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HONDURAS

1992 ACTION PLAN

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BEST AVAILABLE

1991/92 ACTION PLAN
USAID/HONDURAS
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Section I: Reaffirmation of the Appropriateness of the Country Strategy

This Action Plan covers the last years of the Central American Initiative (CAI) as well as the transition period to the next Country Development Strategy Statement (CDSS) scheduled for later this year. Although the actions detailed herein reflect the increased emphasis given to macroeconomic and sectoral policy reforms as essential elements in the successful attainment of the USG's objectives, the objectives and strategy contained in the currently approved CDSS and the goals and objectives of the CAI remain valid.

Continued support for the balance of payments and social and productive investment is more critical than ever due to the huge overhang of debt to official donors as well as other severe economic problems inherited by the new GOH administration. The measures already adopted by the Callejas administration warrant a continuation of such support. Without the continuation of significant support levels Honduras will not have the funding necessary to continue to implement a serious reform package, nor will it have the resources needed to finance development expenditures. Maintaining social peace and tranquility would be virtually impossible.

The importance attached by the mission to development and implementation of a meaningful macroeconomic reform program was demonstrated by the withholding of $70 million in cash transfer assistance in FY89. Although prospects for reaching agreement on such a program seemed good at the time of the last Action Plan, the program became derailed and the GOH was unable during an election year to develop a meaningful alternative program which merited U.S. support.

The GOH's delay in undertaking these macroeconomic adjustments in 1989 forced us to postpone, for one year, the proposal to phaseout stabilization assistance in FY90 and move to a program supporting structural adjustments starting in FY91 where AID's role in the stabilization arena was limited to monitoring progress under the IMF and World Bank supported stabilization program. We currently envision the need to continue AID's stabilization assistance in FY91 (see NPD for Economic Stabilization and Recovery IV, 522-0375). Structural adjustments in the agricultural sector also are urgent, however, and we will initiate such a program in FY91 (see NPD for Agricultural Sector Adjustment Program, 522-0374). As mentioned above, initiation of the Structural Adjustment Program, 522-0365, has shifted from FY91 to FY92 (see NPD for description of this program which will focus on the trade and finance sectors).

Although Honduras' economic performance in 1989 was mixed, the country exhibited important progress in many areas, especially regarding the democratic process and social welfare. Honduras' third consecutive free and fair election on November 26, 1989 (with 76% of the eligible

voters participating) was a landmark, as was the first peaceful transition of power from one political party to another on January 27, 1990. As is demonstrated in the tables on Overall Country Performance Indicators and Program Indicators and the performance narrative below, trends in the social sectors continued to be very positive.

Even in the absence of a sound macroeconomic program the Central Bank converted L50 million in outstanding foreign debt through debt-equity swaps and real GDP growth in 1989 was 2.1%. However, that growth was financed by a massive build up of arrears to IFIs. Monetary performance was poor in 1989 (M1 expanded 21.2%) and the central government deficit increased to 8.7% of GDP.

Although unrealistic fiscal and exchange rate policies and an uncooperative attitude toward debt servicing to the donor community caused Honduras to be cut-off from concessional and commercial capital inflows, AID support helped foster important policy achievements. For example,

Significant, if incomplete, progress was made toward the adoption of a more realistic exchange rate regime. The foreign exchange certificates for exports system was expanded to 50% of exports and sweeping changes to the import regime reduced the share of imports under the official rate to below 35%.

Crucial laws were passed permitting the establishment of Export Processing Zones and conversion of Debt for Equity. The Municipal Law, which will advance greater local government autonomy, received its first reading in Congress.

The number of privatized public productive enterprises increased to 11, thus far yielding a $28 million net reduction in foreign debt and $3 million in additional investments.

A Basic Grains Law was enacted which banned expropriation of farmland devoted to basic grains production and the state-owned forestry corporation enacted new stumpage valuation provisions which will improve incentives for the efficient utilization of forestry resources. The GOH also revamped the organizational structure for public sector agricultural decision making and actively participated in six working groups studying agricultural policy reform issues.

Education and health expenditures were maintained as an important part of the central government's budget (respectively 17.8% and 10.3% in 1988) even though debt service reached 33.9%.

Multiyear contracting of project personnel, important for uninterrupted project implementation, was accepted.

Prospects for further advances under the new GOH administration are extremely bright. It has agreed to the retention of fee income at all health center and local hospital levels, thereby assuring greater decentralization, local autonomy, and better control of resources to meet health needs. It has committed itself to major advances in monetary and fiscal policies and in exchange rate liberalization. It also has agreed to implement major reforms in three sectors: agriculture; trade and investment; and finance (see Tegucigalpa 1644 and 3171). In addition, the new administration plans significant initiatives in the area of privatization of parastatal productive enterprises and services. However, as pointed out in Tegucigalpa 3460 and 3463, the ability to implement the major contemplated economic reforms will depend on the assurances they receive regarding a quick inflow of foreign exchange to settle arrears, permit vital imports, and avoid a precipitous drop in the value of the Lempira.

Policy dialogue over the Action Plan period will focus on: (1) continuing the process of macroeconomic reform, the lack of which is the Achilles' heel for Honduras' future, through stabilization assistance in FY91; (2) deepening sectoral reforms in the key agriculture sector in FY91; (3) expanding sectoral reforms to the trade and finance, and shelter and urban infrastructure sectors in FY92; and (4) maintaining support to critical project activities which complement sectoral programs (such as privatization, forestry and micro/small business development) or provide needed financing for essential production and social activities (such as the productivity of hillside farmers, population, health, and education). In addition, we will continue the policy dialogue supported by Rural Roads III regarding a system for private sector road maintenance. There remain no unresolved policy issues in the education, health, or population sectors.

The principal components of our macroeconomic development strategy will remain: (1) public sector deficit reduction; (2) adoption of a transparent and market-determined exchange rate regime; (3) tariff reform and the lowering of effective protection; (4) other liberalization and structural reform measures that promote exports and private investment; and (5) reintegration of Honduras within the international financial community. Satisfaction of these targets is necessary in order to produce a macroeconomic environment conducive to a high rate of export growth, expanded domestic savings and investments, and significant increases in net inflows of private and concessional capital. These targets will be pursued through:

A fiscal reform program featuring both revenue enhancement and expenditure restraint to stabilize import demand, improve the competitive position of the Lempira, contain inflation, and stimulate domestic savings.

The adoption of a flexible and transparent exchange rate policy to improve export incentives and to promote efficient utilization of foreign exchange.

Resolution of the increasingly critical arrears issue to reintegrate Honduras within the IFI community.

Encouraging domestic pricing policies which are more flexible and market-oriented through the elimination of price controls, including the interest rate ceiling.

Trade policies which systematically lower the dispersion of nominal tariff rates and significantly reduce the average rate of effective protection.

The gradual elimination of quantitative import restrictions.

Policy dialogue in the agriculture sector, supported by ESF as well as PL 480 Title I resources, will involve:

Modification of the exchange rate regime and pricing policies.

Revisions in land and forestry use and tenure laws and regulations.

Adjustments to import and export tariffs, port charge systems, and domestic transportation tariffs.

Further revisions to the organizational structure for public sector agricultural decision making.

Policy dialogue in the area of trade and finance under the Structural Adjustment Program will include:

The development of efficient and integrated financial markets.

Actions to foster domestic savings.

Building competition between viable private financial institutions in both the formal and informal sectors.

Effective bank oversight and supervision and structural reforms in the financial sector.

Uniform nominal import tariffs without surcharges or exonerations.

In addition to contributing to the deepening of our support of Honduras' democratic institutions at the local government level, the policy dialogue supported with Housing Guaranty resources in the area of shelter and urban infrastructure will:

Increase the participation of the formal and informal private sector in the design and construction of shelter as well as the mobilization and control of resources for shelter.

Provide more responsibility and authority to local governments for the provision of water and sewerage services.

We anticipate that adjustments in the above areas will result in: a 2 to 3% GDP growth rate; a Central Government fiscal deficit of no more than 4 to 5% of GDP; a consolidated public sector deficit of no more than 4 to 5% of GDP; an agricultural sector growth rate of 3.5%; unification of all exchange rates other than the official rate and reliance on market forces to determine the new rate; assignment of all foreign exchange transactions to the parallel market; utilization of the parallel market rate to prepare the 1991 central government budget and other reports of the public sector; movement of all basic grain and powdered milk imports to the parallel exchange rate; elimination of IHMA's monopoly over grain imports; elimination of tariff exemptions on basic grain imports; acceleration of the cadastral program; movement of all agricultural inputs to the parallel exchange rate; elimination of price controls on agricultural products; movement toward a unified customs duty; elimination of customs exonerations; lower effective protection; acceleration of the privatization process; rationalization and scaling down of public sector operations; unification of rediscount rates on Central Bank credit lines; and transparent allocation of credit guided by market principles with minimum public sector intervention.

Section II: Performance

TABLE I
OVERALL COUNTRY PERFORMANCE INDICATORS

	1984 Actual	1988 Actual	1989 Projected	1989 Actual	1990 Target	1991 Target	1992 Target
1. Macroeconomic Reform Program	4 pts	4 pts	8 pts	3 pts	8 pts	9 pts	9.5 pts
2. Domestic Financing of Deficit	1.3%	2.3%	2.0%	5.7%	1.5%	1.0%	0.5%
3. Exchange Rate	5 pts	3 pts	5 pts	3 pts	7 pts	9 pts	10 pts
4. Private Investment	7.1%	7.8%	8.5%	8.0%	8.8%	9.5%	10.5%
5. Trade Regime	3 pts	2 pts	5 pts	3 pts	5 pts	7 pts	9 pts
6. Market Pricing	3 pts	5 pts	7 pts	5 pts	8 pts	9 pts	10 pts
7. Elementary School Gross Enrollment rate	87.6%	91.9%	92%	91.9%	92%	92%	92%
Male	44.2	46.3	46.4	46.3	46.4	46.4	46.4
Female	43.4	45.6	45.6	45.6	45.6	45.6	45.6
8. Infant Mortality Rate (per/1000)	63	60	60	60	60	57	54
9. Contraceptive Prevalence	35%	42%	43%	43%	44%	45%	46%
10. Environmental Management	3 pts	4 pts	5 pts	5 pts	6 pts	7 pts	8 pts
11. Democracy and Human Rights	3 pts	4 pts	5 pts	6 pts	7 pts	8 pts	9 pts

TABLE 11
USAID/HONDURAS PROGRAM INDICATORS

	1975	1980	1985	1986	1987	1988	1989 Proj.	1989 Actual	1990 Target	1991 Target	1992 Target
1. Private Sector Gross Fixed Capital Formation (% of GDP)	10.9%	13.9%	7.7%	7.3%	7.6%	7.8%	8.5%	8.2%	8.8%	9.5%	10.1%
2. Contraceptive Prevalence	9%	26%	36%	40%	41%	42%	43%	43%	44%	45%	46%
3. Infant Mortality Rate (/1000)	90	78	61	60	60	60	60	60	60	57	54
4. Rural Moderate and Severe Malnutrition (weight/age)	49	N/A	N/A	N/A	37		36		35	33	31
5. Yearly Real Value Added to Ag. by AID-supported Programs ($ millions)	N/A	N/A	5.6	8.9	9.9	19.1	34.7	36.6	68.4	96.3	119.9
6. Hectares of pine forest managed for sustainable yields (Thousands cumulative)	-	-	-	-	-	-	25	25	65	130	145
7. Number of trees planted in agroforestry activities (thousands)	-	-	500	500	550	700	172	215	400	600	700
8. Primary School Students Receiving Textbooks (Percent)	-	-	-	-	-	30	-	50	68	80	90
9. First graders going to second	N/A	N/A	54%	56%	58%	60%	62%		64%	66%	68%
10. Total households access to:											
- Safe Water	N/A	93%	82%	81%	88%	97%		98%	99%	100%	100%
- Sanitation	N/A	49%	79%	79%	86%	87%		88%	89%	90%	91%
11. Urban households access to:											
- Safe Water	43%	48%	52%	57%	61%	66%		70%	75%	79%	84%
- Sanitation	32%	37%	43%	48%	54%	59%		64%	70%	75%	81%
12. Shelter financing provided by AID-supported Programs (%)	N/A	N/A	5%	5.8%	10%	7.3%		7%	5.6%	5.1%	4%
13. AID-supported export sales ($ millions)			7.5	25.5	37.7	62.5	120.2	87.8	127.6	193.5	221.5
14. AID-supported Employment Generation (Thousand person-years)			5.6	7.6	14.5	26.0	26.7	37.6	48.3	60.8	51.9

TABLE III: LAC PERFORMANCE RATINGS, FY92
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	Overall Perform (100%)	Macro Program (15%)	Dom Fin Deficit (10%)	Exchange Rate (10%)	Private Invest. (5%)	Trade Regime (5%)	Market Pricing (5%)	Incr. Level Sch Enroll (10%)	Red Inf Mort (5%)	Incr Contr Prev (5%)	Environ Mgt (10%)	Dem & HR Commit (20%)
AID/W Projection	60.0	1.5	7.7	2.0	2.1	1.0	3.0	10.0	5.0	3.7	8.0	16.0
USAID/H Projection	90.0	14.0	9.0	10.0	3.5	4.5	5.0	9.0	5.0	4.0	8.0	18

FOOTNOTES

TABLE I

Elementary school gross enrollment data are based on GOH sources and Academy of Educational Development information. The population base used in Honduras is 6 1/2-13 years, a larger cohort than the standard of 7-12 years that is used by the LAC PETS system and the World Bank. Accordingly, GOH gross enrollment figures are lower than the World Bank's, as fewer out-of-age children (i.e., under 6 1/2 or over 13) are included in the GOH's statistics than in the World Bank's.

