

A.I.D. EVALUATION SUMMARY PART I

(BEFORE FILLING OUT THIS FORM, READ THE ATTACHED INSTRUCTIONS)

PD - AAX-744

IDENTIFICATION DATA

A. REPORTING A.I.D. UNIT:
USAID/HONDURAS ARD/O
 (Mission or AID/W Office)
 (ES# FY 88-5)

B. WAS EVALUATION SCHEDULED IN CURRENT FY ANNUAL EVALUATION PLAN?
 yes slipped ad hoc
 Eval. Plan Submission Date: FY 87 Q 4th

C. EVALUATION TIMING 50946
 Interim final ex post other

D. ACTIVITY OR ACTIVITIES EVALUATED (List the following information for project(s) or program(s) evaluated; If not applicable, list title and date of the evaluation report)

Project #	Project/Program Title (or title & date of evaluation report)	First PROAG or equivalent (FY)	Most recent PACD (mo/yr)	Planned LOP Cost ('000)	Amount Obligated to Date ('000)
	PL 480 Title I September 1987	75	N/A	N/A	71,900

ACTIONS

E. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

Action(s) Required	Name of officer responsible for Action	Date Action to be Completed
1. USAID/Honduras will further study the recommendation to increase prices for wheat and wheat flour. A study will determine the effects of price increases on corn producers, the Honduran wheat industry (millers, bakeries, pastries and pasta factories), and consumers.	Richard Peters Guillermo Alvarado	April 1988
2. USAID will support GOH efforts to develop a long-term food aid policy and strategy. The policy and strategy includes: - role of food aid in the long-term development strategy for Honduras; - guidelines and procedures for deciding commodity mix import volumes, as well as implications on pricing policy.	SECPLAN, MNR, MHCP* Richard Peters Guillermo Alvarado Thomas Park Juan Castillo L.	August 1988
3. Prepare a USAID food aid strategy, instructions and a concept paper for its FY 91 food aid program.	Richard Peters Guillermo Alvarado	September 1988

*GOH: Government of Honduras; MNR: Ministry of Natural Resources; MHCP: Ministry of Finance and Public Credit; SECPLAN: Ministry of Planning

(Attach extra sheet if necessary)

APPROVALS

F. DATE OF MISSION OR AID/W OFFICE REVIEW OF EVALUATION: mo 10 day 16 yr 87

G. APPROVALS OF EVALUATION SUMMARY AND ACTION DECISIONS:

E. Szepesly Signature Typed Name Date: <u>11/20/87</u>	Project/Program Officer K. Rockemas G. Alvarado Date: <u>11/20/87</u>	Representative of Borrower/Grantee N/A Date: _____	Evaluation Officer C. Zambrana Date: <u>11/20/87</u>	Mission or AID/W Office Director J.A. Sanbrailo Date: _____
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H. EVALUATION ABSTRACT (do not exceed the space provided)

PL 480 Title I is a U.S. food aid program that provides concessional loans to the Government of Honduras (GOH) for importation of agricultural commodities. The commodities are sold to the Honduran private sector at world prices, at local commercial interest rates and a six-month term. The local currency generated is then jointly programmed between the GOH and USAID/Honduras to finance development activities.

From 1975 to 1986, total imports have been 405,325 M.T. of wheat, 10,000 M.T. of rice and 5,000 M.T. of tallow. In recent years, Title I imports have risen rapidly, now accounting for about 80 % of the total annual imports of wheat. For this period, the program generated 137.2 million Lempiras,* which were used to finance development activities.

The Title I experience is evaluated from four perspectives: (a) its contributions to consumption and nutrition, (b) its effects on domestic prices, (c) its role in the government budget and the balance of payments, and (d) its contributions to developmental efforts in Honduran agriculture. The evaluation is based on secondary data and interviews with GOH key personnel. Econometric models were used to evaluate price and nutrition effects.

The main conclusions with respect to the above four perspectives follow:

1. Wheat provides 12 % of the country's daily protein intake, and 10 % of the calories. The consumption patterns for wheat are strongly biased in favor of urban and upper income population groups.
2. Wheat imports have caused corn prices to decrease. But, wheat imports would have occurred in the absence of PL 480 since they are demand driven. Wheat flour prices have decreased in real terms. Wheat prices are subsidized by the overvalued Lempira and the low international prices reflecting production subsidies.
3. Local currency generations are not a very significant portion of the government budget (1.5%) but they are a significant share of the net budget of the Ministry of Natural Resources (MNR) (32%), and an even higher share of the net MNR budget funded from domestic revenues (56%). On the balance of payments side, Title I has meant a considerable savings of foreign exchange for Honduras. In addition to deferred principal payments, there have been interest savings.
4. However, the importance of Title I in the MNR budget has not led to a perceptible strengthening of the institution. Title III projects have been the most effective in productivity. They have had the greatest impact on export crops; in fact, MNR expenditures as a whole have had little impact on domestic staple crops to date. Because of the tighter controls associated with the debt forgiveness feature of Title III programs and their grant nature Title III programs are easily the most effective of the PL 480 programs.

