>	<u>4.0</u>
R AND R TRAVEL	U116	215	<u>39.2</u>		<u>39.2</u>	<u>24.0</u>
OTHER CODE 215 TRAVEL	U117	215	<u>19.8</u>		<u>19.8</u>	<u>5.0</u>
 <u>FOREIGN NATIONAL DH</u>	 U200		 <u>174.0</u>	 <u>1094.7</u>	 <u>1268.7</u>	 <u>XXXXXX</u>
BASIC PAY	U201	114	<u>133.0</u>	<u>849.7</u>	<u>982.7</u>	<u>36.0</u>
OVERTIME, HOLIDAY PAY	U202	115		<u>40.0</u>	<u>40.0</u>	<u>1.3</u>
ALL OTHER CODE 11 - FN	U203	119				<u>XXXXXX</u>
ALL OTHER CODE 12	U204	129	<u>41.0</u>	<u>205.1</u>	<u>246.0</u>	<u>XXXXXX</u>
BENEFITS FORMER FN PERSONNEL	U205	13				<u>XXXXXX</u>
 <u>CONTRACT PERSONNEL</u>	 U300		 <u>205.0</u>	 <u>799.8</u>	 <u>1004.8</u>	 <u>XXXXXX</u>
PASA TECHNICIANS	U301	258				
U.S. PSC - SALARY/BENEFITS	U302	113	<u>135.0</u>		<u>135.0</u>	<u>5.0</u>
ALL OTHER U.S. PSC COSTS	U303	255				<u>XXXXXX</u>
F.N. PSC - SALARY/BENEFITS	U304	113	<u>70.0</u>	<u>799.8</u>	<u>869.8</u>	<u>63.0</u>
ALL OTHER F.N. PSC COSTS	U305	255				<u>XXXXXX</u>
MANPOWER CONTRACTS	U306	259				
JCC COSTS PAID BY AID/W	U307	113				
 <u>HOUSING</u>	 U400		 <u>750.3</u>	 <u>70.5</u>	 <u>820.8</u>	 <u>XXXXXX</u>
RESIDENTIAL RENT	U401	235	<u>75.0</u>		<u>75.0</u>	<u>4</u>
RESIDENTIAL UTILITIES	U402	236		<u>12.5</u>	<u>12.5</u>	<u>XXXXXX</u>
MAINTENANCE AND RENOVATION	U403	259		<u>3.0</u>	<u>3.0</u>	<u>XXXXXX</u>
QUARTERS ALLOWANCES	U404	127	<u>458.0</u>		<u>458.0</u>	<u>33.0</u>
RESIDENTIAL FURNITURE/EQUIP.	U405	311	<u>176.0</u>		<u>176.0</u>	<u>XXXXXX</u>
TRANS./FREIGHT - CODE 311	U406	22	<u>35.5</u>		<u>35.5</u>	<u>XXXXXX</u>
SECURITY GUARD SERVICES	U407	254		<u>55.0</u>	<u>55.0</u>	<u>XXXXXX</u>
OFFICIAL RESIDENCE ALLOW.	U408	254	<u>3.8</u>		<u>3.8</u>	<u>XXXXXX</u>
REPRESENTATION ALLOWANCE	U409	252	<u>2.0</u>		<u>2.0</u>	<u>XXXXXX</u>

FY 1988 ACTION PLAN TABLE XI (continued)
 FY 1988 Annual Budget Submission TABLE VIII - FY 1988 (continued)

<u>EXPENSE CATEGORY</u>	<u>FUNC. CODE</u>	<u>OBJECT CLASS</u>	<u>DOLLARS</u>	<u>TRUST FUNDS</u>	<u>TOTAL</u>	<u>UNITS</u>
<u>OFFICE OPERATIONS</u>	U500		1420.3	523.9	1944.2	XXXXX
OFFICE RENT	U501	234	140.6	50.0	190.6	XXXXX
OFFICE UTILITIES	U502	234				XXXXX
BUILDING MAINT./RENOVATION	U503	259		10.0	10.0	XXXXX
OFFICE FURNITURE/EQUIPMENT	U504	310	257.7		257.7	XXXXX
VEHICLES	U505	312	85.0		85.0	XXXXX
OTHER EQUIPMENT	U506	319				XXXXX
TRANSPORTATION/FREIGHT	U507	22	37.0		37.0	XXXXX
FURN/EQUIP/VEH REPAIR/MAINT.	U508	259	132.1	91.9	224.0	XXXXX
COMMUNICATIONS	U509	230		124.0	124.0	XXXXX
SECURITY GUARD SERVICES	U510	254				XXXXX
PRINTING	U511	24				XXXXX
RIG/II OPERATIONAL TRAVEL	U512	210				
SITE VISITS - MISSION PERS.	U513	210	75.0	80.0	155.0	275.0
SITE VISITS - AID/W PERS.	U514	210	25.0		25.0	10.0
INFORMATION MEETINGS	U515	210	10.0		10.0	7.0
TRAINING ATTENDANCE	U516	210	40.0		40.0	21.0
CONFERENCE ATTENDANCE	U517	210	30.0		30.0	22.0
OTHER OPERATIONAL TRAVEL	U518	210				
SUPPLIES AND MATERIALS	U519	26	110.0	87.1	197.1	XXXXX
FAAS	U520	257	390.0		390.0	XXXXX
CONSULTING SVCS - CONTRACTS	U521	259				XXXXX
MGT./PROF. SVCS. - CONTRACTS	U522	259				XXXXX
SPEC. STUDIES/ANALYSES CONT.	U523	259				XXXXX
ALL OTHER CODE 25	U524	259	87.9	80.9	168.8	XXXXX
TOTAL O.E. BUDGET			5559.5	2488.9	8048.4	XXXXX
RECONCILIATION			3049.1		3049.1	XXXXX
OPERATING BUDGET REQUIREMENTS						XXXXX
636C REQUIREMENTS	U600	32				
TOTAL ALLOWANCE REQUEST	U000		2510.4	2488.9	4999.3	
OTHER INFORMATION:						
DOLLARS REQUIRED FOR LOCAL CURRENCY EXPENSES				0		
EXCHANGE RATE USED (MARCH 31, 1986)				L2:\$1		
Estimated Wage Increases - FY 1987 to FY 1988				7.0%		
Estimated Price Increases - FY 1987 to FY 1988				5.0%		

B. Staffing and Financial Resources Allocated to Objectives

The attached graphs link our dollar-funded program, staff and operating expenses to the objectives set forth in this Action Plan.

The first two graphs reflect the program levels and pipeline by objective at the end of FY 87. The last two graphs reflect the person-years of staff resources and Operating Expense budget allocated against each of our ten objectives.

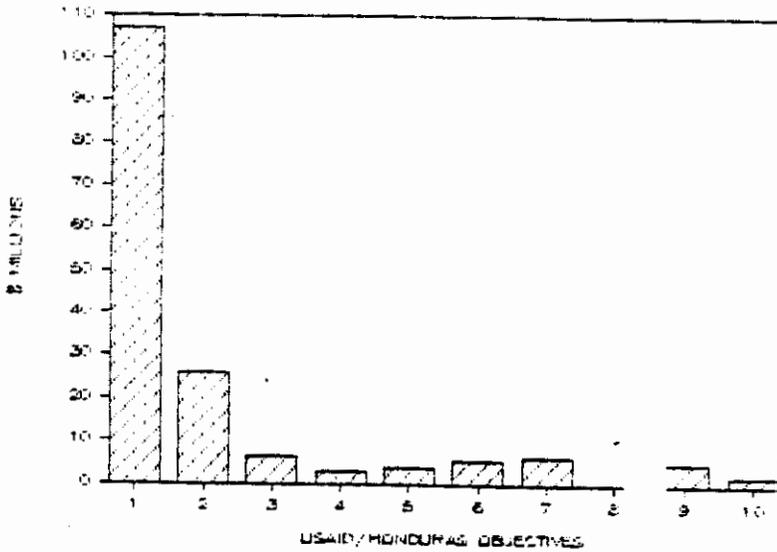
These graphs indicate that a significant share of both our program and financial human resources are allocated against our agricultural production objective. While a substantial amount of program resources are allocated to our macroeconomic performance objective, it is, as one would expect, less labor intensive than the implementation of our agricultural portfolio. The next highest concentrations of our program and staff resources are the objectives related to shelter and export expansion. Employment also is relatively staff intensive.