TABLE II

The source for moderate and severe rural malnutrition was an extrapolation of the 1966 INCAP study and 1987 National Nutrition Survey. The mission is in process of developing a nutrition strategy; targets for 1990 to 1992 assume that strategy will result in a doubling of the rate of decrease of malnutrition, i.e., a reduction of 2% per year.

Safe water for "Total households with access" under indicator 10 is defined as within 200 meters of a standpipe or fountain source. Sanitation under this indicator is defined as having regular access to a latrine. Sources for water and sanitation data are: 1980-86 Data: Planning for Central America Water Supply and Sanitation Programs WASH Field Report No. 253, May 1989. 1989-1990 Data: Update of Planning for Central America Water Supply and Sanitation Programs. Honduras Report. USAID/RHUDO/ROCAP, September, 1989. 1991-1992 projections assume an average growth rate of 3.6% over 1986. Honduras Environmental Profile 1989, "Toda Honduras con Agua en el 2000" SANAA November 1989.

Safe water and sanitation for "Urban households with access" under indicator 11 uses the more restrictive definition of piped water and sanitary services in the home or in the yard. Source 1974 and 1988 Population and Housing Census, SECPLAN.

We are seeking a better way to measure the impact of our shelter activities than the percentage of financing for shelter provided by AID reported in Table II. That percentage is calculated against total shelter financing reported by the Central Bank. The downturn from 1989 to 1992 is due to the shrinkage of the resources available for this purpose. HG-009, to be launched in FY92, should result in a reversal of this trend beginning in FY93.

D) Performance Narrative

GOAL: SHORT-TERM ECONOMIC STABILIZATION

As pointed out in Section I and as indicated in Tables I and II, Honduran macroeconomic performance prior to 1990 was mixed. Although the central unresolved issues continue to be the size of the public sector fiscal deficit, the maintenance of an overvalued fixed exchange rate, and the GOH's overwhelming debt burden with official donors and alarmingly increasing level of arrears to those donors, important policy achievements were made in early 1990.

GOAL: RAPID AND SUSTAINED ECONOMIC GROWTH

Significant advances also were made in the productive sectors.

Although drought caused setbacks early in the growing season, agricultural GDP increased 3.5% in 1989. That increase was supported by accelerated implementation of AID supported activities. For example, the Irrigation credit line is disbursing well ahead of projected rates; 25,000 hectares of pine forest have been placed under sustainable management; the Land Use Productivity Project registered 1,250 farmer beneficiaries during its first six months; the Small Farmer Organization Project mobilized over $9 million in rural savings; 213 kilometers of roads were built and 2,300 kilometers of roads were maintained in important agriculture areas during 1989; fee income from loan reflows is covering a large part of the operating costs of the coffee institute; and almost 400 small-scale, on-farm coffee processors have been installed by small farmers to improve their income from the increased quality and value added these processors will represent.

On the agricultural policy front, frequent debates which accompanied periodic shortages of commodities (such as meat, milk, and grains) prompted a general acknowledgment of the detrimental effects of price controls, exchange rate overvaluation, restrictive land use policies, and market weaknesses on real agricultural income and sectoral investment. (See page 2 for a listing of some of the agricultural policy measures undertaken by the GOH.)

There was increased interest in exports in large part due to AID supported activities with the Foundation for the Development of Exports (FIDE), Federation of Agricultural Producer and Exporter Associations (FPX), and Ministry of Economy. FIDE helped draft and lobbied for the laws which allowed the establishment of privately owned export processing zones, put its investment promotion office in New York into full operation and moved its Atlanta investment promotion office to Miami, thereby putting in place the infrastructure and mechanisms necessary to attract increased foreign investment to Honduras. Honduras' first privately owned Export Processing Zone (EPZ) was initiated in 1989 with AID financing and

six private investors already have established plants in the Zone. The Ministry of Economy continued to sensitize the private sector to the importance of exporting and worked to reduce and eliminate bureaucratic obstacles to exporting. Activities carried out by FPX resulted in improved yields and lower marketing costs which stimulated the planting of an additional 1,500 hectares in melons. The shrimp industry faced disaster with the disappearance of larva of the traditionally cultivated species and it was forced to use larva of a lesser known species in their grow-out ponds. FPX provided technical assistance and training to growers on how to manage this species which generated an estimated $3.5 million in additional shrimp exports. FPX also introduced two new shipping lines to the country which increased competition and to date has saved growers an estimated $750,000 in transportation charges. FPX improved the marketing channels for cashews by helping create a cashew marketing company. The increased competition this company created resulted in a doubling of farm gate cashew prices thereby improving the incomes of over 1,600 cashew growers.

GOAL: WIDER SHARING OF THE BENEFITS OF GROWTH

Honduras' performance in the social sectors continued to be very positive.

Health Sector II continues to support activities to maintain the decline in infant mortality from 85/1000 (1979) to 60/1000 (1989) through an integrated approach to the improved administration and logistics, decentralization of planning and control, child survival technologies, water and sanitation and vector control. An ORT promotional program through health centers is in full operation: 91% of the centers had stocks when visited and 83% had not been out of supplies any time during the previous 3 months. An active mass media campaign is underway and a system of community distribution posts has been established, 7,000 functioning in 1989 with a target of 13,000 for 1990. The social marketing program through the private sector has a target of 3,500 sales points for 1990.

From 1980 to 1988 immunization coverage in the under one age group increased: for polio from 10% to 73%, DPT from 10% to 60%, measles from 19% to 63%, and BCG (tuberculosis) from 17% to 67%. Diphtheria has disappeared and the incidence of polio, characterized by cyclical epidemics, has decreased markedly, fluctuating between 30 and 226 cases during 1976-1979 to between 4 cases in 1985 to approximately 20 cases in 1988 and 2 cases in 1989. Whooping cough was reduced by 80%, from 2,503 cases in 1980 to 235 in 1988.

Although malaria cases dropped from a high of over 57,000 in 1982 to 19,000 in 1987, malaria increased to 29,000 cases in 1988 and 45,000 cases are estimated for 1989 due to a combination of natural cyclical increases and a decline in the MOH's organizational effectiveness. Dengue is also becoming more of a health problem.

Support for vector control activities will increase in 1990 with collaboration of the centrally funded Vector Biology and Control Project.

Rotating funds were established at the regional level to facilitate repairs and maintenance to the health centers and the new GOH approved the local retention of fee income; 60 vehicles have been received for distribution to the regions for local supérvision and vector control; construction is beginning on the first of the three regional offices, and the process of acquiring legal title to land for construction of 30 area warehouses for pharmaceuticals and supplies is underway.

During 1989, the rural water and sanitation component of the project installed: 26 water systems; 6,309 latrines; 114 wells with hand pumps; and 2 septic tanks. During 1990, activities will be accelerated to complete: 111 water systems; 17,680 latrines; 290 wells with hand pumps; and 34 septic tanks.

Contraceptives were available in health centers (76% of the centers had condoms and 94% had oral contraceptives), although lack of strong leadership within the MOH for family planning has hindered their distribution and promotion. ASHONPLAFA's contraceptive social marketing program is covering 87% of its costs, well ahead of the 35% target. ASHONPLAFA opened a male vasectomy clinic in the capital city and submitted a detailed plan for cost recovery measures including a patient fee schedule. The CBD program already has 1,523 distributors and an incentive system for distributors has been developed.

The combined nutritional impact of the agricultural, employment, health, child survival and education activities we support was reviewed. A mission-wide nutrition strategy integrating existing projects in the various sectors is being developed.

The mission's PL 480 Title II maternal and child health and school feeding programs are the same as for the previous year (approximately 113,000 pregnant women, lactating mothers and under-one children through MOH and JNBS centers, and 330,000 primary school children). As reflected in the Resource Requirements section we are concerned by the low control levels for the PL 480 Title II budget since this could seriously affect the nutritional level of a large portion of lower income, vulnerable groups.

The gross primary school enrollment figures for students aged 6 1/2 to 13 years reported in Table I are not equivalent to those used in prior years. We now are using more reliable data based on a more restrictive definition supplied by the national planning agency and the MOE's annual descriptive statistical report.

Over 775,000 second grade textbooks and teacher's guides were delivered during the 1989 school year. Over 2,300 second grade teachers (26%) were trained in the use of the books and guides in 1989 and the remaining 6,500 will be trained in 1990. Third grade texts are scheduled to be delivered during the third quarter of FY90. About 8,200 third grade teachers (100%) will be trained in their use during the 1990 school year. Fourth and fifth grade textbooks, teacher's guides and student workbooks will be written during FY90 and printed in FY 91. These materials will use a self-study approach designed to address the demands of the multigrade classrooms in the upper primary grades. This approach will efficiently utilize the school time of students and ease the instructional burden on teachers.

In January 1990, the title to the Teacher Training Center in El Picacho was legally transferred to the Ministry of Education.

AVANCE continued to experience success with its radio math lessons. During the 1990 school year, first and second grade math lessons will be broadcast nationwide. Third grade math lessons will be pilot tested. In addition, 20 first grade Spanish lessons will be produced and pilot tested.

We are seeking a better way to measure the impact of our shelter provided activities than the percentage of financing for shelter provided by AID reported in Table II. That percentage is calculated against total shelter financing reported by the Central Bank. The downturn from 1989 to 1992 is due to the shrinkage of the resources available for this purpose. HG-009, to be launched in FY92, should result in a reversal of this trend beginning in FY93.

GOAL: STRENGTHENING DEMOCRATIC INSTITUTIONS

Honduras has continued to strengthen its democratic institutions.

The most notable event this past year was the third consecutive free and fair election of Honduras' president, legislators and mayors on November 26, 1989. About 76% of the eligible voters participated in this election which saw the first peaceful transition of power from one political party to another in Honduras' history. Support was provided through the training of 64,000 election workers, the procurement of election related commodities, and the financing of technical assistance in key areas of the electoral process. A major public education and information campaign provided the electorate with the basic information needed to register to vote and raised the public's support for the electoral process. Some progress was made in efforts to update, verify, microfilm, and computerize the 20 million documents vital to the civil and electoral registries. In the process 1,360 members of the TNE/RNP staff were trained in the development and analysis of voter registration data.

Under the Administration of Justice component of the bilateral project, 54 Justices of the Peace were trained and are being partially funded and the Public Defender Office was established, its staff trained and part of its operation financed. Career legislation for the judiciary has been enacted and the project is providing technical assistance for the establishment of a personnel system which will allow implementation of the legislation. Field work was completed on a needs assessment to develop an automated financial management system for the courts. Project resources were used to furnish and equip the Judicial school located in the Supreme Court building.

Within the Congressional Enhancement component, studies of the existing administrative infrastructure and of the Committee system of the Congress were completed, and legislation was enacted to establish a Legislative Reference Center. Six Congressmen and the Secretary of the Junta Directiva participated in an observation tour to the Legislatures of Brazil, Uruguay and Argentina. A booklet describing the workings of the Congress and the functions of the Honduran Constitution is being distributed to increase public awareness of the legislative process.

Under the Democratic Leadership component, 11 courses on democratic leadership were attended by 246 community leaders.

The regional project supported in-country training for 547 members of the judiciary.

Section III: New Program Initiatives

Summary

The new program initiatives contained in this Action Plan represent our vision of how AID's assistance program to Honduras will evolve as we move into the 1990s. As in any evolutionary process, some of the new activities constitute continuations of ongoing efforts, others are follow-ons to successful activities that are winding up, and still others represent truly new start-ups. In the aggregate, they respond to exigencies of a new GOH entering a new decade, namely increased emphasis on sectoral programs, reduced funding levels, and a mandate to continue consolidating the portfolio. These factors have resulted in the following new projects or amendments for FY91 and FY92 (note that no stand-alone local currency projects are planned for either year):

1991

522-0252	Small Farmer Organization Strengthening (Amendment)
522-0312	Investment and Export Development (New)
522-0324	Shelter Sector Program (Amendment)
522-0325	Policy Analysis and Implementation (Amendment)
522-0336	Agricultural Sector Adjustment Program (New)
522-0367	Privatization II (New)
522-0375	Economic Stabilization and Recovery IV (New)
Food aid	PL-480 Title I, PL-480 Title II, and Section 416

The new projects are consistent with the grouping presented in the FY91 Congressional Presentation, although details have changed somewhat. In two cases (Privatization II and Investment and Export Development), the mission considered amending ongoing projects rather than developing new ones. With respect to Privatization II, the election of a new government and that government's plans for implementation arrangements and new privatization targets are sufficiently different from the present project that both the mission and the GOH have agreed that a new start from a fresh analytical and planning base makes sense. As for the Investment and Export Project, a new element (noncredit assistance to the banking sector) and possible changes in implementation systems tipped the scales in favor of a new project. An amendment to the Shelter Sector Program rather than a new project will allow us to provide technical assistance continuity between the present HG and the new FY92 HG, and to lay the implementation base for the new HG. An amendment to the Policy Analysis and Implementation Project will provide funding to meet additional needs arising from increased activity by the new government in the macroeconomic areas. The Agricultural Sector Adjustment Program represents the mission's initiation of sectoral programming as well as combining funding for several previously separately funded activities. It replaces the Agricultural Development Program and Agricultural Research

Foundation II projects proposed in last year's Action Plan; its initiation will see the first combined use of project and nonproject resources targeted toward common and specific goals and purposes in Honduras.