The report recommends: (1) an increase in wheat flour and wheat prices to compensate for the overvalued exchange rate and/or to diversify the import commodity mix; (2) the concentration of local currency generated into fewer programs for better control and developmental impact; and (3) the implementation of a Title III program in Honduras.

ABSTRACT

I. EVALUATION COSTS

1. Evaluation Team		Contract Number <u>OR</u> TDY Person Days	Contract Cost <u>OR</u> TDY Cost (US\$)	Source of Funds
Name	Affiliation			
Roger Norton	Winrock International Institute for Agricultural Development	522-9103-1-00-6249-00	\$ 57,720.00	PD&S
Carlos Benito	" " " "	" "		

2. Mission/Office Professional Staff Person-Days (estimate) 30

3. Borrower/Grantee Professional Staff Person-Days (estimate) N/A

3333

A.I.D. EVALUATION SUMMARY PART II

J. SUMMARY OF EVALUATION FINDINGS, CONCLUSIONS AND RECOMMENDATIONS (Try not to exceed the 3 pages provided)

Address the following items:

- Purpose of activity(ies) evaluated
- Purpose of evaluation and Methodology used
- Findings and conclusions (relate to questions)
- Principal recommendations
- Lessons learned

Mission or Office: USAID/HONDURAS, ARD/O

Date this summary prepared: October 13, 1987

Title and Date of Full Evaluation Report: An Evaluation of PL 480 Title I Program in Honduras
September 1987

1. Purpose and Brief Description of PL 480 Title I.

PL 480 Title I is a U.S. food aid program that provides concessional loans to the Government of Honduras (GOH) for the importation of agricultural commodities. The commodities are sold to the Honduran private sector at commercial interest rates and with six-month term. The local currency generated is then jointly programmed between GOH and USAID/Honduras to finance development activities targeted to benefit the needy of the country.

Honduras has had extensive experience with PL 480 Title I programs. Since the initiation of the program in Honduras in 1975 to 1986, total imports have been 405,325 M.T. of wheat, 10,000 M.T. of rice and 5,000 M.T. of tallow. In recent years the Title I imports have risen rapidly, so that they now account for about 80% of the total annual imports of wheat.

PL 480 title I program represents a substantial contribution to the economic stabilization goal. Up to 1986, the program generated 137.2 million Lempiras* that were used to finance research, extension, credit programs and other support activities for agriculture development. Local currency generated by the program is allocated for GOH programs and private sector initiatives that are consistent with the USAID's objectives.

2. Purpose of the Evaluation and Methodology Used.

The report attempts to evaluate the Title I experience in Honduras from four perspectives: (a) its contributions to consumption and nutrition; (b) its effects on the prices; (c) its role in the government budget and the balance of payments; and (d) its contributions to developmental efforts in Honduran agriculture.

The evaluation is based on secondary data and interviews with related GOH key personnel. The disincentive effect was evaluated with an econometric model that can be applied to similar evaluations.

3. Findings and Conclusions.

It is clear that the presence of the PL 480 Title I imports on concessional terms is a net economic benefit for Honduras. The main issues are not whether the program is beneficial to Honduras, but rather what is the distribution of benefits and costs, and whether the PL 480-funded projects and the self-help measures are as effective as they might be.

In terms of consumption and nutrition, wheat is increasingly important in the Honduran diet. Imported wheat now represents about 28% of the volume of the apparent consumption of the two main domestic grains for human consumption, corn and rice. It provides about 12% of the country's daily protein intake, and 10% of the calories. The consumption patterns of wheat are strongly biased in favor of urban population groups and upper income groups. Wheat cannot be grown economically in Honduras, but if it were completely replaced by domestic grains, then corn production would have to increase by one-third, or rice production four-fold, and then their output levels would have to expand rapidly each year to keep pace with demand.

*US\$ 1 = Lempiras 2

It also is clear that considerable amounts of wheat imports would occur in the absence of Title I. There is a well-established demand function for wheat in Honduras. It is difficult to quantify the effect of the concessional terms on the volume of imports, for those terms are not reflected in the consumer price. Because of the pressure to raise additional revenues for the Government's budget, it is likely that Title I has been used to increase wheat imports over what they would have been otherwise with the consequent declining real consumer price of wheat flour. However, the presence of Title I has not increased wheat imports over what they would have been by more than by a marginal amount.

The report finds reasonably reliable statistical evidence that the wheat imports have reduced farm gate prices of corn by reducing real administered price for wheat flour as the volume of wheat imported increased. This effect would have occurred with or without PL 480, owing to the existence of commercial imports of wheat, but no doubt the presence of PL 480 made the effect somewhat stronger.

Farm prices would be less affected by the wheat imports if the government were to raise the internal price of wheat charged to the millers and, to a lesser extent, the price of flour charged to consumers. In recent years, the millers have received a windfall gain in the form of sharply lower nominal and real world market prices for wheat, while the domestic ex-mill price of flour has declined less markedly in real terms.