It is worth noting that although we have sizeable program resources approved and proposed for the objectives related to life expectancy, primary education and population, these require relatively less staff resources to implement. This is due to the nature of the assistance we are providing, and the systemic and institutional capabilities we have helped to strengthen under earlier assistance efforts. The staff allocations for the peace scholarships and democratic processes objectives are relatively small, as are the proposed levels of assistance.

With respect to the methodology used for these tables, the following is pertinent. We first determined the person-years, basically among our line offices and regardless of source of funding, available to directly support the USAID's efforts to achieve each objective. Excluded are institutional and personal service contractors working directly with the GOH and private sector counterparts to implement our program. The number of person-years was then totalled, and a percentage of total staffing allocated to each objective was calculated. This percentage was then used to allocate person-years of staff office support and of Operating Expense costs to each objective.

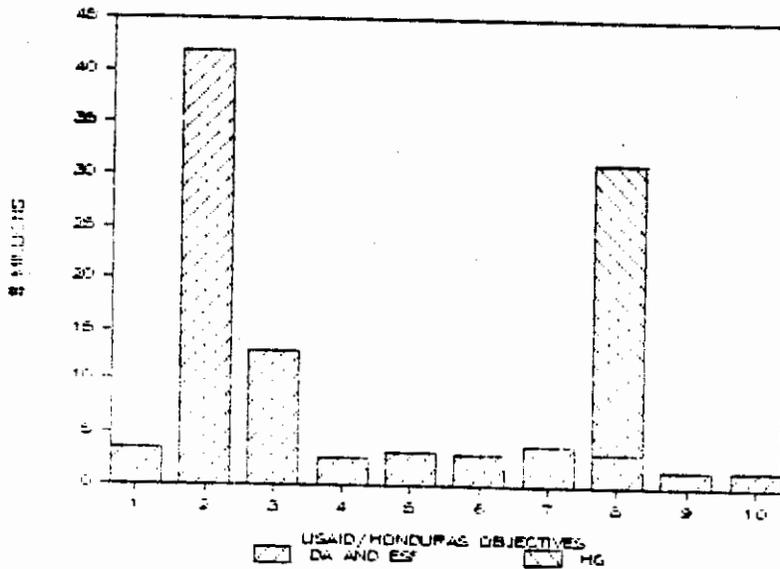
GRAPH 1

FY87 PROGRAM



GRAPH 2

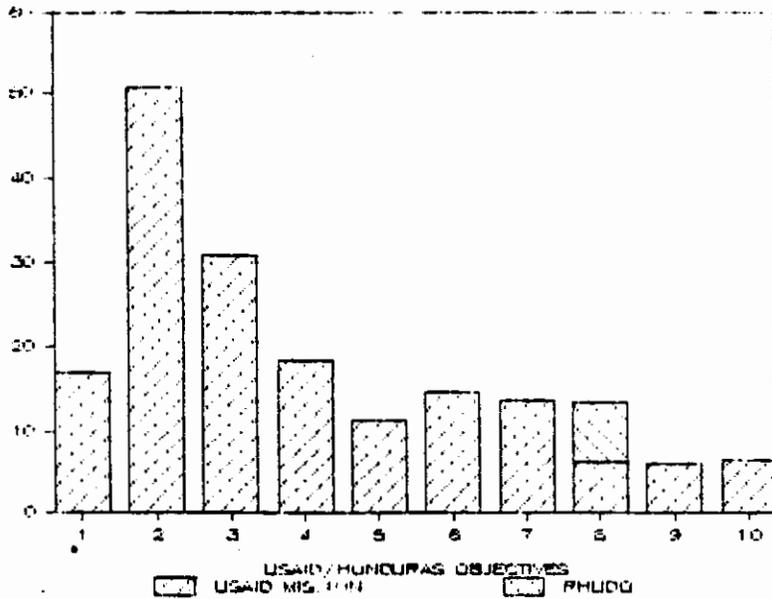
FY87 PIPELINE



1. Substantial improvement in macroeconomic performance by 1990.
2. Increase agricultural production by \$400 million by 1990.
3. Generate \$320 million in export earnings by 1990.
4. Generate 300,000 person-years of productive employment by 1990.
5. Reduce the population growth rate to 2.7% by 1990.
6. Increase life expectancy to 65 year by 1990.
7. Increase the proportion of primary school students completing the sixth grade from 28% in 1984 to 45% in 1996, while reducing costs from \$963 per graduate to \$675 per graduate.
8. Provide 70,000 improved shelter and water sanitation service solutions by 1990.
9. Provide 1,582 Honduran citizens with educational opportunities in the United States' democratic environment by 1990.
10. Consolidate the legislative, judicial and electoral and other democratic processes affecting the rights of citizens by 1990.

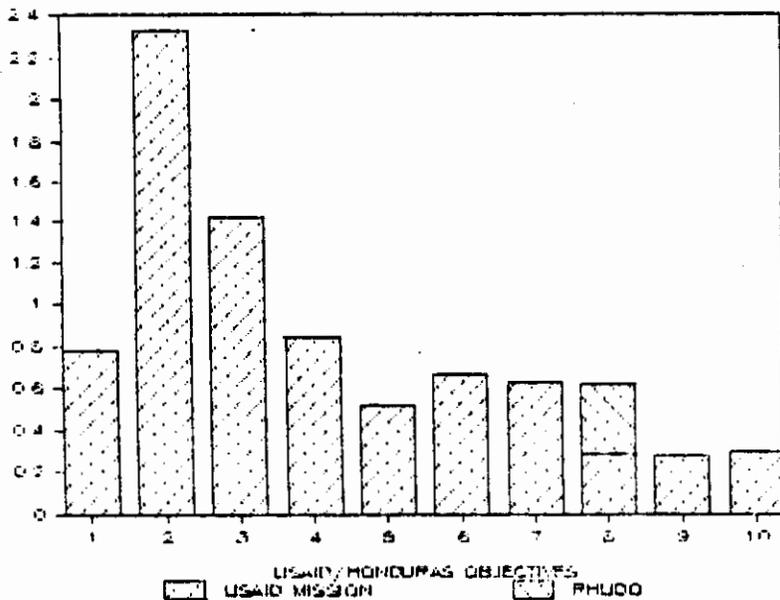
GRAPH 3

FY87 PERSON-YEARS



GRAPH 4

FY87 OE BUDGET



1. Substantial improvement in macroeconomic performance by 1990.
2. Increase agricultural production by \$400 million by 1990.
3. Generate \$320 million in export earnings by 1990.
4. Generate 300,000 person-years of productive employment by 1990.
5. Reduce the population growth rate to 2.7% by 1990.
6. Increase life expectancy to 65 years by 1990.
7. Increase the proportion of primary school students completing the sixth grade from 28% in 1984 to 45% in 1996, while reducing costs from \$963 per graduate to \$675 per graduate.
8. Provide 70,000 improved shelter and water sanitation service solutions by 1990.
9. Provide 1,582 Honduran citizens with educational opportunities in the United States' democratic environment by 1990.
10. Consolidate the legislative, judicial and electoral and other democratic processes affecting the rights of citizens by 1990.

C. Management Initiatives

We have undertaken several management initiatives which will improve the quality and/or efficiency of delivery of our assistance. These initiatives include:

1. Portfolio Consolidation: Beginning in October 1985, we initiated a portfolio consolidation exercise designed to have our activities respond more closely with the Central American Initiative's objectives. This consolidation effort will be completed over a two-year period and will include a range of programming mechanisms (e.g., phase-out, activity clustering, and deobligation/reobligation).