Finally, the amendment to the Small Farmer Organization Strengthening Project does not represent any expansion in the level of effort contemplated in the Project's design. When macroeconomic considerations curtailed local currency disbursement levels under this Project in 1988, the mission opted to use project dollars to cover those same costs in order to avoid losing project momentum. The dollars requested here will be used to compensate for those unplanned dollar expenditures.

1992

522-0296	Strengthening Democratic Institutions (Amendment)
522-0365	Structural Adjustment Program (New)
522-HG-009	Shelter and Infrastructure Policy Program (New)
Food aid	PL-480 Title I, PL-480 Title II, and Section 416

Under the 1992 starts, an amendment will provide funding to meet expected additional needs in assisting democratic institutions. This same year will see two new sectoral starts. The first is the new HG, which will continue AID's involvement in the housing and urban infrastructure area and support our democratic initiatives with local governments. Expanding upon work already begun under the Shelter Sector Program and HG 008, the new HG will carry out much of its work through the informal sector. The second sector effort will further deepen mission efforts at making the trade and financial sectors the leading economic development engines in the Honduran economy.

Relationship of New Initiatives to the CDSS and the CAI

The mission feels that the new activities listed above are consonant with the thrust of Honduras' existing portfolio and the principal aims of the mission's CDSS and the CAI. The CDSS, among other things, calls for a stabilized economy, with increases in employment and per capita income, more housing units, higher export levels, and continued progress toward permanent institutionalization of democratic electoral and judicial processes. As will be seen in the following New Project Descriptions, the mission intends to use the new initiatives to accomplish those ends.

Food Aid

As noted above and elsewhere in the Action Plan, the mission plans to continue using PL 480 Title I and Title II and Section 416 food aid programs in FY91 and FY92. We are concerned, however, that inadequate PL 480 Title II control levels for these years will force a severe curtailment in the MCH and School Food programs.

Performance Fund Requests

The mission requests that the Bureau consider the Privatization II Project for funding under the Performance Fund. The mission believes that this project embodies AID policy directives regarding development of the private sector, reduction of public sector expenditures, and increased efficiency of public sector operations, and we consider the results of the Privatization I Project to be proof of that relationship. (For example, the evaluation conducted by the International Science and Technology Institute documented the great success of the Privatization I Project and heralded it as one of AID's most successful privatization initiatives.) As such, we ask that the Privatization II Project be considered as a prime candidate for receipt of any funds which might come from the Performance Fund.

A) FY 1991

NEW PROJECT DESCRIPTION

PROJECT TITLE: Small Farmer Organization Strengthening (Amendment)

PROJECT NUMBER: 522-0252

PROJECT FUNDING: $ 1,125,000

		Authorized LOP	Amendment FY91	Planned LOP
($000s)	FN G	8,800	1,125	12,925
	FN L	3,000		
	ESF G	4,200		4,200
TOTAL		16,000	1,125	17,125

FUNCTIONAL ACCOUNT: FN

A. Relationship to AID Country Strategy Objectives: A detailed study of the impact of the project on the Mission's objectives shows that it positively impacts production, exports, and employment as well as the efficiency of rural financial markets. The project also strengthens democratic institutions, in this case cooperatives. To date the project has been implemented to be as supportive as possible of the emphasis on the private sector development and control of monetary expansion.

B. Relationship to Host Country and Other Donors: The project was designed following the recommendations of the National Bipartisan Commission on Central America as a way to financially stabilize and institutionally strengthen rural cooperatives which had suffered from the economic contraction of the early 1980s. The new GOH administration is committed to reform and restructuring programs which will reactivate the economy with an emphasis on the private sector. The project's support of the development of cooperatives as sound businesses will make the GOH reforms more effective.

C. Conformance with Agency and Bureau Policies: The project is supportive of Agency policy regarding institutional development, agricultural development, and the development of financial markets. It also is supportive of Bureau objectives of increased production, exports, employment, and the development of financial markets.

D. Project Description: The purpose of this project is to develop viable mechanisms for the delivery of productive inputs to farmers (seed, credit, management ability, and marketing services). In FY 88 macroeconomic considerations led to limitations on disbursement of local currency, and accordingly dollar denominated project resources were reprogrammed to meet critical needs originally anticipated to be financed through the local currency counterpart portion of the project. This amendment seeks to replenish these resources for dollar financed technical assistance and commodity needs.

The project has the following three general components:

- Institutional Development - The project's activities include financial and organizational audits and analyses; development of business plans; strengthening of accounting, administration and internal controls; institutional support grants in exchange for operating and administrative reforms; and training in cooperative administration and specific agricultural skills. The project also has strengthened the ability of the Honduran Cooperative Institute to fulfill its mandate as a regulatory agency by carrying out accounting standardization, audit and examination, and licensing activities.

- Financial Stabilization - Uses a variety of financial stabilization mechanisms such as the injection of special reserves, principal and interest write-downs, loan guarantees, reamortization or restructuring of debts, and merger or liquidation of certain nonviable cooperatives.

- Credit - Operating and investment credit on commercial terms in support of an array of bankable agricultural activities of the cooperatives or their members.

The three years remaining in the life of the project will be focused on the cooperative sector. Project interventions in the credit union sector have proven to be successful, thereby freeing additional resources to address the more diverse cooperative front. Participation of women in the credit union sector is sizable.

The following outputs are expected during the life of the project:

Functioning FDF	1
Agricultural Cooperative Federations Strengthened and Restructured	4
Affiliate Organizations Strengthened	78
Personnel Trained	100
Farm Production Loans	2,000
Farmer Beneficiaries	20,000
Improved Cooperative Regulatory Institution	1

Method of Obligation: Amendment of the existing bilateral agreement.

E. Implementation Arrangements: A USPSC will manage the project and will be assisted in the day-to-day implementation by a FSNPSC Assistant Project Manager. The primary implementing agency is the Fondo de Desarrollo Financiero (FDF), with board members representing the Ministry of Economy and the Ministry of Finance and Public Credit.

F. Sustainability: The implementing institution, the FDF, is expected to become self-sustaining by the end of the project. While the issue of the FDF's permanent nature was left open in the original project design, it has become evident that such an entity is necessary to support the long term financial health of cooperatives. The technical assistance and training provided by the project have developed the FDF's management practices and capability to make it sound and sustainable. The project also seeks self sustaining federations and affiliated institutions and continues to provide the financial and technical support to achieve this objective.

G. Financial Plan: Funding under the amendment will be used for:

Technical Assistance	$725,000
Commodities	$400,000

H. Potential Issues:

1) Viability of agricultural private sector businesses including cooperatives in the face of an unrealistic exchange rate.
2) Formalization of the independent legal status of the implementing agency.
3) General financial and administrative weakness as well as the unsound practices of the rural cooperatives (and businesses in general in the country).

I. AID/W TDY Support for Project Development: None requested.

J. Estimated PP Amendment Approval: 1st Qtr 1991.

K. PP Approval: USAID/Honduras requests Bureau authorization to approve the PP Amendment in the field.

NEW PROJECT DESCRIPTION

PROJECT TITLE: Investment and Export Development (New Project)

PROJECT NUMBER: 522-0312

PROJECT FUNDING:

($000s)	FY91	LOP
FN	1,500	10,000
PSEE	1,500	10,000
TOTAL	3,000	20,000

FUNCTIONAL ACCOUNTS: FN, PSEE

A. Relationship to AID Country Strategy Objectives: This project is an integral part of the Mission's strategy to stimulate further movement toward a diversified, export led economy that helps provide a permanent and secure source of employment for Honduran workers. Achieving this goal will require substantial macroeconomic and sectoral policy reforms as well as technical changes. The Mission's strategy links the policy dialogue inherent in the ESF-supported stabilization programs and the upcoming Agricultural Sector Assistance and Structural Adjustment programs with projects such as the Investment and Export Development (IED) project and other Mission projects in the areas of privatization, small business development, vocational training, rural roads, irrigation, agricultural research, and coffee improvement. The proposed project supports private sector efforts to achieve the Central America Initiative's goal of sustained economic growth. It will build upon the accomplishments of the successful Export Development Services Project (EDS), 522-0207, and an extensive analytic base of studies, evaluations, and practical experience related to the development of a diversified and sustainable base of Honduran exports.

B. Relationship to Host Country and Other Donors: The project supports the GOH's investment and export development and diversification efforts. It complements work being supported by the United Nations International Trade Commission and Inter-American Development Bank.

C. Conformance with Agency and Bureau Policies: The project fully supports Agency policy regarding the enhancement of incomes and the involvement of the private sector in economic growth and development, and policy and regulatory reform. It further supports Bureau, CBI, and CAI goals of promoting sustainable exports.

D. Project Description: The goal of this five year project is to assist Honduras to attain a sustainable economic growth by 1994/95.

The purpose is to assist Honduras to increase investment and efficiency in diversified export production, thereby increasing sustainable export earnings and related employment. The project evolved out of the Mission's successful efforts to begin to develop a diversified export base in Honduras and to establish a consensus on the importance of nontraditional exports.

One of the principal mechanisms employed by the Mission to increase Honduran exports was the Export Development Services Project. That project supported the creation of two effective private sector export and investment development organizations, the Foundation for the Investment and Development of Exports (FIDE) and the Honduran Federation of Agricultural Producers and Exporters (FPX); both have contributed substantially to achievement of project and Mission export goals. In addition, both organizations will have achieved self-sufficiency in local currency costs by the end of 1990 and will be working to attain foreign exchange cost self-sufficiency.

FIDE helped draft and lobbied for legislation to permit the duty-free import of machinery and inputs needed by exporting companies and to permit the establishment of export processing zones (EPZs). As a result of these efforts, 5,600 jobs were created, the 42 companies assisted by FIDE have exported goods valued at $73 million, and one EPZ has been completed and four more are under construction.

FPX's assistance in increasing melon, cucumber, and seafood exports has thus far resulted in, respectively, increases of 338%, 286%, and 93% since 1985. Shipping costs have been reduced due to FPX's discussions with new transportation companies and investments in agricultural exports have increased over $15 million.

The Ministry of Economy's one-stop export documentation center has reduced the time necessary to acquire export permits to less than 24 hours. The GOH also has been able to assist smaller businesses just starting to export and has set in place a framework for policy reform discussions between the private and public sectors.

The new IED Project will build on this experience and will emphasize the further expansion of nontraditional agricultural and manufactured products and the continued development of industries such as apparel and agro-industrial processing, including the packaging of shrimp and melons, areas which traditionally employ large numbers of women. In addition to continuing to assist local exporters to improve their efficiency and market responsiveness, FIDE will expand its existing overseas investment and promotion network to attract new investment. FPX will continue its work to expand nontraditional agricultural export production, reduce transportation costs, and promote the development and sale of Honduran products to overseas markets. The project will continue to assist the Ministry of Economy in resolving policy and regulatory issues affecting the export sector, promoting new export production, and supporting the one-stop export documentation center. The Honduran Bankers and Insurers Association and the Central Bank will provide training and improve bank supervision to facilitate the growth of domestic capital required for export growth.

The principal outputs planned under this project are as follows:

Major Outputs:	All Years
Increase in export earnings	$200,000,000
Export-oriented investment	$50,000,000
Jobs Created	22,500
Companies shifting to export markets	50
Viable Investment and Export Institutions	2

E. Planned Implementation Arrangements: The project will be obligated via a Handbook 3 bilateral agreement and Handbook 13 grants to existing Honduran organizations.

F. Sustainability: Policy reform and strengthening the financial sector will take place during the life of project and the changes brought about should be of a permanent nature. Although the two private sector organizations involved in investment and export promotion (FIDE and FPX) are well on their way to becoming financially self-sufficient and export promotion activities will generate fees as clients pay for services provided, we are unaware of any models where these activities have been successfully undertaken by the private sector on a permanent, self-sustaining basis. Investment promotion, especially for overseas offices and trade missions, will probably require a separate source of financing in order to be maintained after the project. In most countries investment promotion is usually undertaken under the auspices of the government. This project will explore mechanisms for ensuring the continuation of export and investment activities.