There are two subsidies implied in the wheat imports: (1) that which is caused by the overvalued exchange rate; and (2) that which is attributable to low (and in cases subsidized) world market prices. The first subsidy can be influenced by Honduran domestic policies.

In Honduras, wheat is consumed primarily by urban groups and by higher-income groups. According to recently-tabulated evidence from a 1979 survey, the urban poor consumed eleven times as much wheat as did the rural poor per person per day. The upper-income urban groups consumed 27 times as much wheat as the rural poor. While wheat consumption no doubt is more widespread now, still it is proportionately more important in the urban and higher-income diets.

In overall terms, the beneficiaries of the program are consumers (proportionately more from the urban and higher-income groups), farmers with the very smallest holdings (up to 2 hectares), the government budget, and the balance of payments. Those affected adversely by the program are farmers with more than 2 hectares. Small farm households are beneficiaries of higher volumes of wheat imports because the corn price is reduced, and those households spend more each year on purchase of corn than they earn from sales of their corn harvests.

The local currency revenues generated from the Title I sales appear to be used as general budget support by the Honduran Government. No clear programmatic focus in the expenditures of those revenues is seen. In spite of the Title I revenues, the budget of the Ministry of Natural Resources (MNR) has been declining in both absolute and proportionate terms in recent years. The share of the total government budget represented by the MNR budget fell from 14 % in 1980 to less than 6 % in 1985. Thus, it also appears that the Government is compensating for MNR's receipt of Title I funding by reducing its regular allocations from the budget. Title I now represents about one-third of the net MNR budget, after allocations to the agricultural parastatals have been deducted, and more than half of the net MNR budget funded by domestic sources.

However, the importance of Title I in the MNR budget has not led to a perceptible strengthening of the institution. On the contrary, average regular salary levels have declined, and the availability of supporting funds, for travel to the field and for other operational expenditures has also declined. The program of contracting with some MNR staff at higher salaries with Title I local currency generations does not appear to have improved the performance of the institution and, in any case, that program is not sustainable in the long run.

An analysis of the development projects funded by Title I shows that the Title III projects have been the most effective. They have had the greatest impact on export crops; in fact, MNR expenditures as a whole have had little impact on domestic staple crops to date. When the balance of payments contributions of the Title III programs are taken into account, they emerge as easily the most effective of the PL 480 programs.

Overall, the program is beneficial to the country and, therefore should continue.

4. Principal Recommendations.

The principal recommendations of the report are the following:

- (1) It is clear that wheat imports will continue in substantial volumes even without PL 480. But, if the program was eliminated, there would be a loss to the balance of payments and to the public budget. If budgetary criteria are used, it is important not to reduce the total value of PL 480 imports, although the mix of products could be altered, particularly in favor of soybean products. If the disincentive effects on Honduran farmers are weighed, then some reduction in PL 480 wheat imports could be contemplated. An alternative strategy would be to maintain the volume for those imports constant the few next years, while raising the administered prices on wheat. The GOH should increase the prices for wheat and wheat flour to compensate for the overvalued Lempira.
- (2) Use more extensively Title III programs or comparable programs (multi-year, better programming and monitoring, and debt forgiveness).
- (3) Continue to support the Title III projects.
- (4) A greater portion of Title I funds should be channeled into the training of the MNR staff in the areas of investment project design and administration.
- (5) Instead of paying higher salaries to some MNR staff members with PL 480 funds, ministry-wide salary increases are recommended, and be accompanied by a reduction in staffing and increases in the proportionate amount of operational funds for travel and other activities.

The report recommendations require further study and extensive support and agreement of the GOH. Therefore, the Mission should support GOH efforts to develop a food aid policy and strategy during FY 88, consistent with a food self-reliance policy that includes the commodity imports and wheat pricing issues.

Specific actions are to begin to further study the wheat pricing issue and to support development of a GOH food aid policy and strategy.

K. ATTACHMENTS (List attachments submitted with this Evaluation Summary; always attach copy of full evaluation report, even if one was submitted earlier)

1. Evaluation Report: An Evaluation of PL 480 Title I Program in Honduras.
2. Scope of Work
3. Outline of Basic Project Identification Data

ATTACHMENTS

L. COMMENTS BY MISSION, AID/W OFFICE AND BORROWER/GRANTEE

In general, the evaluation fulfilled the requirements of the scope of work. Nevertheless, it did not evaluate the impact of tallow imports on the local vegetable oil industry because tallow imports with PL 480 Title I are too recent (1986). Title II commodity import volumes were considered insignificant as to affect domestic production and marketing. The developmental impact of Title I was impossible to assess within the time frame due to the diversity and dispersity of the funded activities. Title I funds are generally counterpart of ongoing projects, therefore, it is difficult to separate the impact of the different funding sources.

The econometric analysis of the relationship between wheat and corn prices will be particularly useful for policy dialogue.

MISSION COMMENTS ON FULL REPORT