Concerning the gradual phase-out of projects, by the end of FY86 the PACD's of 18 individual projects will have expired. To date, eight projects have been closed-out and efforts are currently underway to bring the remaining 10 to an orderly conclusion. While avoiding the design of overly complex, multi-component projects, we are carefully scrutinizing the formulation of new initiatives to determine where compatible activities can be clustered within one management unit both to enhance project impact and achieve operating efficiencies. A relevant example of such clustering is the Education Efficiency Project currently under design for FY86 obligation. Its principal elements -- textbooks, standardization of testing, teacher training and radio education -- could all be developed as separate projects. However, it is our judgement that combining them under one effort will create a synergism that will result in greater impact on improving the quality of primary education than if each were executed separately.

The principal advantage of the deobligation/reobligation authority is that it facilitates the elimination of non-performers, while simultaneously making resources available for other important initiatives. Presently, we have no specific plans to employ this tool. However, it will be held in reserve to be judiciously applied as needed.

2. Procurement Plans: A second management efficiency measure is the institution of an USAID policy to develop thorough implementation and procurement plans. For new starts, such plans will be a part of the project design process and will be completed prior to authorization. They will cover the entire life-of-project (LOP), be disaggregated into quarterly periods, and reviewed and updated semiannually. Draft scopes of work for all long-term technical assistance and specifications for major commodities will be required as Project Paper annexes and will be prepared before projects are approved.

For on-going projects, beginning in FY86, implementation/procurement schedules will be revised to cover the balance of the LOP periods. Like the requirements for new starts, these plans will be segregated into quarterly units, and reviewed and updated twice yearly, where necessary.

3. Management by Objectives (MBO): In February 1986, we instituted a series of Management by Objectives seminars for all levels of USAID personnel. All staff have now received training or orientation in MBO. These seminars were presented under a contract with the Association of Honduran Managers and Entrepreneurs (GEMAH) and were conducted by a consultant from the American Management Associations, International.

The seminars centered first on involving employees in identifying, clarifying and establishing our overall program goals and objectives, and related performance indicators. They also were beneficial in helping to focus on internal management objectives by creating an increased awareness of the need to streamline, systematize and coordinate our internal operating policies and procedures. The principles which were learned and implemented under the MBO program (which is now an ongoing effort) already have contributed to increasing the effectiveness of our planning and operations.

4. Clarification of USAID's Functional Statements: As a result of our MBO discussions, it became apparent that there needed to be further emphasis placed on clearly identifying operating responsibilities and clarifying the functional statements of each USAID Office. Each Office has prepared a updated statement of functional responsibilities, organization and staffing as an initial step in the elimination of overlap and duplication of effort.

5. Revision of USAID's Manual System: As part of the overall effort to improve our policies and procedures, all of the USAID's Mission Orders are being revised and reorganized on a functional basis to make them more readily accessible and informative. This also will involve a new numbering system based on functional categories rather than the current numeric sequence numbers based upon issuance date. This is a ongoing activity which will be completed by the end of FY86.

6. Withdrawal from Certain FAAS Functions: In order to achieve the 25% reduction in costs of FAAS administrative support services mandated by Congress and AID/W, we reviewed all FAAS functions and costs. Based upon our recommendations, AID/W has approved our withdrawal from FAAS for the motor pool and property management functions. It is estimated that this action will result in FAAS cost savings of at least \$50,000, as well as improved services and greatly increased property accountability.

7. Establishment of Rotating Funds: Rotating funds will be established for all major projects in order to speed implementation and reduce the need for dollar advances.

8. Fiduciary Accounts: Fiduciary accounts for private sector local currency-financed projects have been established to reduce the administrative burden of managing the local currency program. This mechanism involves a contract arrangement between a local bank and the PVO according to which the bank manages the fund disbursement process. While this system has been only recently established, it holds promise for significantly reducing our local currency administrative burden.

9. Custom Clearance Procedures: We have contracted with a custom clearance broker using technical support trust funds to provide timely clearances of project commodities.

10. Training Activities: (a) Shorthand Training -- USAID has established a shorthand training course to increase the effectiveness of the secretarial staff with a total of 18 employees having completed beginning, intermediate or advanced training; (b) Project Officer Implementation Training -- we have been (within the limits of budget constraints) supportive of officer training and have emphasized attendance at the Project Implementation Course.

11. Mission Management Assessment: In response to the Central American Initiative, the size and scope of the program has increased dramatically over the past few years. Obligation rates have multiplied six times and, although there has been some increase in staff, rapid expansion has taxed existing systems and programs. To better assess our needs and to recommend actions for Mission management consideration, we contracted with Development Associates to carry out a management assessment. The assessment was carried out by a team of formerly senior and high-level AID and State Department officials. This team has reviewed our programs and operations to assess our performance in meeting overall objectives, and has recommended actions to improve effectiveness.

12. Review of Communications and Records Operations: A contract was let with a former AID C & R Supervisor to completely review our communications and records activities. Along with greatly improving the mail distribution, filing, correspondence control and records retirement (nearly 20 cubic feet retired and 90 cubic feet destroyed), this contractor produced a Communications Handbook which is being used as a guide in the preparation of communications and correspondence. Training of our administrative and secretarial staff has also been conducted.

13. Automation: We understand that AID/W is now following guidelines of one work station for each support employee, and one work station for each three professional employees. USAID currently has an overall average of one work station for each five employees. It is our intent to move towards the AID/W standard, but this will be on a phased basis, with 10 work stations being added in FY 86.

D. Evaluation Plan

This evaluation plan reflects the transition from an evaluation program based on periodically scheduled project evaluations to one focused on the intensive review of topics which reflect major themes of importance to our program and which cut across sectors. We will, however, continue to selectively carry out project evaluations required to make significant management and program decisions. As a result, the FY87 evaluation program changes the pattern of FY86 during which 15 evaluations are currently scheduled to be carried out. This contrasts with the 10 project evaluations originally planned for FY86, as reflected in last year's Action Plan. Although we may not accomplish all 15 evaluations in FY86, it is the considered opinion of the majority of project managers and Mission management that project specific evaluations are an essential management and implementation tool which must be continued.

During FY86, the planned evaluations of the Small Farmer Coffee Improvement (522-0176) and Health Sector I (522-0153) projects were advanced from FY87 in order to have information on impact and to apply the lessons learned to the design of major expansions of these projects. In addition, RHUDO sponsored a PADCO study of Honduras' housing needs from 1985 to 2005 which is being used to determine the best use of the \$35 million in HG funds currently available, as well as, to formulate a strategy for addressing rural shelter needs. A mid-term evaluation of the Small Farmer Titling and Services project (522-0173) underscored the positive benefits of an active publicity campaign in facilitating delineation and titling activities, and resulted in bolstering this project component. The evaluation also pointed out the continuing problem of access to credit for newly titled land holders. As a result, we will negotiate the use of local currency generated under the ESF program to finance a pilot credit program for this target group.

During FY87, we intend to complete seven evaluations of 11 projects, plus a major review of Honduras' nutritional status and needs. Evaluations are being combined where there exist similarities regarding economic sectors and purposes. A joint close-out, implementation review will be held of the ANACH Regional Cooperative Development (522-0203 OPG) and AIFLD Regional (598-0101) projects. Schedules for the evaluation of the Integrated Pest Management OPG (522-0222) and Agricultural Research Foundation (522-0249) projects are being adjusted to consolidate them. Lastly, the CADERH OPG (522-0257), ITEC Institutional Strengthening (522-0287) and GEMAH Institutional Development OPG (522-0256) mid-term and final project evaluations are to be performed at one time.

In FY88, we intend to reduce the number of project evaluations to four, but to increase in-depth and multi-sectoral analyses by conducting reviews of the following:

1. ESF Program: The USAID plans an assessment of the impact of the ESF program which will focus on the qualitative and, to the extent possible, quantitative impact of the macro policy and structural reform measures adopted by the GOH in the context of the program. The specific policy measures to be evaluated will be those included as conditions precedent to disbursement or covenants in the initial and amendatory agreements of the Economic Recovery Program (522-0230) and the Economic Stabilization Facility (522-0283). The assessment will also address the assumptions underlying the structure and content of the programs as bases for achieving stabilization objectives. We will prepare a scope of work in September 1986 and will contract appropriate specialists in January 1987 to conduct the initial assessment of the ESF program from its inception in September 1982 through December 1986. The assessment will be updated periodically.