G. Financial Plan:

Training	2,400,000
Commodities	2,600,000
Technical Assistance	8,500,000
Credit	6,000,000
Evaluations/Audits	500,000
Total	20,000,000

H. Potential Issues:

1) The level of GOH commitment to exports.
2) The degree to which the private sector organizations supported under this project should be expected to become self-sufficient and how to best meet the need for investment and export promotion in the longer term.

I. AID/W TDY Support for Project Development: None Requested.

J. Estimated PID Approval: 2Q FY 1990 PP Approval: 1Q FY 1991

K. PID and PP Approval: During the last Action Plan the Bureau delegated PID and PP approval authority to the Mission.

NEW PROJECT DESCRIPTION

PROJECT TITLE: Shelter Sector Program (Amendment)

PROJECT NUMBER: 522-0324

PROJECT FUNDING: $ 2 million Amendment

($000s)	Authorized LOP	FY91	Planned LOP
PSEE	1,600	500	3,600
HG 008	35,000		
HG 009			35,000

FUNCTIONAL ACCOUNT: PSEE

A. Relationship to A.I.D. Country Strategy Statement: Increased access to urbanized land and housing conforms to the Mission objective of wider sharing of the benefits of growth. This amendment will focus its efforts on the integration of people in the informal sector into the formal economy through the formulation of a sustainable urban land delivery system as well as providing technical assistance continuity between the present HG and the new FY92 HG and laying the implementation base for the new HG.

B. Relationship to Host Country and Other Donors: The informal sector has been the target of assistance by the GOH and donors. The proposed municipal reform law seeks a resolution of the problem of "ejidal" land, a substantial portion of which is occupied by people of the informal sector. The IDB is in the process of assisting the GOH in their urban planning efforts which will impact on the creation of land markets. The project will complement those efforts through coordination with these other donors.

C. Conformance with Agency and Bureau Policies: The amendment will achieve important Bureau objectives with respect to initiatives with the informal sector. The project will provide the Mission with key sector information concerning the land delivery system, particularly the role of small-scale real estate brokers and informal subdividers, informal sector beneficiaries and the legal and financial changes necessary to create a sustainable urbanized land market in Honduras.

D. Project Description: Honduras is experiencing a rapid concentration of its population in urban centers. The low-income population in these urban centers is placing increasing strains on the provision of land and basic infrastructure services. This is disrupting the orderly growth of urban centers in Honduras and has a

substantial negative impact on the environment and the cost of services. The informal sector is an important element of a comprehensive shelter delivery system. The expansion of this element in current Mission efforts in shelter and urban services will provide continuity and the necessary policy, programmatic and institutional groundwork for a FY92 shelter and infrastructure policy HG program. The Mission will use this amendment to develop and test the institutional and financial framework alternatives for a delivery system that will secure legal access by the people of the informal sector to urbanized land in an orderly manner as a first step in improving their shelter situation. The activities funded with this four-year amendment will consist of two major components:

1. Technical Assistance and Training: This component will use grant resources to study the current system used by the informal sector to gain access to land; define how small-scale real estate brokers and informal subdividers, beneficiaries and others in the land development process can interact to be more effective in dealing with the creation of a sustainable land market; identify the ways in which resources are mobilized for land acquisition and urbanization; identify and structure the mechanisms to enable people of the informal sector to access capital and participate in a sustainable delivery system for urban land and housing; determine the development impact and role of women heads of households in the informal sector; evaluate other land market systems applied in the Caribbean and Latin America; and implement specific land development projects. Technical and policy seminars and workshops will reinforce the above efforts. These technical assistance and training activities will be structured and focused within the context of identifying appropriate policy, programmatic and institutional agendas for the FY92 sectorial reform HG program.

2. Land Development: This component (funded with ESF-generated local currency) will test the institutional arrangements and relationships between the major actors (small-scale real estate brokers and informal subdividers, beneficiaries, community-based organizations, NGOs and municipalities) in the implementation of specific urbanized land projects. Capital resources will be channeled through the private sector finance system applying market interest rates. The resources will be used to complement local resources generated within the informal sector.

By the end of this project, an estimated 2,500 urbanized lots will be provided to people in the informal sector, and the Mission will have the programmatic and institutional components for a comprehensive sector reform that will result in a sustainable delivery system for urbanized land.

Planned Outputs

Families benefited with urbanized lots	2,500
Municipalities implementing an urban land planning system	5
Informal sector groups participating in urban land delivery system	10
Private sector institutions lending for urbanized land	3

Method of Obligation: Amendment to Grant Agreement 522-0324 in accordance with procedures outlined in Handbook 3.

E. Implementation Arrangements: The project will work with small-scale real estate brokers and informal subdividers, municipalities, private sector financial institutions, NGOs and community based organizations. The GOH counterpart will continue to be the Ministry of Finance and Public Credit. PSCs and institutional contractors will provide the technical assistance and training. One USDH in RHUDO, with support from an Informal Sector PSC Advisor, will manage the project.

F. Sustainability: Technical assistance under the project will be directed at attaining sustainability of the urban land delivery and financing systems.

G. Amendment Financial Plan: ($000's)

	FY91	LOP
Technical Assistance	420	1,600
Training	80	400
Credit (ESF local currency)	5,000	5,000

H. Potential Issues:

GOH's eligibility for the final disbursement under HG-008.

I. AID/W TDY Support for Project Development: None requested.

J. Estimated PP Amendment Approval: 4Q FY90

K. Amendment Approval: The Mission requests Bureau authorization to approve the PP amendment in the field, extending the LOP from 3 years and 8 months to 7 years and 8 months with a new PACD of 3/31/95.

NEW PROJECT DESCRIPTION

PROJECT TITLE: Policy Analysis and Implementation (Amendment No. 2)

PROJECT NUMBER: 522-0325

PROJECT FUNDING: $ 3 million Amendment

		Authorized LOP	FY91	Planned LOP
($000s)	ESF	7,000	3,000	10,000
	FN	5,350		5,350
	PSEE	4,000		4,000
		16,350	3,000	19,350

FUNCTIONAL ACCOUNT: ESF

A. Relationship to AID Country Strategy Objectives: This project is of fundamental importance in supporting GOH stabilization and sectoral reform objectives. In the short run, it will provide the technical assistance needed to design and implement the economic and administrative reforms to be carried out by the GOH with ESF support. Over a longer time frame, this project will train Hondurans in graduate economics, thereby strengthening the GOH's ability to carry out economic policy.

B. Relationship to Host Country and Other Donors: The GOH recognizes the need for more appropriate economic policies and significant administrative reforms. Its commitment to these reforms has made it aware of the human resource and institutional constraints to analyzing and implementing these policies. Additional project funding is needed to respond to increasing requests for technical assistance and training. The amendment will strengthen the policy dialogue process and the efficient implementation of improved policies. The project fully supports a strengthening of GOH capacity to develop and implement a credible program, capable of obtaining support from the IMF, World Bank and other donors. Policy and administrative reforms will be developed with sufficient speed to convince key donors of Honduras' commitment to structural reforms. The project will carefully coordinate its activities with those of other donors.

C. Conformance with Agency and Bureau Policies: The project supports the Agency's policy dialogue and institutional development policies, and is directly linked with Bureau and CAI objectives related to stabilization of financial structures and sectoral policy reforms needed for rapid and sustained economic growth.

D. Project Description: The purpose of this amendment is to strengthen the capacity of Honduran public sector institutions to formulate and implement sound economic policies by providing

senior-level economic advisors on a long-term basis and carrying out short-term economic and financial analysis of policy constraints to Honduran economic growth. Other elements of the project relating to sectoral policy reforms in the private and the agricultural sectors already have been initiated.

A significant number of promising junior advisors to GOH agencies are women. Through their relationship with senior foreign advisors provided by the amendment, they will benefit by improving their technical capabilities. They will also be enrolled as participants in the graduate level training activities of the project, thereby better preparing themselves for high-level careers in the government or private sector.

An increment of $3 million in FY91 is needed to expand the advisory and educational activities of the project. Sustained high level economic expertise provided to the GOH will be crucial in carrying out a comprehensive, donor-supported economic policy reform program under the Callejas government. As such, the project will support the FY91 ESF economic stabilization and recovery program as well as the FY92 ESF Sectoral Adjustment Program. The amendment will provide funding for activities within the current PACD of August 31, 1994.

Activity	Output funded by Amendment
Enhanced human resource base	25 MA/MS in Economics 30 short-term trainees
Analyses of key problems	Policy studies and affecting the national economy recommendations for the public sector
Improvements in public sector	Reduction of expenditures operations and increased productivity

Method of Obligation: An amendment to bilateral agreement in accordance with handbook 3.

E. AID and Host Country Arrangements: An FSNDH in the Economic Policy Analysis Office has assumed project management responsibility. The MOF will appoint a Project Coordinator to ensure proper counterpart involvement. Two separate contracts are to be awarded, the first for support to economic measures to be implemented in 1991. The second is to complement ongoing training in economics at U.S. universities with graduate training in economics at top Latin American universities.

F. Sustainability: Design and implementation of sound economic policies by the GOH is expected to continue as a permanent activity after the project is completed. Both the on-the-job training by consultants hired under the project as well as training in economics at the graduate level in top U.S.

universities give assurance of its lasting effects in the Honduran policy making process.

G. Financial Plan:

Technical Assistance		$1,500,000
Training		$1,500,000
	TOTAL	$3,000,000

H. Potential Issues: None expected.

I. AID/W TDY Support for Project Development: None requested.

J. Estimated PID Approval: PP Amendment Approval 2Q FY91.

K. PID and PP Approvals: USAID/Honduras requests Bureau concurrence to approve the PP amendment in the field.

NEW PROJECT DESCRIPTION

PROJECT TITLE: Privatization II (New Project)

PROJECT NUMBER: 522-0367

PROJECT FUNDING:	($000s)	FY91	LOP
		800	6,000

FUNCTIONAL ACCOUNT: PSEE

A. Relationship to AID Country Strategy: The proposed project supports Honduran efforts to privatize government-owned industry and services thereby decreasing the fiscal deficit and increasing employment opportunities, thus advancing the Central American Initiative's goal of basic structural reforms for rapid and sustained economic growth.

B. Relationship to Host Country and Other Donors: This project is a high priority of the new GOH.

C. Conformance with Agency and Bureau Policy: This project addresses one of the four major Agency policy bases, strengthening the private sector. With respect to Bureau policies, the project will support CAI mandated actions in the areas of economic stabilization and basic structural reform leading to sustained growth.

D. Project Description: The goal of the five year project is to contribute to the achievement of structural adjustment and sectoral reform needed for rapid and sustained economic growth. The purpose is to continue to support Government of Honduras planning and implementation of activities to privatize state-owned enterprises. The principal development problems that the Project will address are the country's foreign commercial debt, fiscal deficit pressures caused by subsidizing state-owned enterprises, and the lack of sufficient new private sector investment to reduce the high unemployment and underemployment rates.

This project will build on the lessons learned and successes registered under the original privatization project. The Privatization of State-Owned Enterprises Project that was designed as a pilot project in 1986, and on which the new project will be built, contributed to the $28.0 million reduction of the GOH's foreign commercial debt, and brought $3 million in new investment that has already created close to 1,000 new permanent jobs. The new project is expected to make a larger contribution in these areas, and further reduce recurrent costs and GOH financial support for state-owned enterprises. It will be implemented through existing organizations

and will finance the already established operations of the Technical Working Group (TWG). The objective of the TWG is to serve as the critical cadre of experienced international and Honduran personnel providing analytical and marketing assistance to the GOH to implement the privatization program. The TWG serves as the technical staff that provides support to the implementing entity headed by a person the Mission has nominated as a Privatization Czar. Political considerations may not allow the divestiture of some enterprises, some companies could become targets for divestiture, others for management contracts, leasing or the private contracting of certain activities. Therefore, the project will have to provide complementary support mechanisms such as severance payments, training and management contracting are on as needed basis.

The project will reactivate many companies. Experience has shown that in the hands of the private sector, business activity has increased and so have employment opportunities. It is difficult to quantify what will be the impact of the project on business opportunities for women. However, since many of these companies are labor intensive and employ a large number of women, it can be said with certainty that the project will enhance job and business opportunities for women.

Planned Outputs: 15-20 Companies privatized through divestiture, sale of assets, liquidation, or management contracts.

E. Planned Implementation Arrangements: The project will be implemented by the GOH and will have in place a person designated as a Privatization Czar, reporting to the Minister of Finance. The Valuation and Negotiation Commissions created for the pilot project will remain in place. They will work with the TWG and a USPSC in the Mission's Private Sector Programs Office in carrying out accurate valuations of the enterprises and assets, as well as determining marketing and sales strategies.

F. Sustainability: The project will support an activity that is finite; mainly the privatization of companies or services that are currently being carried out by the GOH. Thus, the project itself does not have to leave an institution in place that is self-sustaining and will instead focus on carrying out privatization as effectively and efficiently as possible. Nevertheless the movement of the government away from management of productive enterprises will have a lasting impact.