2. Investment in Agriculture: We will undertake an assessment of GOH policies that affect private sector decision-makers' willingness to invest in agricultural activities. The study will review the laws, regulations and GOH policies that relate to undertaking an agricultural or agribusiness venture in Honduras, prepare case studies of representative agribusiness ventures to identify specific constraints that were encountered in undertaking recently initiated ventures and propose specific measures that could be taken to alleviate the constraints to investment. It is expected that the results of this study will be presented to the GOH as a suggested agenda for action under our policy dialogue activity.

3. PL 480 Programs: USAID proposes to undertake evaluations of the impact of the PL 480 Title I/III and Title II programs on food production; nutritional status and, in the case of Title II, school attendance; the GOH fiscal situation; and the general performance of the agricultural sector. These evaluations will attempt to determine: (1) whether the importation of large volumes of wheat and other commodities constitute a significant disincentive to domestic food production, (2) which segments of the population are most benefited by the programs, (3) whether, on balance, the GOH fiscal situation has been improved as a result of the PL 480 programs, (4) whether the GOH programs supported by PL 480 Title I/III local currency generations have had a positive impact on the agricultural sector's capacity to produce food, and (5) whether the Title II program is impacting on nutrition and/or school attendance. The evaluation results will be used to substantiate the need or lack of need for future PL 480 programs, the appropriate levels for such programs and, where needed, to reorient support for local currency-financed activities.

4. The Reformed Sector and the Roles of the Agrarian Reform Institute (INA) and the Farmer Organizations: Prevailing conditions in the agrarian reform sector will be assessed in approximately 1,900 cooperative settlements. A review will be made of land distribution, land pressures, existing credit facilities/credit availability, access to technical assistance, roles of the larger farmer organizations vis-a-vis the cooperatives, development and strengthening of democratic processes among reform beneficiaries, and alternative suggestions for increasing production and the more efficient employment of capital in the agriculture sector.

This assessment will provide information relating to the landless population, as well as to land tenancy patterns. It will evaluate the relationship between these and their influence on the reformed sector. It will also identify the number of actively employed workers within the sector. The assessment will require a political analysis that focuses on INA's capacity to conduct agrarian reform. Such a study will assist in determining the extent to which existing settlements are financially viable, and whether they are or could be agriculturally productive entities able to support their members. It will also assess the impact of the Agrarian Reform Law's exclusion of a large segment of the rural population.

5. Legal Framework for Natural Resources Management: The Honduran legislation concerning natural resources reflects many laws issued at different times and for various purposes, not always related. As a result, the present legal framework regarding natural resources management is obsolete, internally inconsistent and incompatible with national interests and realities. This impedes correct and timely decision-making. In order to make a first approach at addressing this problem, a survey and diagnosis of the existing legal framework and regulations will be carried out. This survey will determine the impact of these on rural development, propose an unified legal approach to deal with rural development as a whole, and recommend specific future actions.

6. Financial Markets: A pre-feasibility study of financial markets in Honduras was completed last year and set the stage for more specific actions. We will conduct a feasibility study to identify the mechanisms and instruments best suited for Honduras, and develop a specific strategy to stimulate the longer-term growth and efficiency of the private sector. The study will provide us with a better understanding of the specific needs to develop a financial market, and allow us to identify areas in which changes in policies and regulations should be recommended in order to permit new institutions to emerge and develop in the market place.

7. Capital Markets: The development of capital markets is of paramount importance for attracting new investment and attaining sustainable growth in the private sector. A capital market does not exist in Honduras, except on a very limited basis whereby private institutions limit their services to their respective subsidiaries and clients. Attempts to develop a full fledged market have not fared well. Obstacles to the creation of a capital market include concern over devaluation, the general decline in savings and investments, capital flight, the lack of mechanisms to effectively translate whatever domestic savings might be available into longer-term productive investments, and the lack of support from monetary authorities. However, there is potential for a capital market in Honduras. We intend to undertake a capital market/venture capital study in collaboration with ROCAP/PRE to determine the feasibility of establishing a capital market and a possible role of the USAID.

8. Strengthening Democratic Institutions: We will evaluate the impact of the activities supported to date under the regional Strengthening Democratic Institutions project. This evaluation will determine the activities' impact on the Honduran political/civic, social, and legal systems. The study will attempt to quantify: (1) the improvement within the judiciary; (2) the establishment of the full protection of the law in civil and criminal matters; (3) and the degree of depolitization of the court system; (4) the facility with which the voting age population may register and the resultant effectiveness of the system in the recent national elections; and (5) existing constraints within the legislature which could impede the enactment of governmental reforms. The results will be utilized as a basis for further negotiations under our policy dialogue actions for the legislative, electoral and judicial processes objective.

9. Contracting Out: We are considering support for a study of the effects of contracting out. Over the past few years, we have actively encouraged contracting out as a means to transfer functions from the public to the private sector, and improve the pace of project implementation. At present, private contractors provide a number of services which had previously been provided by the public sector, e.g., health and agricultural services, school and road construction, and training. In several important respects, knowledge of the experience with contracting out remains limited. There is only a minimal understanding of the overall extent to which contracting out has stimulated private sector and employment activity. An overview study would bring together the experience in various sectors and reveal any successes achieved. This study will determine: 1) whether there have been time savings in project completion and the extent or significance of such savings; 2) the extent to which costs have been reduced; 3) whether standards of performance have been raised, lowered, or remained substantially the same; 4) the extent to which public sector employment has been diminished by contracting out; 5) whether there has been a concurrent increase in private sector employment in these same program areas; and 6) whether opportunities exist for additional contracting out.

EVALUATION PLAN
FY 87-88

Project List Project No. and Title	Last Eval- uation- Completed (Month/Year)	Start To AID/W FY 87	Reason/Issues	Funding Source	\$000's	USAID Person Months	Collateral Assistance
ANACH Regional Cooperative Development (522-0203 OPC) and AIFLD (Regional) (598 -0101)	None	1st 87 2nd 87	<u>PACD - 9/86</u> Close-out implementation review to be carried out by a team consisting of representatives from AIFLD, ANACH and USAID to determine if the management skills requirements of ANACH have doubled; and if 16 regional cooperatives are in operation and at least half of them are managing mechanization, transport and marketing services for their affiliated groups.	PD&S	20.0	2 PM	
Small Business Development (522-0205)	None	1st 87 2nd 87	<u>PACD - 5/87</u> Final evaluation to assess: (1) effectiveness of FIA as a private sector development institution supporting small enterprises and providing them with medium- and long-term financing; and (2) ANDI's effect on the efficient functioning of the Business Assistance System and the impact of PADP's technical assistance to ANDI.	PD&S	20.0	1 PM	

EVALUATION PLAN
FY 87-88

Project List Project No. and Title	Last Eval- uation- Completed (Month/Year)	Start To AID/W	Reason/Issues	Funding Source	\$000's	USAID Persons Months	Collateral (PM) Assistance
Small Farmer Livestock Improvement (522-0209)	None	2nd 87 FY 87 3rd 87	PACD - 9/90 First intermediate evaluation to assess the impact of livestock fund's financial status; and its performance in meeting production targets for the purpose of identifying any required changes, ensuring financial viability, and assess- ing the appropriateness of a possible expansion.	Project Funds	20.0	1 PM	1 PM from AID/W
Integrated Pest Management (OPG) (522-0222) and Agricultural Research Foundation (522-0249)	None	2nd 87 3rd 87	PACD - 0222;4/30/86; 0249;8/94 Intermediate implementation review to define conditions for continued AID support. The review of 0249 will assess: (1) the impact of technical assistance on PHIA's activities; (2) the progress observed with respect to the organization and the staffing of the research teams; (3) the capacity develop- ed to continue the banana breeding operation research and initiate adaptive research programs for basic grains and non- traditional crops; (4) the progress made with respect to obtaining financial support from possible donors; and (5) the progress made with respect to the establishment of linkages with institutions responsible for disseminating research findings.	Project Funds	25.0	2 PM	

EVALUATION PLAN
FY 87-88

Project List Project No. and Title	Last Evaluation- Completed (Month/Year)	Start To AID/W	Reason/Issues	Funding Source	\$000's	USAID Person Months (PM)	Collateral Assistance
Central American Peace Scholarships Program (597-0001)	None	3rd 87	4th 87	PACD - 9/30/93	30.0	2 PM	
			Mid-term evaluation to establish: (1) performance by contractor in the placement and follow-up of participants; (2) functioning of placement and follow-up systems; and (3) performance by students.	Project Funds			
			Review results will provide the us feed-back on newly designed interventions; institutional development in the private sector. Final evaluation of 0222 will measure progress in assisting the reform sector and small-farmers to learn cost effective and safe pest management; effectiveness of training received by the regions' agronomists; and the results of strengthening the institutional capacity of the Panamerican Agricultural School (EAP) by upgrading its pest management curriculum.				

EVALUATION PLAN
FY 87-88

Project List Project No. and Title	Last Eval- uation- Completed (Month/Year)	Start To AID/W	Reason/Issues	Funding Source	USAID Person Months (PM)	Collateral Assistance
Export Promotion and Services (522-0207)	None	4th 87 1st 88	PACD - 9/89 First mid-term evalua- tion to: (1) determine the institutional develop- ment of the different associations of producers, and the type and quality of services being provided to members; and (2) assess changes observed in policy environment affecting exports, and type and quality of services being provided to exporters. In addition, this evaluation will look into the type of industries being created and the impact they have on unemployment and on the use of local resources. Evaluation results will provide feedback on one of the objectives of our assistance strategy: export expansion.	Project Funds	30.0 2 PM	

EVALUATION PLAN
FY 87-88

Project List Project No. and Title	Last Evaluation- Completed (Month/Year)	Start To AID/W FY 87	Reason/Issues	Funding Source	USAID Person Months (PH)	Collateral Assistance
CADERH (OPG) (522-0257), ITEC Institutional Strengthening (522-0287) and CEMAH Institutional Development (OPG) (522-0256)	None	4th 87 1st 88	PACD - 0257: 1/90; 0287: 6/10/87; 0256: 5/31/87 Mid-term evaluation of 0257 will determine if Honduran businessmen have acquired a better understanding of training possibilities through: (1) a better knowledge of training and the way it can improve productivity; (2) a clearer knowledge of the businessman's role in on-the-job training; (3) a better knowledge of existing training services and their possibilities for improving employers' training programs; and (4) a willingness to actively participate in guiding training activities. Final evaluation of 0287 will determine effects of the certification of bookkeepers and public accountants and the functioning of competence-based systems of education. Also, the degree of satisfaction of the private sector with training provided by ITEC to accountants will be evaluated. The final evaluation of 0256 will determine the number of persons trained, courses provided and employment results of the training.	PD&S 50.0	6 PH	

EVALUATION PLAN
FY 87-88

Project List Project No. and Title	Last Eval- uation- Completed (Month/Year)	Start To AID/W	Reason/Issues	Funding Source	\$000's	USAID Person Months (PM)	Collateral Assistance
Rural Primary Education (522-0167)	3/86	1st 88 2nd 88	PACD - 4/30/86 Final project evaluation to include an analysis of the impact on enrollments, dropouts and repeater rates. A detailed analysis of the impact of teacher housing will be included. Achievement testing may be used as an additional measure of improvements in the quality of education.	Project Funds	20.0	2 PM	
Rural Trail and Access Roads II (522-0214)	None	2nd 88 3rd 88	PACD - 7/1/89 Mid-term evaluation dealing with: (1) the extent to which established road selection criteria are being applied; (2) the efficiency of the dollar attribution system established by the project to ensure that importers of spare parts for heavy equipment would have access to needed foreign exchange; (3) effect of improved construction standards on lowering maintenance costs; (4) the efficiency of paid labor to carry out preventive road maintenance activities; and (5) the commitment of SECOPT to implement the general maintenance management plan developed as part of the project.	Project Funds	50.0	2 PM	

EVALUATION PLAN
FY 87-88

Project List Project No. and Title	Last Evaluation- Completed (Month/Year)	Start To AID/W	Reason/Issues	Funding Source	USAID Person Months (PM)	Collateral Assistance
Natural Resources Management (522-0168)	In Process 4th 88	1st 89	PACD - 7/86 Final impact evaluation to assess the effect of the project upon its target population, and in strengthening local and national natural resource management institutions. Specific issues: Improvement of economic and social well-being of the small hillside farmers; reforming detrimental hillside farming practices; containing environmental deterioration in the five sub-watersheds of the Choluteca River Basin watershed area; developing effective land use, water and forest management policies and programs; and data collection and analysis capabilities of the participating GCM institutions.	Project 40.0 Funds	2 PM	
Small Farmer Titling and Services (522-0173)	In Process 4th 88	1st 89	PACD - 8/87 Impact evaluation to determine changes produced by project on credit use, access to technical assistance, level of technology and on-farm investment, land use, land value, land sales and income. We consider this to be an important evaluation since it will provide feedback on what is considered a new intervention in agrarian reform.	Project 20.0 Funds	2 PM	

E. GRAY AMENDMENT

The Gray Amendment requires that AID pursue a policy of directing a portion of its contracting for services and commodities toward registered minority firms, and predominantly black colleges and universities. The USAID has adopted a position of actively adhering to the requirements of the legislation. In the design and implementation of every project, we take measures to assure that due consideration is given to 8 (A) firms and predominantly black colleges and universities in procuring the requisite technical assistance and commodities. Adherence to these measures is borne out by the record of contracts awarded to minority entities during the current (FY86) fiscal year. As of April 30, 1986, we awarded contracts totalling approximately \$1.3 million to 8 (A) firms. This brings the USAID to almost 50% of our FY86 target of \$2.8 million. Principal, minority contractors included Servicios Tecnicos del Caribe (\$600,000) and Triton Corporation (\$414,000). While it is impossible, at this time, to judge the outcome of competitive procurements which are currently pending, we anticipate that minority organizations will continue to be active collaborators in project implementation for the balance of FY86 (for which we anticipate meeting our target) and into the future.

ANNEX

PROGRESS AGAINST PROGRAM AND POLICY DIALOGUE GOALS AND BENCHMARKS ESTABLISHED
IN THE FY 1987 ACTION PLAN

A. ECONOMIC STABILIZATION

1. Objective Category: Economic Stabilization

- o Phased implementation of a tariff reform program which would replace the current NAUCA system with the Brussels nomenclature. 1st quarter FY86.

Status:

Technical work completed and draft legislation prepared in October 1985. Draft law submitted to key private sector groups for review at that time. To date, private sector has provided no official reactions. Private sector support for proposed reforms is crucial.

- o Signing of a foreign debt renegotiation agreement for selected amounts outstanding through 1984 with private international banks. 1st quarter FY86.

Status:

GOH and banks nearly reached agreement in June 1985, but talks stalled over GOH disagreement with banks' insistence that agreement include clause requiring that GOH negotiate an IMF Stand By agreement in 1986.

- o Implementation of legislation which will permit the privatization, elimination or reduction of GOH participation in the following public sector entities: National Housing Finance Agency (FINAVI), National Basic Product Supplier (BANASUPRO), Honduran Banana Corporation (COHBANA) and the National Agricultural Development Bank (BANADESA). 1st quarter FY86.

Status:

All accomplished except for BANADESA.

- o Expansion of international trade transactions covered under the self-financing system and the special payments regime to 20%. 1st quarter FY86.