G. The Project's Financial Plan: The project's budget will be $6.0 million for technical assistance and other support components. The GOH is expected to provide $10.0 million in local currency equivalent. Breakdown of the Financial Plan is as follows:

DESCRIPTION	AID AMOUNT (000)	GOH AMOUNT (000)
Long-Term T.A.	$2,230	-
Short-Term T.A.	2,400	100
Promotion/Marketing	100	500
Legal Services	-	725
Travel	50	75
TWG Operations	-	3,600
Commodities	50	-
Travel and Training	50	-
Severance Payments	-	5,000
Evaluation/Audits	80	-
Other Support Components	540	-
Contingency	500	-
Total	$6,000	$10,000

H. Potential Issues:

1) The future of CONADI.

2) The trade-off between an expedited privatization process and the need for checks and balances in a transparent process.

3) The political climate for the privatization of public services.

4) Employment impact of privatization.

I. AID/W TDY Support for Project Development: None requested.

J. Estimated PID Approval: PID: 3Q FY90 PP: 1Q FY91

K. PID and PP Approval: Mission requests authority to approve PID and PP in the field.

NEW PROJECT DESCRIPTION

PROJECT TITLE: Agricultural Sector Adjustment Program (New Project)

PROJECT NUMBER: 522-0374

PROJECT FUNDING:

($000s)	FY91	LOP
FN	2,800	20,000
ESF	15,000	50,000
TOTAL	17,800	70,000
PL-480 Title I	12,000	60,000

FUNCTIONAL ACCOUNTS: FN, ESF

A. Relationship to AID Country Strategy Objectives: The achievement of AID's country strategic objectives of rapid and sustained economic growth and wider sharing of the benefits of that growth will require policy reforms and complementary technical efforts to increase productivity and output of the agricultural sector. This Program will emphasize each of these areas, and will result in higher nutritional and living standards for sector beneficiaries.

B. Relationship to Host Country and Other Donors: The new GOH administration is committed to implementing structural and sectoral reform that will reactivate the national economy. The sector program will provide technical and financial resources to assist the GOH in implementing these policies for the agricultural sector. Coordination with the World Bank and other donors on the implementation of the policies is proceeding.

C. Conformance with Agency and Bureau Policies: The Program is consonant with Agency policy regarding policy dialogue, institutional development, private sector support, and technology transfer. In addition, it is directly supportive of Bureau objectives related to increased production and exports.

D. Project Description: The ultimate goal of this seven year Program is to improve the material well-being of the majority of Hondurans through increased production and exports. The purpose of the Program is to improve the sector's policy framework in order to provide a new growth and production-oriented incentive structure which will result in significantly increased agricultural productivity. The policy improvements will enhance land use efficiency and productivity, and increase producer access to improved technologies and markets.

The major constraints which this Program will address include archaic and/or inappropriate sector policies which have resulted in poor production and yield levels, low incomes, and stunted growth in the

sector; lack of land tenure security which adversely affects land use and productivity; inefficient, overstaffed governmental institutions which mismanage sectoral resources and supplant the roles of private sector mechanisms; lack of access to technical know-how and financial resources; and inadequate infrastructure.

The Program's structure is derived directly from the Mission's Agricultural Sector Strategy which is designed to lead to increased sectoral growth through increased productivity and exports. Achievement of this objective will come from a considerable degree of emphasis on policy reform. To enhance the impacts of sectoral policy reform, complementary technical programs to improve producer access to land, technology and markets are envisioned. The unifying concept within this effort is that policy reform, and technical activities that will make the most of the policy reforms, are necessary in a sectoral program.

PL-480 Title I commodities and ESF dollars will be used together to leverage critical macroeconomic and structural reform policy initiatives or reforms which are necessary to accelerate and sustain growth in the sector. Policy issues to be pursued include: higher real producer prices; more efficient use of the land base; improved natural resource management; more efficient financial intermediation; improved marketing and trade policies; and improved institutional performance (for more details see the USAID Honduras Agricultural Sector Strategy Paper). The PL-480 and ESF resources will be handled as they have in the past; i.e., Title I agricultural commodities will be imported and ESF dollars will be disbursed in cash transfer form pursuant to negotiation of appropriate self help measures and reforms. Local currencies generated by those mechanisms will be programmed by the GOH and the Mission in support of other aspects of the Program (mainly related to design and implementation of the reforms) and such other activities as the parties consider to be of mutual interest.

Local currency and DA dollar resources together will be used to implement and enhance the impact of the policy reforms designed to result in increased sector growth indicated in the Strategy. The major thrust of the LC and DA will be on activities designed to improve land use and technology and market access. Specific activities financed in the land use area include: cadasters at the departmental and municipal levels; titling of land in those areas with cadasters which would provide full and transferable property rights; establishment of an efficient land financing and transfer system; the institution of local land tax and fiscal incentives systems for more productive and orderly land use; and the reform (and privatization, where feasible) of the management structures of the key government entities dealing with land tenure and use questions.

Activities financed in the area of technology and market access include: producer oriented research on domestic and export crops; experimentation with small scale commercially viable agricultural enterprises; facilitating credit access for commercial production, processing, and marketing activities; extension services; coffee productivity and quality enhancement; resource conservation activities; and reform or privatization of parastatal institutions involved in technology generation, dissemination, credit delivery, and marketing.

Planned Outputs

Increased Real Agricultural GDP growth	3.6% per year
Financial sustainability of FHIA core budget	100%
Policy actions accomplished	50
Coffee production (Real GDP growth)	4.5% per year
Land titles with full transfer rights issued	40,000
Increased value of land assets held by small/medium farmers	$20 million
Departmental cadasters completed	9
Municipal land tax systems established	30

E. Implementation Arrangements: A combination of PSCs, PASAs and possibly institutional contractors will work with a variety of governmental and private sector entities, notably the Ministry of Natural Resources, the Agrarian Reform Institute (INA), the Cadaster Directorate, the national forestry agency (COHDEFOR), the Honduran Coffee Institute (IHCAFE), and the Honduran Agricultural Research Foundation (FHIA). Given past experiences with the kinds of activities contemplated under the project, and the agencies listed here, women are expected to be important actors in the Program's implementation, and to be major beneficiaries of Program outputs.

F. Sustainability: The bulk of entities participating in the Program are in the public sector, so self-sustainability per se is not an issue. The question of recurring costs is very pertinent, however, and all components of this Program are oriented toward their reduction, either by striving to reduce costs as services are increased in volume and quality, or by simple privatization of the services.

G. Financial Plan:

	DA	ESF	PL-480
		($U.S. Millions)	
TA	10	-	-
Training	4	-	-
Commodities	4	-	-
Policy Reform (BOP)	2	50	60
TOTAL	20	50	60

H. Potential Issues:

1) Scope and complexity of Program activities.

2) Relating DA funded activities and disbursement rates to performance of GOH under ESF/PL-480 side of the Program.

I. AID/W TDY Support for Project Development: Possible 3 to 4 weeks of assistance may be needed for PP development; actual needs to be determined after PID is approved.

J. Estimated PID/PP Approval: PID: 4Q FY90; PP: 2Q FY91.

K. Delegation of Authority: Given the size and scope of this Program, the Mission recognizes the advisability of AID/W PID review.

NEW PROJECT DESCRIPTION

PROJECT TITLE: Economic Stabilization and Recovery IV (New Project)

PROJECT NUMBER: 522-0375

PROJECT FUNDING:	($000s)	FY91	LOP
	ESF	60,000	60,000

FUNCTIONAL ACCOUNT: ESF

A. Relationship to AID Country Strategy Objectives: This Program will contribute to the Mission's objectives of stabilizing the Honduran economy and contributing to structural and sectoral reforms leading to rapid and sustainable economic growth. Due to the lack of a GOH economic program in 1989, the Mission will continue to support GOH stabilization efforts in FY91 -- one year more than anticipated in the FY90/91 Action Plan. However, in accordance with the country strategy, the FY91 Program will also support the Mission's transition into a fully sector oriented ESF program in FY92.

B. Relationship to Host Country and Other Donors: This Program will be developed in close cooperation with the IMF, the World Bank, and other donors who are working with the GOH to design an economic program that will lead to sustained, export led economic growth.

C. Conformance with Agency and Bureau Policies: This Program is a prime example of implementation of the Agency's policy regarding use of policy dialogue to improve economic performance.

D. Project Description: This Program has the goal of stabilizing the Honduran economy and completing the Mission's transition from a stabilization/structural focus to support of policy improvements in key sectors of the Honduran economy. The Program builds upon past ESF programs which were divided into two components calling for stabilization and structural adjustment measures. The FY91 stabilization component will lower the public sector fiscal deficit of the GOH to four to five percent of GDP and achieve a virtually complete liberalization of the foreign exchange regime. The sectoral adjustment component will support packages of policy improvements in two sectors -- trade and finance. The third sector, agriculture, which also is of importance to the Mission's ESF policy dialogue will have its own sectoral program in FY91. Policy reforms in the trade and finance sectors are programmed to be supported (without a stabilization component) in the FY92 Structural Adjustment Program. The FY91 Program will be carefully coordinated with the programs of the World Bank, IMF and other donors. It also will lead to the FY92 focus on trade and finance.

E. Sustainability: Self-sustainability as such is not a goal of this Program. Rather, it is intended to improve economic performance to a degree that Honduras will be able to obtain needed foreign exchange without balance of payments support in the decade of the 90s.

F. Financial Plan: N/A.

H. Potential Issues:
1) Uncertainty as to the degree of government compliance with negotiated conditions.
2) The extent to which local currency should be monetized/sterilized.
3) Uses of the dollars.

I. AID/W TDY Support for Project Development: None requested.

J. Estimated PAAD Approval Date: 3Q FY90.

K. PAAD Approval: To be reviewed in AID/W.

B) FY 1992:

NEW PROJECT DESCRIPTION

PROJECT TITLE: Strengthening Democratic Institutions (Amendment No. 2)

PROJECT NUMBER: 522-0296

PROJECT FUNDING: $ 3 million Amendment

	Authorized LOP	FY92	Planned LOP
($000s) ESF	14,300	3,000	19,300
PSEE	1,700		1,700
TOTAL	16,000	3,000	21,000

FUNCTIONAL ACCOUNT: ESF

A. Relationship to A.I.D. Country Strategy Objectives: The Government of Honduras recognizes the strong connection between economic and democratic development and believes that both areas must be simultaneously reinforced. All signs indicate that the political parties, as well as other major sectors of society, support the continuation of the democratic process. Accordingly, this project coincides with the commitment of the GOH and the Honduran populace at large to achieve a lasting, effective democracy.

B. Conformance with Agency and Bureau Policies: Over the past decade, AID has stressed a policy of human rights and increased participation of the poor in the economic development of third world countries. To this end, AID has elaborated a more substantial strategy of assisting countries in their initial steps toward democracy and reinforcing the fragile institutions of already established democracies.

C. Project Description: The purpose of the project is to improve the capability of key democratic institutions (the Judiciary, the Congress, and the National Elections Tribunal/National Registry). Project activities will continue to provide technical assistance, training, and commodities to strengthen the Honduran Congress, the Judiciary, and the National elections Tribunal as follows:

Administration of Justice - Support the establishment of an administrative unit within the Supreme Court; establish an information management system; compile and maintain a jurisprudence system; strengthen the Honduran judicial school; enhance the capabilities of the Attorney General and Public Defenders offices; enhance the system of law libraries, to include a branch for each judicial center.

Congressional Enhancement - Provide additional resources for the Legislative Reference Center; improve the administrative capacity of Congress and strengthen the committee system.

Voter Registration and Elections - Provide support to the 1994 national elections; support civil registry updating activities.

NEW PROJECT DESCRIPTION

PROJECT TITLE: Structural Adjustment Program (New Project)

PROJECT NUMBER: 522-0365

PROJECT FUNDING:

($000s)	FY92	LOP
ESF	50,000	100,000
PSEE	1,000	10,000
TOTAL	51,000	110,000

FUNCTIONAL ACCOUNTS: ESF, PSEE

A. Relationship to AID Country Strategy Objectives: By supporting major policy reforms in the trade and financial sectors, this Program will contribute to AID's objective of achieving structural reforms leading to rapid and sustainable economic growth. Through this Program and the Agricultural Sector Adjustment Program, the Mission will be emphasizing policy reforms in three sectors identified as the candidates for the Mission's sectoral approaches in the FY89 and FY90 ESF Concept Papers.

B. Conformance with Agency and Bureau Policies: Agency policies call for (1) the development of efficient, deep and integrated financial markets, relying primarily on market rates of interest and other terms for efficient mobilization of private savings and allocation of credit; and (2) building and promoting competition between viable private, profit-making financial institutions. Agency policies on international trade call for liberalizing trade regimes to permit an efficient allocation of resources through producing goods and services in areas with comparative advantage. This Program will support these policies.