Status:

Figure cited not correct; should be doubling from trade base agreed to in ESF monitoring agreement. Target not complied with and no longer relevant; superceded by subsequent agreement.

- o Implementation of legislation designed to permit divestiture of public sector commodity producing enterprises. 2nd quarter FY86.

Status:

Legislation passed and implementing regulations approved. GOH currently initiating steps leading to eventual divestiture of public sector commodity producing enterprises.

- o Reduction in the number of items under price controls. 2nd quarter FY86.

Status:

On May 6, 1986 GOH reduced the number of product categories under price controls from 63 to 58.

- o Implementation of public sector credit law which rationalizes the acquisition and management of public sector external debt. 2nd quarter FY86.

Status:

This should be dropped as not relevant. Appropriate law passed in May 1985.

- o Conclusion of IMF Agreement and conversion to longer-term maturities of outstanding short-term debt. 2nd half CY86.

Status:

No longer relevant; we are not directly pushing for IMF Agreement.

- o Expansion of international trade transactions covered under the self-financing system and the special payments regime to 40%. 3rd quarter FY86.

Status:

Figure cited not correct; should be fourfold increase over base agreed to in ESF monitoring agreement. Target not complied with and no longer relevant; superceded by later agreement.

- o Introduction of a fiscal package designed to reduce the overall public sector deficit as a percentage of GDP by three points. 4rd quarter FY86.

Status:

GOH 1986 budget projects an overall consolidated public sector deficit equal to 7.4% of GDP. This is 4.5 percentage points lower than the comparable figure for 1984.

B. SECTORAL PROGRAMS

1. Objective Category: Private Sector

- o Divestiture of 2 to 4 public sector companies by FY87, in addition to those to be reduced or eliminated under the ESF program.

Status:

One company, Forestry Industry of Agua Frio, Inc. (FIAFSA), to be transferred to the private sector in May 1986. Negotiations regarding three other companies are taking place.

- o Eliminate specific disincentives and practical constraints to development of nontraditional exports through simplification of procedures for incorporation by FY87, and global import and export permits for 100% of production during 1985.

Status:

Benefits under the Export Promotion Law have been improved. Procedures under the Temporary Import Law have been simplified. Other measures to increase incentives and simplify procedures have been presented to the GOH by various private sector institutions and are now under consideration.

- o Streamline the process of obtaining government permits required for export activities by FY87 and implement during FY85 the regulations and procedures for the Export Promotion Law of 1983.

Status:

The regulations and procedures for the Export Promotion Law were implemented. No significant improvement has yet been made in the process of obtaining government permits for export activities.

- o Extend current free zone status to new industrial parks and create two industrial parks for 28 industrial export enterprises by FY87.

Status:

A feasibility study for the private construction and operation of Export Processing Zones to be completed by June 1986. Draft legislation being discussed by private sector prior to submission to GOH for approval. Promotional work to establish first Export Processing Zone Management Company to start about September 1986.

- o Divestiture of state-owned enterprises. GOH will pass legislation during 1985 to facilitate divestiture.

Status:

The required legislation for divestiture of state-owned enterprises was passed in the latter part of 1985.

- o Eliminate specific disincentives and practical constraints to development of nontraditional exports such as the temporary, duty-free importation of raw materials, machinery, and equipment for export production for exports outside the Central American Common Market. This was accomplished with the passage of the Temporary Import Law in December 1984. Implementation of the law will continue to be key USAID concern.

Status:

Some improvements in the operation of the Temporary Import Law have resulted in reduced time for approvals, but further improvements are being sought. These include substituting the signature of the Minister of Economy for that of the President regarding exporter eligibility under the law, and substituting an "import policy" for a series of approvals thereby reducing the processing time of each import transaction from 12 to 15 days to one day.

- o Income tax exemption for private companies; simplification of procedures for the incorporation of foreign firms under Honduran law; and global import and export permits for companies which export 100% of their production. The Central Bank has agreed to issuance of global permits to exporters; implementation will be monitored by the Mission.

Status:

The Central Bank has agreed to global permits for users of the \$10 million rotating fund under the Export Development and Services project. Simplification of procedures for the incorporation of foreign firms is still pending.

- o Ensure the availability of foreign exchange to exporters for their costs for imported inputs.

Status:

The revolving fund established under the Export Development and Services project continues to play an important part in insuring availability of foreign exchange to exporters. A long-range solution has not been achieved, but the situation should improve given the additional foreign exchange the government will receive from coffee exports and the savings to be achieved in its reduced fuel bill due to electricity now being generated by El Cajón and the lower prices of imported oil.

2. Objective Category: Agriculture and Rural Development

- o Increase the real growth rate of the Honduran agricultural sector. Goal measurement: Average annual growth of agricultural sector GDP will increase from current little or no growth to 4.5% by 1986-87 and 6% by 1990.

Status:

Agricultural Gross Domestic Product, in real terms, continued to grow in 1985 by an estimated 2.6%. This year's Action Plan indicates that, over the balance of the CAI period, we will move to the measurement of the impact of the AID program on agricultural production, which is estimated at \$400 million over the 1987-90 period.

- o Increase the foreign exchange earnings generated by the agricultural sector. Goal measurement: by 1986-87, the current downward trend in agricultural foreign exchange earnings will be reversed and \$20 million annually will be added in foreign exchange earnings. By 1990, real value of agricultural exports will have increased by approximately \$135 million, or 25% over current values; almost half of this growth will originate from non-traditional exports.

Status:

In 1985, exports increased by 9.9% over 1984, while agricultural exports increased by 10.5%. Most of the increase was attributable to bananas (21%), coffee (12.5%) and shellfish (30%). The only major decline among agricultural products was for sugar exports (a 16.7% drop). By 1990, agricultural exports directly resulting from our program will increase by \$92 million (in 1985 prices). Non-traditional exports will contribute one third of this amount.

- o Significantly improve the incomes and living standards of Honduras' poor farmers and other rural residents through increased farm income and rural employment. Unemployment among the Honduran rural population will have dropped from 39% to 34%. As a consequence of increased employment and incomes in the rural sector, the percent of the rural populace living below the poverty line will have decreased from 80% to 69%.

Status:

Agricultural unemployment increased marginally from 38% to 38.2% between 1984 and 1985. By 1990, without the implementation of the agriculture production program we are proposing, rural unemployment is projected to be 38.7%. The impact of our agricultural production program on unemployment will be a seven percentage point drop to 31.7%.

- o Basic grain yield will increase a total of 12% during the 1984-90 period, from an average 1.25 to 1.40 metric tons/hectare.

Status:

As a result of our program, basic grain yields will increase in southern Honduras by approximately 10% by 1990, adding 3,000 metric tons to grain production in the region.

- o An increase in average per capita income of the rural poor from \$155 at present to \$200.

Status:

Superceded by the FY88 Action Plan that establishes a new performance indicator which is to increase average real rural income by 5% by 1990.

- o Creation by the end of 1986 of a climate favorable to foreign investment and export development, including the adaptation of exchange rate policies which will permit Honduras to compete effectively and by implementing simplified import/export document processing and favorable tax provisions.

Status:

New laws have been enacted (e.g., Temporary Import Law, Export Promotion Law, Incentive Law for High Domestic Value-added Industries) and existing legislation has been modified to encourage greater investment in agriculture (e.g., Agriculture Development Law and banking legislation).

- o Maintenance of free market pricing policies for principal agricultural produce.

Status:

A free market exists for the majority of agricultural produce with minor exceptions (e.g., eggs).

- o Maintenance of positive interest rates.

Status:

Interest rates ranges from 8% for selected cooperatives to 24% for low collateral loans, while the annual inflation rate was estimated at 3.6% in 1985.

- o Adoption by the end of 1986 of a systematic surface and ground water law which will provide a legal framework allowing greater investment in irrigation projects.

Status:

Key GOH officials support improved irrigation legislation. It will be submitted to Congress during FY87, as part of an irrigation program centered around our new Irrigation Development project.

- o Provision during 1985 of administrative autonomy for GOH agricultural extension activities to eliminate major bureaucratic impediments to effective technology transfer and natural resource conservation, as well as acceptance by GOH of a greater private sector role in technology transfer.

Status:

The Honduran Economic Cabinet rejected this concept. Our current program stresses support for private sector-driven technological transfer. Three AID supported organizations -- the Honduran Foundation for Agricultural Research, (FHIA), the Union of Cooperatives (UNIOCOOP) and the Honduran Federation of Agricultural and Agroindustrial Producers and Exporters (FEPRO) -- have programs oriented to complement public sector extension activities. This approach has proved successful under our ongoing Natural Resources Management project.

- o Application throughout the period of strict lending criteria to agricultural cooperatives and similar enterprises which require businesslike operations.

Status:

Capacity to pay is a prime criterium of public banking entities (e.g., BANADESA). However, the successful credit experience under our Model Cooperative Development project has demonstrated that, with proper management, cooperatives warrant increased credit support.

- o Shift the role of the GOH grain marketing institute from direct market involvement to fostering private sector trade, and rationalization of GOH grain price supports in line with commercial conditions by the end of 1985.

Status:

The GOH is not injecting new funds into the basic grain marketing institute, thus reducing its role. New pricing policies and personnel reductions are expected to increase the private sector's role in marketing.

- o Transfer of lumber export marketing responsibility to the private sector; increase of stumpage fees to adequately reflect resource value; and focus GOH forestry activities on resource management by the end of 1986.

Status:

One sawmill (FIAFSA) was sold to the private sector for \$2.5 million, another sawmill was liquidated, and two additional ventures are undergoing appraisal for disposal. After these latter two operations are sold, the Honduran Forest Development Corporation (COHDEFOR) will only have interests in CORFINO, an IDB-financed sawmill which is the largest in Central America. New marketing policies transfer the marketing process to the private sector, while preserving COHDEFOR's legislated responsibilities.

3. Objective Category: Education

Primary Education

- o Expand the coverage of primary education by increasing the net primary enrollment ratio from 86% in 1985 to 90% in 1990 and to 95% in 1995, and increase the number of schools and teachers in the system by 2% per year over a ten-year period.

Status:

It is estimated that by the completion of the Primary Education project that there will be space for 88.8% of the school age population. The increase in teachers has been 4% per year. The objective regarding coverage is being dropped as our emphasis turns to quality and efficiency, and away from school construction.

Vocational Skills Training

- o Increase the number of students passing skills certification exams, and increase the number of students certified for specific employment in areas of need.

Status:

The planned increase in students passing skills exams and certification will not take place until 1987. To the present exams, curriculum and certification in welding, carpentry cabinet making and industrial mechanics are being developed and are to be completed in June 1986.

University Education

- o Increase students enrolled at the private university from 800 to 1200, and improve the academic achievement of students at the private university as measured by GRE and SAT scores or equivalent.

Status:

We are presently reviewing a proposal for construction of classrooms for the San Pedro Sula private university. This construction, if approved, will provide additional student space. One agriculture classroom building is also under construction, but is not yet completed. The USAID has no plans to directly assist in improving academic achievement at the private university, thus this benchmark should be dropped.

4. Objective Category: Health and Population

Health

- o To decrease infant mortality to at least 70/1000 live births by the end of 1987.

Status:

A maternal child health survey in 1984 showed an infant mortality rate (IMR) of 71/1000. No new data are expected until early 1988.

- o To reduce the number of detected malaria cases to 20,000 by the end of 1987;

Status:

In 1985, there were 31,222 detected malaria cases. This pike is attributable to changes in key personnel and unavailability of insecticide. This benchmark has been revised to a more realistic level of 25,000 cases by FY87 in this year's Action Plan.

- o 60% of the cases of diarrhea occurring in children under five will be treated effectively.

Status:

It is currently estimated tha 30% of these cases are being treated effectively. This year's Action Plan revises this benchmark to reflect reductions in mortality related to diarrhea.

- o 80% of identified active cases of TB will be routinely treated.

Status:

90% of identified active cases are currently being treated according to data of the Ministry of Health. Our Action Plan for FY88 aims to maintain this high level of treatment.

- o The weighted average unit cost of drugs used in the priority programs will be less in 1987 than 1984 when adjusted for inflation.

Status:

Data not yet available, although it is expected by July 1986.

- o Costs per patient treated will decline in hospitals and health centers, as measured in relation to 1980 baseline levels.

Status:

Data not yet available, although it is expected by July 1986.

- o The unit cost (adjusted for inflation) of key MOH services will show a decrease in 1987 over pre-1984 levels.

Status:

Data not yet available, although it is expected by July 1986.

- o Implementation of a 20% hospital recurrent cost recovery policy by December 1987.

Status:

In implementation; information to be available December 1986.

- o Hospital cost containment. In 1984, the Ministry of Health (MOH) cut the hospital budget by the equivalent amount (5%) that was generated by recurrent cost recovery activities.

Status:

This effort was stalled during the 1985 election year and subsequently was overtaken by events as the MOH operating budget was significantly increased. Nonetheless, the MOH remains committed to cost containment and cost recovery policies.

- o Protecting the MOH budget for primary health care. To permit USAID an on-going dialogue with the MOH on health care costs, the MOH will provide an annual report on health recurring costs and present a proposed strategy for addressing any deficits which might exist.

Status:

The new Minister has a publicly stated policy of priority attention to primary health care (child survival). The 1986 budget analysis shows a 20% increase in the MOH operating cost budget for child survival programs.

- o Provision of incentives for MOH personnel engaged in primary health care. This will be the subject of on-going discussion with MOH staff to begin after the November 1985 elections.

Status:

Primary health care personnel received a 25% pay increase due to the increase in the MOH operating budget mentioned above.

- o Expansion of health financing schemes through both the public and private sectors. Representatives from U.S. health maintenance and other self-financing organizations will visit Honduras after the elections to give a series of presentations on health care self-financing. We will follow-up as appropriate.

Status:

Health Maintenance Organization (HMO) seminar carried out in late 1985. Follow-up actions underway.

- o Integration/coordination of the MOH's and the Social Security Institute's (IHSS) health care systems.

Status:

New government reviewing process. Expect favorable decision to improve coordinative process by June 1986.

- o Good progress is being made under the Rural Water and Sanitation project in installing simple gravity flow water systems in small rural communities. Household sanitation is being improved through installation of water seal or pit latrines in conjunction with the rural water systems.

Status:

Under this project, 417 wells were dug in 1985 and 86 small water systems constructed providing water to some 55,000 rural residents. The more than 21,000 latrines built in 1985 are serving approximately 126,000 people in rural areas.

- o During FY 1986, two nutrition-related activities will be incorporated into the nutrition component of the Health Sector I project.

Status:

These two nutrition-related activities -- nutrition education and a national nutrition survey -- are in an active design stage for implementation under the Health Sector I project.

Population

- o An increase in contraceptive users from 64,000 in 1984 to nearly 142,000 by 1988.

Status:

Contraceptive users reported by ASHONPLAFA in the first quarter of 1986 totalled 72,000 active users. This increase from the previous quarter was achieved in spite of contraceptive shortages in two of ASHONPLAFA's programs. The MOH and IHSS service data do not report number of active users. However, we estimate that these two programs combined contributed an additional 20,000 active users.

- o An increase in the number of voluntary sterilizations from 6,000 per year in 1984 to 19,000 per year by 1988, for a cumulative total of nearly 90,000.

Status:

Voluntary sterilizations performed in the first quarter of 1986 totalled 1,577. This number is less than planned. A medical supervision team will study both ASHONPLAFA and MOH facilities in May 1986 to identify problems and propose solutions to increasing the number of surgical procedures. This year's Action Plan revises downwards the number of annual voluntary sterilizations expected for 1988.

- o Contraceptive prevalence nation-wide will grow from 35% in 1984 to 44% in 1988.

Status:

The next contraceptive prevalence study is scheduled for 1987. Data should be available by early 1988. We have modified the 44% benchmark to 40% in this year's Action Plan.