C. Program Description: The Program will build on the Mission's past ESF programs which have included measures to improve Honduran economic performance through policy adjustments in the trade and financial sectors. The FY92 Program will have two thrusts: (1) improved trade policies; and (2) improved financial policies. The new GOH has indicated that it will propose major trade legislation which will greatly reduce effective protection through moving toward a uniform nominal import tariff in three steps over a two to three year period starting in 1990. These measures will be supported by the ESF stabilization/structural adjustment programs in FY90 and FY91 and through the SAP starting in FY92. The purpose of the financial sector thrust is to foster policy, institutional, and human resource improvements which will increase the provision of long- and short-term capital on an objective basis -- stressing market-prices and transparency -- to viable private sector projects. It also will increase domestic private savings.

NEW PROJECT DESCRIPTION

PROJECT TITLE: Shelter and Infrastructure Policy Program (New Project)

PROJECT NUMBER: 522-HG-009

PROJECT FUNDING:	($000s)	FY92	LOP
	HG	10,000	35,000

FUNCTIONAL ACCOUNT: Housing Investment Guaranty

A. Relationship to A.I.D. Country Strategy Objectives: HG resources will be provided on the basis of key policy, program, and institutional changes. The sector agenda will be based on the strategic and policy requirements necessary to make democratic local governments important actors in the provision of shelter and the infrastructure delivery services and to assure those delivery systems operate on a sustainable basis. The agenda will reflect the lessons learned through the implementation of the Municipal Development Project (522-0340) and the informal shelter component of HG-008 and the Shelter Sector Project (522-0324).

B. Conformance with Agency and Bureau Policies: The project will focus on sector changes that impact on the way resources are mobilized, allocated, and managed. A reduction in the role of the public sector and increased participation of the private sector (formal and informal) in the development process will be a part of the sector agenda.

C. Project Description: The three year HG project will channel resources in support of two subsector components:

1. National Housing Finance System: HG resources will be used to achieve, among other things, changes in the mobilization and control of resources, land tenure regulation, public/private sector partnerships, institutional roles, shelter solution typology, and credit policies for shelter. The changes will deal with the elimination of interferences of the public sector in the design, construction, and finance of shelter.

2. National Urban Development System: HG resources will be used to support the changes being initiated with the Municipal Development Project for transferring the provision of water and sewerage services from the national government to local governments. The project will focus on the basic structural and programmatic changes required for an environmentally sound urban development system to operate on a sustainable basis in Honduras.

Section IV: Resource Requirements

A) PROGRAM FUNDS

The program funds called for in this Action Plan are consistent with the revised control levels required by the FY91 Congressional Presentation ($36,933,000 DA; $80,000,000 ESF; $12,000,000 PL 480 Title I; and $3,601,000 PL 480 Title II). The OE funds are consistent with the FY91 Annual Budget Submission ($2,660,000 OE dollars and $3,070,500 Trust Funds).

Due to the projected reductions implicit in the control levels (a 10% reduction in DA funding level and a 15.8% reduction in the ESF level -- 14% overall from the average for the last six years) we have been forced once again to postpone consideration of new support to Honduras' basic education programs and limit the funding for the Honduras Peace Scholarship Program. We expect substantial dislocations to our maternal and child health and school food programs should PL 480 Title II levels remain at the control level.

The projected PL 480 Title II levels (a 40.5% reduction from the DCC approved FY90 level announced in 89 State 280289 and a 36.7% reduction from the FY90 control level for the FY91 Congressional Presentation) will cause severe problems. The proposed cut in the PL 480 Title II level will translate immediately into increased infant mortality rates as fewer pregnant women are attracted to MCH programs as well as increased primary school drop out and lower retention rates through the sixth grade as children are forced to seek alternative sources of food. Major adjustments to our nutrition strategy probably will be needed to offset the effects of these cuts and reduce the incidence of malnutrition among children under 5; currently approximately 36% of rural children suffer moderate or severe malnutrition. In addition to a devastating impact on nutritional status, the impact of such cuts could cause an increase in the level of civil unrest, especially during the period of significant economic reform we anticipate.

Projected functional account obligations are consistent with trends since FY85. In addition to postponing again consideration of follow-on activities in the education sector until after the period covered by this Action Plan we project drawing down our education pipeline in FY91 to permit greater funding of our PSEE mortgage as we extend our support for Honduras' democratic institutions to the municipal level and continue supporting our export focused strategy, micro and small enterprises, and privatization activities.

The following table presents the functional account allocation of our control level compared to the FY85 through FY90 functional account levels.

ACCOUNT	AVERAGE FY85-90	FY 1991 $000	FY 1991 % of AVERAGE	FY 1992 $000	FY 1992 % of AVERAGE
FN	20,325	20,708	101.88	17,108	84.17
PN	3,418	3,230	94.50	2,020	59.10
HE	4,420	3,120	70.59	2,020	45.70
CS	2,040	2,855	139.99	3,000	147.09
(HE + CS	6,460	5,975	92.50	5,020	77.71)
EH	5,617	20	0.36	4,785	85.19
PSEE	5,217	7,000	134.18	8,000	153.35
DA TOTAL	41,037	36,933	90.00	36,933	90.00
ESF	94,996	80,000	84.21	80,000	84.21
DA + ESF	136,033	116,933	85.96	116,933	85.96

The projected FY91 and FY92 functional account obligations shown above also are consistent with average obligations over the longer FY85 through FY92 period and their proportion of the DA budget as shown in the following table.

ACCOUNT	AVERAGE FY85-92	AVERAGE % DA	FY 1991 % of AVERAGE	FY 1991 % of DA	FY 1992 % of AVERAGE	FY 1992 % of DA
FN	19,971	49.91	103.69	56.07	85.66	46.32
PN	3,220	8.05	100.31	8.75	62.74	5.47
HE	3,958	9.89	78.84	8.45	51.04	5.47
CS	2,262	5.65	126.24	7.73	132.66	8.12
(HE + CS	6,219	15.54	96.08	16.18	80.72	13.39)
EH	4,814	12.03	0.42	0.05	99.14	12.96
PSEE	5,788	14.47	120.95	18.95	138.23	21.66
DA TOTAL	40,011		92.31		92.31	

The following table illustrates the number of years needed to liquidate the mortgage for each of the functional accounts assuming annual average obligation rates in the range of actual rates between FY85 and FY90. There is no "mortgage problem" as long as the time needed to liquidate the mortgage is not significantly greater than the planned funding period for most of the projects.

ACCOUNT	AV. OBS FY85-90	FY 1991 MORTGAGE	FY 1991 YEARS	FY 1992 MORTGAGE	FY 1992 YEARS
FN	20,325	75,566	3.72	58,458	2.88
PN	3,418	7,190	2.10	5,170	1.51
HE	4,420	12,589	2.85	10,569	2.39
CS	2,040	16,628	8.15	13,628	6.68
(HE + CS	6,460	29,217	4.52	24,197	3.75)
EH	5,617	5,025	0.89	240	0.04
PSEE	5,217	21,100	4.04	23,100	4.43
DA TOTAL	41,037	138,098	3.37	111,165	2.71

Although total and functional account DA levels after the current fiscal year can only be guessed at, the above table indicates the mortgage in each of the functional accounts can be liquidated in a reasonable time except for the Child Survival account. Liquidation by the current October 1995 PACD for the Health Sector II Project would require an obligation rate in FY93 and FY94 significantly higher that the FY85 through FY90 annual average. It should be noted, however, that Child Survival funding commenced only in FY87. If we were to consider the average of combined Health and Child Survival funding, the mortgage for Health Sector II would be liquidated in a more reasonable time frame of 4.52 years for FY91 and 3.75 years for FY92. For this reason, that project is projected to absorb over 16% of our DA budget in FY91 and over 13% in FY92.

If currently projected funding levels fall, it may be necessary to stretch-out the implementation periods for some of the current projects.

In addition to generally maintaining DA levels, maintenance of ESF levels is critical. A preliminary simulation of the Honduran economy through 1992, with a strong reform program, underlines the onerous debt burden Honduras faces during this period. The simulation clearly brings out the urgent need for concessionary grant financing of the balance of payments.

The model assumes the GOH implements deep economic and structural reforms over the 1990 to 1992 period, a limited GDP growth rate of 1% in 1990 and growth rates of 2% in 1991 and 3% in 1992. Exports are projected to grow by about 7% annually during the period. Despite modest projected growth over this period, external debt is projected to grow by 15% due to high intermediate goods import requirements and the imported capital required to sustain that modest growth.

Even assuming the ESF control levels ($80 million for both FY91 and FY92, $75 million of which are provided for cash transfer assistance), the GOH still would have a financing gap of $43 million in 1991 and $69 million in 1992. Although total debt would decline slightly from 157% of GDP in 1990 to 152% in 1992, debt service for both years would reach 18% of GDP. This illustrates the importance of continued cash transfer ESF balance of payments support. Without it, the GOH may lose its resolve to sustain its reform program and succumb to the short-term temptation of using arrears financing to augment the availability of scarce imported goods and services.

B) OPERATING EXPENSE FUNDS

Although USAID/Honduras' program has experienced an increased rate of project implementation, over the past three years the total operating expense level requested by the mission has increased by only a modest 6% per year despite a real rate of inflation in Honduras of over 10%. In addition, the mission has undertaken major initiatives to reduce overall operating expense outlays and FAAS expenditures, e.g., implementation of a government leased housing program, creation of a One Stop Office for administrative services, and establishment of a Personnel Office. During this same period, the mission's dollar operating expense level has dropped from $1,944,700 in FY87 to an FY90 requested level of $1,400,000 in the FY91 Annual Budget Submission (ABS). This decrease in dollar funds has been absorbed primarily by increasing our reliance on the GOH's Trust Fund. The mission is now at a point where virtually all allowable costs have been transferred to the Trust Fund, including reverse accommodation exchange payments for expenses such as office and residential leases and education allowances paid to local schools which total approximately $1,000,000 per year. It is expected that this practice will continue until such time as additional dollar funds become available as proposed in the FY91 ABS.

The mission's current FY90 dollar operating expense approved level of $900,000 is $500,000 less than the $1,400,000 requested in the FY91 ABS and $445,000 less than mission's actual FY89 operating expenses of $1,345,000. The reduced level will be accommodated by eliminating the purchase of $420,100 of NXP, the funding of $24,000 in post assignment travel and freight by AID Washington, and shifting $55,900 to the operating expense Trust Fund. Although the mission expects to be able to operate at this reduced level in the short-term, in the long-term a solution must be found. The prohibition on the purchase of NXP only defers the true cost of operating the mission since equipment, furniture and vehicles eventually will have to be upgraded and replaced, probably at higher prices than now. In the meantime, the cost to repair and maintain aging NXP will increase and may eventually offset any temporary savings.

The FY91 Annual Budget Submission presented the mission's FY91 dollar operating expense requirement of $2,660,000. The shift of post assignment travel and freight funding to AID/W beginning in FY90 reduces that requirement by $120,000, to $2,540,000. This amount is needed to properly carry out the program outlined in the Action Plan for FY91 and FY92. Significant cuts would negatively impact on our ability to effectively monitor the U.S.' assistance program and to remain accountable for the program without an unacceptable increase in our vulnerability. Reductions in this level would require expanding further our dependence on host country financing of normal administrative costs and the shifting of dollar operating expenses back to the Trust Fund. Beyond this, cuts would have to be made in office supplies, NXP purchases, and salaries.

The approved FY90 Trust Fund level is $5,200,000. This includes $1,000,000 to cover the previously unbudgeted cost of a recently approved FSN pay increase retroactive to July of 1988. The FY91 Trust Funds budget in the FY91 ABS, $3,070,500, did not include the $400,000 per year needed to cover the FSN pay increase in FY91 and FY92. If those additional funds are not approved or if the Trust Fund level is reduced, we would have to cut administrative support costs such as office supplies, repair and maintenance and, if necessary, cuts in FSN staff levels.

The mission will continue to conduct periodic staffing reviews to ensure all positions are justified; however, no significant reductions are anticipated beyond the planned reduction in the number of USPSCs from eight to six by the end of FY90. (The mission submitted justifications to AID/W for the remaining six USPSC positions in Tegucigalpa 22628.) The program control levels and anticipated rate of project implementation indicate that the mission will continue to operate at its current level. For example, planned expenditures, excluding ESF cash grants, are expected to be $74,000,000 and $59,000,000 for FY90 and FY91, respectively, compared to actual expenditures in FY89 of $65,000,000. Work load would not be reduced immediately even if the program level were to be curtailed. It takes time before the impact of reduced funding is translated into reduced staff requirements since the bulk of the work load is devoted to helping the GOH formulate sounder economic policies and programs that can attract IMF, World Bank, IDB, Japan and other donor assistance and to manage the implementation of ongoing projects funded in prior years.

The mission is aware of the limited operating expense resources and is continuing to take steps to cut costs. These steps include refurbishing furniture and equipment instead of replacing items; placing greater emphasis on preventive maintenance to reduce repair and replacement costs; leasing a separate warehouse for project commodities to be paid with project funds; negotiating four-to-five year fixed price lease agreements with landlords to reduce housing costs and prompting them to defray a greater percentage of costs for repairs and security upgrades; and charging to project budgets all project-related administrative costs currently paid for with OE funds (e.g., fax costs, 90% of which are attributable to projects). Also the mission has received approval from FBO to remain in our present location rather than move to the new Embassy Annex to be completed in July/August 1990. This will save the U.S. Government $300,000 of appropriated funds, since the mission pays the rent from Trust Funds. RHUDO and certain Institutional Contractors will move into the USAID office building and appropriate rent for the space will be charged to their respective accounts in order to help offset the increased rental cost once the Embassy vacates its part of the building and thus no longer pays part of the rent.