5. Objective Category: Housing

- o HG Project 522-HG-008, Shelter for the Urban Poor II, will be supporting delivery of new low-cost solutions through the private sector through FY88.

Status:

The Implementation Agreement is under negotiation with the GOH as part of the reprogramming of the uncontracted \$35 million in HG authorizations. During FY86, 6,101 low-cost shelter solutions will be delivered, covering both infrastructure upgrading in low-income neighborhoods, as well as new solutions and home improvement loans. However, none of these solutions can be attributed to 522-HG-008, which is now scheduled to begin implementation in FY87 and terminate in FY89. In future years, total solutions for the sector will be reported using the benchmarks established in the this year's Action Plan.

- o The secondary goal is to generate employment opportunities (estimated at over 15,000 person-years from the \$25 million housing investment alone).

Status:

During FY86, an estimated 446 person-years of employment will be generated from the implementation of the existing HG programs. Since 522-HG-008 is still under negotiation, no employment is attributed to this project. In future years, total employment for the sector will be reported using the benchmarks established in this year's Action Plan.

- o Establishment of a new institution or strengthening of existing finance institutions to provide a reliable source of shelter finance (FY87).

Status:

A study is underway to assist the GOH in developing a rational shelter finance policy. The policy will focus on strengthening the private mobilization of savings and long-term shelter finance.

- o Increase access to potable water from 60% to 85% in major cities and from 50% to 70% in rural areas.

Status:

In the absence of reliable statistics, it is difficult to assess progress against this benchmark. Currently, we are contracting a study to assess the financial and institutional mechanisms for providing shelter-related infrastructure. New, more realistic benchmarks have been developed for this year's Action Plan. During 1985, an additional 55,000 rural people gained access to potable water under the Rural Water and Sanitation project.

- o Remove public sector Honduran agencies from housing marketing and sales.

Status:

Due to the lack of GOH interest in negotiating the uncontracted HG authorizations, little progress can be reported. The new GOH administration has expressed interest in reprogramming the HG pipeline, which will present us an opportunity to accomplish policy dialogue action as currently rephased in the FY88 Action Plan: The public sector commits itself to providing only those essential services that cannot be effectively provided by the private sector by December 1986.

- o Increase private sector involvement in construction, financing, and sales of low-cost shelter solutions.

Status:

This is no longer an explicit benchmark; but rather an assumption. We will properly focus policy actions on creating the conditions for increased private sector participation. However, the decision of the private sector to avail itself to participate in low cost shelter is essentially an external factor. In the FY88 Action Plan, therefore, this has been listed as an assumption.

- o Reactivate the largely dormant construction industry so as to contribute to employment generation goals.

Status:

This will be addressed in the reprogramming of the HG resources. However, this is no longer an explicit benchmark and the FY88 Action Plan treats employment as a secondary impact of our program efforts with respect to shelter and service solutions.

- o Provide financial inputs to enable institutions to meet the need for long-term shelter finance, while efforts are made by the sector institutions to develop mechanisms required to attract long-term finance which must be available on a self-sustaining basis to meet shelter resource needs.

Status:

A study is underway to assist the GOH in developing a rational shelter finance policy. The policy will focus on strengthening the private mobilization of savings for long-term shelter finance.

- o Improve INVA's overall administrative efficiency through staff reductions and the lowering of administrative costs to respond to the recommendations of a recently completed institutional management audit.

Status:

INVA has not implemented the recommendations. We plan on dealing with INVA only indirectly as another savings and loan institution. However, in reprogramming the HG resources, we will require improved cost recovery and reduction in arrearages as a condition to INVA participation in the program. This benchmark has been replaced with a more general statement requiring the GOH to develop an action plan for implementing its long-stated commitment to cost recovery.

- o Proper structuring of enabling legislation related to the creation of a Social Housing Fund, which would result in a permanent domestic resource base to meet shelter needs.

Status:

Our goal is to assist the GOH in developing a rational shelter finance policy, and less so on the particular implementing mechanism. Therefore, and in light of the lack of support for a Social Housing Fund within the new GOH administration, this benchmark is no longer appropriate.

- o Transfer of FINAVI's regulatory functions to the Central Bank so that the country's savings and loans system can be properly maintained and transferred in an orderly fashion.

Status:

FINAVI was closed on October 1985. However, a companion law to transfer regulatory functions the Central Bank is still pending in the Honduran Congress. As a condition to disbursement under the reprogrammed HG resources, the transfer of the regulatory functions will be required.

- o Address, in part, such basic critical needs as the deficient water supply of Tegucigalpa, the provision of adequate sewage disposal facilities, urban upgrading, cost recovery, and the provision of affordable solutions.

Status:

During the FY86, 6,100 low cost shelter solutions will be provided, about 90% of which are for shelter and infrastructure upgrading in urban areas. Also, we have begun to work more closely with the municipalities of Tegucigalpa and San Pedro Sula to develop and implement action plans to improve cost recovery for infrastructure.

- o Promote efforts to define appropriate roles of different shelter sector institutions and to enhance collaboration among them to reduce duplication of efforts.

Status:

This is under negotiation with the GOH. It will be accomplished as part of the Shelter Finance Study and through this year's Action Plan policy dialogue action whereby the GOH commits itself to provide only those essential services that cannot be provided by the private sector.

- o Promote the institutionalization of financial planning capabilities within shelter sector institutions to increase shelter production.

Status:

This is no longer an appropriate benchmark as we concentrate more on the policy issues for creating an environment conducive to greater private sector participation in the sector. Specific issues related to this matter usually are dealt with in the context of specific project implementation.

- o Install an appropriate interest rate structure for sector activities which does not result in the decapitalization of institutions.

Status:

This has been replaced in this year's Action Plan with: The public sector institutions develop action plans to implement its commitment to operating on a full cost-recoverable basis, reflecting the cost of resources, administrative costs, and the opportunity cost of capital. The change thus focuses more on the financial viability of the transaction. Interest rate policy, which is a macro-economic tool for balancing supply and demand for credit, is thus replaced with a clearer focus on how to set conditions for private capital flows into the sector.

6. Objective Category: Strengthening Democratic Institutions

- o Strengthen democratic political organizations, and the legislative and executive branches. Quantification of this goal will depend upon analysis and assessment.

Status:

Initial activities with the legislative branch involved a four day orientation seminar in 2nd quarter of FY86. Planned activities will begin with the establishment of a legislative information center in 4th quarter of FY86.

Activities with the National Elections Tribunal in improving the National Registry of Persons are to commence in 1st quarter of FY87.

- o Expand cooperative activities in agricultural production as indicated by an expansion of five cooperative and union federations (25% increase in membership and loan portfolio).

Status:

Our program supported the increase in agricultural service cooperatives from four to five over the past year. During 1986, these five cooperatives combined resources and established a central service organization -- the Union of Cooperatives (UNIOCOOP) and their combined membership increased by 15%. Three of the cooperatives increased their loan portfolios by 25%; while the other two, which specialized in agro-exports underwent a consolidation in response to external marketing changes which resulted in a 20% contraction of their loan portfolios.

- o Develop major new initiatives in adult education and information exchange through PVO's, and an expansion of the enrollment in adult education by 25% (baseline to be established under adult education and literacy OPG).

Status:

These targets have been dropped from this year's Action Plan as a result of the increased interest on the part of the Inter-American Development Bank in these areas.

- o Professional training for the judiciary (50% coverage), and development of the law library at the National University.

Status:

Training in the application of the three new penal codes is arranged for the 3rd quarter of FY86. Approximately 350 judges are to be trained in two separate sessions. Funding for the law library will be made available by early FY87.

7. Objective Category: Employment

- o Increase in employment by up to 250,000 (note: we recognize this as an ambitious goal and dependent upon the proper policy framework).

Status:

Over 50,000 person-years of work were generated in 1985 as a result of our ESF balance of payment assistance alone. We now believe this objective should be revised to 300,000 person-years of employment to be maintained or generated as a result of our program over the FY87-90 period.