C) Local Currency Programming

1. Narrative: Host country owned local currency (HCOLC) generated through the Economic Support Fund Program is used to finance public and private sector development activities that directly support or complement Honduran and USAID objectives. PL-480 Title I Program HCOLC generations are used to finance public sector development activities in the agricultural and rural development sectors and activities related to the Self-Help Measures included in the PL-480 bilateral agreement. Section 416 Program HCOLC generations are used to finance activities that contribute to rural development and that permit greater accessibility of the poorest of the poor to the benefits of development. USAID is working with the GOH to rationalize the programming of PL-480 HCOLC. Programming priorities will be rural development investments complementary to USAID and other donor supported projects with lesser emphasis given to GOH recurrent cost budget support.

To date, local currency has been converted at the legal official rate of L2:$1 (Lempiras:US Dollar). However, in conjunction with the FY90 ESF Program the Mission intends to negotiate a local currency conversion rate which reflects the prevailing value of the Lempira in the free market once this rate is legalized. This will demonstrate the Mission's commitment to the GOH's adoption of a market determined exchange rate system. The local currency programming will be kept within the context of a sound monetary program. Accordingly, a portion of the local currency generations may have to be sterilized given the large amount to be generated as a result of anticipated changes in the exchange rate and the size of the program. If this occurs, changes in the utilization of local currency resources will be reflected in the FY93 Action Plan.

USAID also will carefully review the sustainability of the GOH's heavy dependency on these resources to cover recurring operating costs.

FY 90

LOCAL CURRENCY UTILIZATION
($ 000)

A. USES	Sources						
	ESF	PL 480 I	PL 480 II	PL 480 III	SEC. 416	OTHER	TOTAL
HG BUDGET GEN	N/A						
HG BUDGET SECTOR	37,500	19,185			44		56,729
HG CONTRIBUTION TO AID PROJECTS	40,325						40,325
HG CONTRIBUTION TO OTHER DONOR PROJECTS	2,500						2,500
HG MANAGED L/C PROJECT (GOVT. OR PRIVATE)	20,500						20,500
AID PROGRAM TRUST FUND	N/A						
AID OE TRUST FUND	4,175						4,175
SECTION 108	N/A						
OTHER	N/A						
TOTAL	105,000	19,185			44		124,229
B. CHANNEL FOR ASSISTANCE *							
PUBLIC SECTOR	53,302	19,185			44		72,531
PRIVATE SECTOR	51,698						51,698
TOTAL	105,000	19,185			44		124,229

* Determined by organization primarily responsible for managing local currency.

FY 91

LOCAL CURRENCY UTILIZATION
($ 000)

A. USES	Sources						
	ESF	PL 480 I	PL 480 II	PL 480 III	SEC. 416	OTHER	TOTAL
HG BUDGET GEN	N/A						
HG BUDGET SECTOR	26,000	12,000					38,000
HG CONTRIBUTION TO AID PROJECTS	30,333						30,333
HG CONTRIBUTION TO OTHER DONOR PROJECTS	1,900						1,900
HG MANAGED L/C PROJECT (GOVT. OR PRIVATE)	15,500						15,500
AID PROGRAM TRUST FUND	2,092						2,092
AID OE TRUST FUND	4,175						4,175
SECTION 108	N/A						
OTHER	N/A						
TOTAL	80,000	12,000					92,000
B. CHANNEL FOR ASSISTANCE *							
PUBLIC SECTOR	48,086	12,000					60,086
PRIVATE SECTOR	31,914						31,914
TOTAL	80,000	12,000					92,000

* Determined by organization primarily responsible for managing local currency.

FY 92

LOCAL CURRENCY UTILIZATION
($ 000)

A. USES	Sources: ESF	PL 480 I	PL 480 II	PL 480 III	SEC. 416	OTHER	TOTAL
HG BUDGET GEN	N/A						
HG BUDGET SECTOR	20,000	12,000					32,000
HG CONTRIBUTION TO AID PROJECTS	24,191						24,191
HG CONTRIBUTION TO OTHER DONOR PROJECTS	1,300						1,300
HG MANAGED L/C PROJECT (GOVT. OR PRIVATE)	3,334						3,334
AID PROGRAM TRUST FUND	2,000						2,000
AID OE TRUST FUND	4,175						4,175
SECTION 108	N/A						
OTHER	N/A						
TOTAL	55,000	12,000					67,000
B. CHANNEL FOR ASSISTANCE *							
PUBLIC SECTOR	41,015	12,000					53,015
PRIVATE SECTOR	13,985						13,985
TOTAL	55,000	12,000					67,000

* Determined by organization primarily responsible for managing local currency.

SUMMARY PROGRAM FUNDING TABLE
Dollar Program by Functional Account
($000)

PROJECT NO	PROJECT TITLE	FY 90	FY 91	FY 92
AGRICULTURE, RURAL DEV. AND NUTRITION				
522-0176	Small Farmer Coffee Improv.	500	0	0
522-0241	Small Business Development II	1,121	0	0
522-0246	Forestry Development	2,000	3,000	2,500
522-0249	Agriculture Research Foundation	1,000	1,616	0
522-0252	Small Farmer Organ. Strength.	0	1,125	0
522-0268	Irrigation Development	2,500	2,500	3,410
522-0292	Land Use Productivity Enhan.	3,300	5,000	3,500
522-0312	Investment and Export Promotion	0	1,500	1,500
522-0325	Pol. Analysis & Implementation	3,000	0	0
522-0334	Rural Roads III	2,500	2,000	2,000
522-0340	Municipal Development	500	1,000	500
522-0374	Ag. Sector Adjustment Program	0	2,800	3,600
522-0000	Program Development and Support	216	167	98
	Subtotal FN	16,637	20,708	17,108
	(Grant)	16,637	20,708	17,108
	(Loan)	0	0	0
POPULATION PLANNING				
522-0216	Health Sector II	0	0	0
522-0329	Honduras Peace Scholarships	0	0	0
522-0369	Private Sector Pop. Prog. II	4,660	3,210	2,000
522-0000	Program Development and Support	40	20	20
	Subtotal PN	4,700	3,230	2,020
	(Grant)	4,700	3,230	2,020
	(Loan)	0	0	0
HEALTH				
522-0216	Health Sector II	3,040	3,100	2,000
522-0000	Program Development and Support	24	20	20
	Subtotal HE	3,064	3,120	2,020
	(Grant)	3,064	3,120	2,020
	(Loan)	0	0	0

SUMMARY PROGRAM FUNDING TABLE
Dollar Program by Functional Account
($000)

PROJECT NO	PROJECT TITLE		FY 90	FY 91	FY 92
CHILD SURVIVAL					
522-0216	Health Sector II		2,300	2,855	3,000
	Subtotal CS		2,300	2,855	3,000
		(Grant)	2,300	2,855	3,000
		(Loan)	0	0	0
EDUCATION AND HUMAN RESOURCES					
522-0257	Hum Res Dev Council CADERH-OPG		1,622	0	0
522-0273	Primary Education Efficiency		3,480	0	4,625
522-0000	Program Development and Support		26	20	160
	Subtotal EH		5,128	20	4,785
		(Grant)	5,128	20	4,785
		(Loan)	0	0	0
PRIVATE SECTOR, ENVIRONMENT AND ENERGY					
522-0241	Small Business Development II		729	2,500	2,276
522-0312	Investment and Export Development		0	1,500	1,500
522-0324	Shelter Sector Programs		0	500	500
522-0340	Municipal Development		500	1,500	1,000
522-0361	Intl. Executive Service Corps (OPG)		500	0	0
522-0363	Chamber of Commerce - Cortes (OPG)		375	0	0
522-0365	Structural Adjustment Program		0	0	1,000
522-0367	Privatization Phase II		0	800	1,500
522-0000	Program Development and Support		237.5	200	224
	TRANSFER FOR CHF		87.5	0	0
	Subtotal PSEE		2,429	7,000	8,000
		(Grant)	2,429	7,000	8,000
		(Loan)	0	0	0
	Subtotal DA		34,258	36,933	36,933
		(Grant)	34,258	36,933	36,933
		(Loan)	0	0	0

SUMMARY PROGRAM FUNDING TABLE
Dollar Program by Functional Account
($000)

PROJECT NO	PROJECT TITLE		FY 90	FY 91	FY 92
ECONOMIC SUPPORT FUNDS					
522-0296	Strengthening Democratic Inst.		5,000	0	3,000
522-0325	Pol. Analysis & Implementation		0	3,000	0
522-0329	Honduras Peace Scholarships		3,800	0	0
522-0358	Economic Stabilization & Rec. III		120,000	0	0
522-0364	Honduras Peace Scholarships II		1,217	2,000	2,000
522-0365	Structural Adjustment Program		0	0	50,000
522-0374	Agricultural Sector Program		0	15,000	25,000
522-0375	Economic Stabilization & Recovery IV		0	60,000	0
	Subtotal ES		130,017	80,000	80,000
		(Grant)	130,017	80,000	80,000
		(Loan)	0	0	0
P.L. 480 Title I					
		(Loan)	12,000	12,000	12,000
P.L. 480 Title II					
		(Grant)	5,670	3,601	3,601
Section 416					
		(Grant)	4,200	2,000	2,000
	PROGRAM TOTAL		186,145	134,534	134,534
		(Grant)	174,145	122,534	122,534
		(Loan)	12,000	12,000	12,000

E) Food Aid

1. PL-480 Title I and Section 416 Programs:

The PL-480 Title I Program represents a substantial contribution to the economic stabilization goal and structural adjustment efforts. The PL-480 Title I Program is budgeted at $12 million each year (FY90, FY91, and FY92) in accordance with funding control levels.

Section 416 is budgeted at $4.2 million in FY90 and $2.0 million each year for FY91 and FY 92. Approval has been received for 13,700 MT of corn ($1.5 million) in FY90 and additional 25,000 MT ($2.7 million) were requested recently.

The Program's policy dialogue and balance of payments contributions are supportive of the mission's stabilization, sustainable growth, and sharing in the benefits of growth objectives. The Program will be closely coordinated with the Stabilization and Agricultural Sector Adjustment programs in FY91 and the Structural Adjustment Program in FY92 (see New Project Descriptions). Local currency generations are allocated for GOH programs and private sector initiatives that support Action Plan objectives.

Honduras' self-sufficiency in basic grains (corn, rice, beans and sorghum) has been slipping since 1987, with occasional supply shortages due to adverse weather patterns becoming more frequent. Domestic yields for basic grains have been low and have not increased significantly during the past five years. This, combined with population growth and limited opportunities to expand the agriculture frontier, has caused corn deficits in the Honduran grain market for each of the last three years. A December 1987 study showed that corn imports would be required during the following five years if current conditions prevail. During calendar year 1989 Honduras imported approximately 50,000 MT of corn, and estimates are that the 1990 deficit is between 50,000 and 80,000 MT of corn. The critical foreign exchange shortage makes it ever more difficult for the GOH to continue to supplement domestic production shortfalls with imports.

Present food policies concerning production, processing and marketing, among them regulated food prices, the ceiling on agricultural interest rates, implicit subsidization of food imports through an unrealistic exchange rate, and laws that prohibit efficient land utilization, are not conducive to agricultural expansion. Poor infrastructure, weak institutions and limited private investment in agriculture also cause low productivity. Marketing is rudimentary and costly; post harvest losses and marketing margins are high. Given the present population growth rate, the Honduran food system must modernize at a faster pace.

PL-480 Title I and Section 416 programs are instrumental to address these problems. A multiyear Self-Help Measures (SHM) Plan designed to focus on the food problem was developed during 1989. The PL-480 Title I SHMs reinforce the mission's agricultural policy efforts. They are coordinated with and complement ESF conditionality. The analytic underpinnings for the SHMs are supported by the Policy Analysis and Implementation Project (522-0325) and will be carried out in conjunction with the Agricultural Sector Adjustment Program (522-0374) which commences in FY91.

The multiyear PL-480 Title I SHMs support implementation of measures aimed at: (1) revising the agriculture price structure; (2) improving the efficiency of land use; and (3) providing access to technology and markets to the agricultural producers. The FY90 program will concentrate on revising the agricultural price structure. FY91 and FY92 programs will focus on land use efficiency and access to technology and markets.

Wheat production is negligible in Honduras and the country has depended over the past five years on Title I, Section 416 and small donations from other donors for its entire supply. The GOH monetized the Title I wheat at Gulf prices plus transportation and handling costs. The wheat is milled and provided to the bread, pastry and pasta industries. The wheat demand for FY90 is estimated at 125,000 metric tons.

In accordance with AID/W control levels, $12 million are programmed for PL-480 Title I in FY90, FY91 and FY92. The following table shows the Title I and Section 416 requirements during the Action Plan Period.

PL-480 Title I/III Requirements

(Dollars in Millions, Metric Tonnage in Thousands)

	Estimated FY90		Estimated FY91		Projected FY92	
	$	MT	$	MT	$	MT
COMMODITIES						
Title I Wheat	12.0	75.0	12.0	75.0	12.0	75.0
Section 416 Corn/Sorghum	4.2	38.7	2.0	20.0	2.0	20.0
TOTALS	16.2	113.7	14.0	95.0	14.0	95.0

2. PL 480 TITLE II:

CARE and the GOH retargeted the School Feeding program to the most needed areas as identified in the National Nutrition Survey in 1987. The process, although slow, was completed as planned in FY89.

Retargeting of the MCH program was not possible since all MOH and the JNBS beneficiaries belong to the most needy strata either in the urban or rural area of Honduras. The mission agrees with this criteria and will attempt to include most health centers in the Title II program, as well as more closely coordinate other donor food programs with CARE programs.

The mission approved a FY90 monetization of Title II commodities to support CARE's efforts in designing and implementing a longitudinal study under the School Feeding program, to begin periodic measurements of program impact.

The equipment that the mission donated to the JNBS last fiscal year has been acquired and technical assistance will be provided to train JNBS' staff on its correct use to conduct growth monitoring activities.

In 1989, the GOH provided counterpart funds to manage the SF and MCH programs from ESF local currency generations. CARE is fully responsible for food storage, transport and distribution of SF commodities; the MOH and the JNBS make some distribution of MCH commodities.

Program costs have been kept within authorized levels in FY87 and FY88, i.e., $2.87 million. In FY89 and FY90 the increasing cost of food and freight raised the cost of the program to $3 and $6 million, respectively, while beneficiary levels remained static. Beneficiary levels are 330,000 for the SF program and 113,000 under the MCH program. Approximately 2,000 families will benefit from FFW/Monetization activities.

The projected FY91 and FY92 PL 480 Title II levels (a 40.5% reduction from the DCC approved FY90 level announced in 89 State 280289 and a 36.7% reduction from the FY90 control level for the FY 1991 Congressional Presentation) will cause severe problems. The proposed cut in the PL 480 Title II level will translate immediately into increased infant mortality rates as fewer pregnant women are attracted to MCH programs as well as increased primary school drop out and lower retention rates through the sixth grade as children are forced to seek alternative sources of food. Major adjustments to our nutrition strategy probably will be needed to offset the effects of these cuts and reduce the incidence of malnutrition among children under 5; currently approximately 36% of rural children suffer moderate or severe malnutrition. The impact of such cuts could be particularly devastating on the level of civil unrest as

well as nutritional status, especially during the upcoming significant economic retrenchment.

Program funding level FY91 & FY92: $3,601,000.

	OBLIGATIONS					
FY:	1987	1988	1989	1990	1991	1992
Objective 9:						
PL 480 Title II	1,652	1,170	2,070	3,969	2,521	2,521
Local Currency	(3,553)	(973)	(970)	(785)	(785)	(785)
Objective 10:						
PL 480 Title II	-	-	-	510	324	324
Objective 11:						
PL 480 Title II	1,450	1,489	1,052	1,191	756	756
Local Currency	(1,926)	(462)	(462)	(880)	(880)	(880)

CARE's proposal for a Municipal Infrastructure and Technical Assistance-Urban Food for Work (MITA-UFFW) project was approved by FVA/PVC/FFP/II. A contract to begin activities with the San Pedro Sula municipality in 1990 was signed. The MITA-UFFW combines Title II food commodities and the resources of the municipality with the monetization of approximately $600,000 in Title II commodities to provide TA and supplies to help San Pedro Sula provide basic infrastructure services to its inhabitants. San Pedro Sula will design and administer the services. Community residents will participate in the construction of infrastructure works and receive a food ration according to work accomplished.

F) FY 1991 Country Training Plan Update

1. Restatement of Mission Training Objectives: The Mission's participant training objective is to contribute to the formation of more effective manpower resources and help create a core group of well trained professionals in key GOH ministries, other public institutions, and the private sector that would be the nucleus for long-term and enduring institutional capacity improvements in Honduras.

In accordance with the mandate from the U.S. Congress, the Mission's training objective under the CAPS (Honduras Peace Scholarship Project) is to counter Soviet bloc training by providing educational opportunities for economically and socially disadvantaged Hondurans who otherwise would not have the opportunity to be exposed to democratic institutions and processes in the U.S., and to strengthen ties of friendship with future Honduran leaders.

These foci will be continued under the Honduras Peace Scholarship II Program (522-0364).

2. Summary of Training Program and Progress to Date Under CAPS I: Approximately 3,000 Hondurans will receive training under the Peace Scholarship Projects during the period FY85 through FY92 in technical and academic programs. We initiated our CAPS I academic training primarily at the Masters level in the areas of USAID bilateral program interest prior to the evolution of CAPS guidelines. We continue to use the core areas of agriculture, education, small and export business, health and population, and infrastructure development which are critical for Honduras' future development to select our scholars. From FY86 we have been targeting the socially and economically disadvantaged youth from rural areas with leadership potential to attend programs, primarily at the undergraduate level. In FY91 we will lower the number of scholars for long-term training, becoming more selective, and increase the number of nondegree students in technical programs.

The short-term component of our program from FY85 through FY90 concentrated on individuals primarily in the areas of micro and small business, agriculture, and education. We continue to work with the Partners of the Americas for placement of about 25 percent of our short-term scholars, with the rest programmed through PIO/Ps. From FY85 thru FY87, the bulk of our programs had a duration of two to four weeks. Starting in FY88, and for the duration of the CAPS I project, we increased the length of our short-term program to a minimum of five weeks duration, including survival English prior to departure, and increasingly emphasized selection of individuals with leadership potential.

Under CAPS I, 161 secondary school students, primarily from poor urban and rural areas, attended a technical/vocational institute and high schools for a five-month period, while living with families in

the U.S. We will continue with this program in FY91. Based on the experience gained in CAPS I we will make the necessary changes in order to address the current needs of the country and the future of the participants.

Based on the experience gained from CAPS I we are preparing the HOPS II project with continuing emphases on selecting scholars in current leadership positions or with leadership potential. HOPS II, however, will place greater emphasis on matching individuals with more specific training programs to assure that these leaders will be able to make more immediate contributions towards the accelerated economic and social development of Honduras.

Orientation, predeparture training, and follow-on activities for technical trainees are also being revised to assure that the participants will have basic and appropriate technical requisites before beginning training in the U.S. In this manner participants will be able to focus directly on more specific technical skills and training which are not readily available in Honduras. Similarly, we will assure that all returning trainees will have appropriate employment and other opportunities for applying their new skills and knowledge.

Beginning in FY 92 our long-term academic scholars will be sent to the U.S. for their Junior and/or Senior year of college work, thereby expanding scholarship opportunities, accelerating the impact of the scholars' contributions on national development needs, and achieving higher levels of cost-effectiveness for these training investments.

3. Groups to be Targeted in FY91 and Types of Training:

- 5 economically and socially disadvantaged Hondurans with leadership potential to attend long-term academic and technical programs in export promotion, business administration, engineering and other areas at various locations in the U.S.

- 40 economically disadvantaged rural and urban youth and young adults to attend six-month technical and vocational education courses in Honduras and the U.S.

- 30 key staff personnel from the manufacturing sector to attend a six-week course in such areas as furniture finishing, upholstery, apparel industry, leather, chemistry, and other selected areas.

- 20 publicly elected officials from rural Honduran municipalities that demonstrate an interest in improving municipal services, to attend an eight-week course in Honduras and the U.S.

- 30 rural and urban youth between ages 18-25 to attend a five-week youth leadership seminar.
- 15 rural women to attend a four week course in jam and jelly production.
- 15 rural leaders to attend a five-week small vegetable production course.
- 10 instructors of rehabilitation centers for youngsters with drug problems to attend a six-week internship in rehabilitation centers in the U.S.

SECTION V: MISSION AND AID/W INITIATED ISSUES

We have not been informed of any AID/W issues to be addressed. We would like to take advantage of Program Week to discuss the following.

(1) AID/W Assistance in Arranging a Financing Package to Clear GOH Arrears to IFIs; in Increasing IDA, SFO Support for Honduras; and in Encouraging Positive Flows of Concessionary Assistance from the World Bank and IDB to Honduras: AID/W assistance is crucial in coordinating timely USG and IFI support for a financing package for Honduras, including Treasury support for bridge financing. Putting together this package is a delicate operation which must balance two politically sensitive and potentially conflictive objectives: (a) clear arrearages, thereby permitting donor support of an ambitious GOH economic program; and (b) permit enough imports to satisfy vital needs while setting the basis for sustained economic growth and development. The delicate nature of these criteria is highlighted in Tegucigalpa 3460 and 3463 and page 16 above. An ambitious reform program could easily be derailed due to financing impediments unless these issues are handled carefully. Although most of the issues raised in those messages should have been addressed by State, Treasury, and others by the time of AID/W's review of this Action Plan, we foresee a need for continued AID/W support in this area during the period covered by this Action Plan. Our interest in assuring timely international support for Honduras' reform program is two-fold. First, such support is the essence of the Agency's policy concerning reform programs, i.e., sound performance merits support. Second, we anticipate continuing pressures by the IFI community to direct ESF cash transfer assistance toward liquidating arrears. We, and the GOH, believe our cash transfer assistance is urgently needed to provide the unencumbered foreign exchange required to maintain minimum import and growth levels -- both to assure the anticipated reforms have their desired effect and to establish the basis for future growth. What can USAID/Honduras do to assist AID/W in coordinating the efforts of Treasury and State to arrange bridge financing, in promoting IDA and SFO support, and in encouraging positive flows of concessional assistance from the World Bank and IDB for Honduras?

(2) Continued Cash Transfer Assistance: The Mission foresees an urgent and continuing need for cash transfer assistance. As pointed out on page 16, Honduras faces an onerous debt burden over the period of this Action Plan. Unlike many countries, this debt is to official agencies and, consequently, cannot be swapped or written down. Even with a strong macroeconomic and policy reform program and modest GDP growth rate projections, external debt is projected to grow by

15 percent over the two year 1991 to 1992 period. The Mission believes that cuts in projected ESF cash transfer levels in FY91 or FY92 would be a major threat to a sound economic program. How firm are the projected levels of ESF available for cash transfer assistance?

(3) Performance Based Budgeting: We are deeply concerned with the imbalance in how this valuable concept is being implemented. That is, the preponderance of macroeconomic criteria is not reflective of the many directives in the FAA and Agency policy to consider more than this single criteria. As a result, lack of performance in one area results in curtailment of funding at an inappropriate time and in an inappropriate way. For example, although Honduras has performed very positively in the social areas, it did not develop a supportable macroeconomic program in 1989. As a result, $70 million in FY89 cash transfer assistance was postponed. Nonetheless, as currently structured, the Performance Based Budgeting System calls for Honduras' DA funding levels to be curtailed in FY92, "punishing" the very area where there has been positive performance, at a time when we anticipate significant movement in the macroeconomic and structural reform areas. What are the plans to structure a Performance Based Budgeting System which reflects the breadth of priorities the Agency must address and which appropriately rewards or "punishes" performance at the time of that performance and in a manner consistent with the areas of that performance?

(4) Timing of the OYB: As this document is prepared, although we are five months into the fiscal year, a final FY90 OYB has yet to be established for DA, ESF, OE, and PL 480 Title II funding. Although problems lay beyond the Bureau and Agency (e.g., Congressionally mandated proportionality concerns) and PL 480 follows a separate track, what are the plans to make this process more efficient?

(5) Overdependence on Host Country Owned Trust Funds: We share the concerns expressed in AA/LAC's memorandum on "LAC Operating Expenses and Staffing Reductions Proposals" to AA/PPC. The dangers of becoming captive to host country resources to perform normal oversight and management activities have been discussed repeatedly yet the problem seems to be getting worse. The following table illustrates the Honduran case between FY85 and FY90.

FY	TOTAL OE	$OE	%	OE TF	%
85	3,457.3	2,018.4	58.4	1,438.9	41.6
86	4,550.5	2,132.0	46.9	2,418.5	53.1
87	4,590.9	1,944.7	42.4	2,646.2	57.6
88	5,483.8	2,090.0	38.1	3,393.8	61.9
89	5,291.4	1,345.0	25.4	3,946.4	74.6
90	6,100.0	900.0	14.8	5,200.0	85.2

Currently $1 million of the Trust Fund is used for reverse accommodation exchange. Did the AA/LAC's memorandum result in any relief in dollar funding for OE?

(6) Microenterprise Earmark: The definition being used for gauging performance against this earmark is focussing increasingly on a model (loans of less than $300) established for the fifth poorest country in the world. Although Honduras' per capita GNP ($810) is five times that of Bangladesh, it remains one of the least developed nations in Latin America and presents significant development opportunities in the area of micro and small business development. The $300/loan test, however, is overly restrictive in the Latin American context. What options exist to redefine the definition of microenterprise to country and/or regional circumstances?