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**UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
Washington, D. C. 20523**

**HONDURAS**

**PROJECT PAPER**

**ECONOMIC SUPPORT FUND (ESF)  
(PAAD)**

**AID/LAC/P-837**

**PROJECT NUMBER: 522-0396  
GRANT NUMBER : 522-K-608**

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AGENCY FOR INTERNATIONAL DEVELOPMENT  <b>PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)</b>		1. PAAD Number 522-0396 GRANT 522-K-608	
		2. Country HONDURAS	
		3. Category Cash Transfer	
		4. Date	
5. To A/AA/LAC, William S. Rhodes		6. OYB Change Number N/A	
7. From LAC/DR, Peter Bloom		8. OYB Increase None	
		To be taken from: Economic Support Fund	
9. Approval Requested for Commitment of \$ 5,000,000		10. Appropriation Budget Plan Code 72-112/31037 \$5,000,000.00 522-K-608 LES2-93-35522-KG31	
11. Type Funding <input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	12. Local Currency Arrangement <input type="checkbox"/> Informal <input type="checkbox"/> Formal <input type="checkbox"/> None	13. Estimated Delivery Period FY 93/94	14. Transaction Eligibility Date
15. Commodities Financed			

16. Permitted Source	17. Estimated Source
U.S. only	U.S.
Limited F.W.	Industrialized Countries
Free World	Local
Cash \$5,000,000	Other

18. Summary Description

The purpose of this program is to provide balance of payments assistance for economic stabilization and recovery in Honduras during FY 1993. The program is conditioned on accelerating agricultural sector reforms; implementing trade and investment laws, expediting financial sector reforms, achieving tariff reforms, progress in the privatization program, and continued efforts in the economic stabilization program.

Program funds will be deposited into a separate, non-commingled ESF account or accounts in the U.S. from which payments for eligible foreign exchange transactions will be made. Eligible transactions include the importation of the raw materials, intermediate goods, spare parts, agricultural inputs, and capital goods from the U.S. for the productive private sector, as well as the importation of petroleum and its derivatives from the U.S.

Upon disbursement of the dollars, an equivalent amount of local currency will be deposited by the GOH in a separate, non-interest bearing account in the Central Bank of Honduras to be used for mutually agreed upon development purposes consistent with the Foreign Assistance Act, specifically Sections 103 through 106. Methods of implementation, financing, and audit coverage have been provided in accordance with payment Verification Policy Implementation Guidance.

19. Clearances	Date	20. Action
LAC/DR/CEN&CAR:JWall	9/16/93	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
LAC/DPP:JStepanek	9/20/93	
GC/LAC:RMeighan	9/21/93	Authorized Signature: <i>William S. Rhodes</i> Title Acting Assistant Administrator, LAC Date 9/30/93
LAC/CEN:Kellis	9/20/93	
ARA/ECP:LWilson	9/21/93	
ARA/CEN:KHennessy	9/16/93	
A/DAA/LAC:NParker	9/23/93	

APPR: WSR *WSR*  
DRAFT: JNB *JNB*  
CLEAR: PB *PB*  
CLEAR: NP *NP*  
CLEAR: ( )  
CLEAR: ( )  
CLEAR: ( )

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AID/LAC/DR/CEN&CAR:JBAKKEN:HONESFAG.CA3  
09/30/93 647-8656  
AID/A-AA/LAC:WSRHODES

AID/LAC/DR:PBLOOM  
AID/DAA/LAC:NPARKER  
AID/GC/LAC:RMEIGHAN (DRAFT)  
STATE/ARA/ECP:LWILSON (DRAFT)

AID/LAC/CEN:KELLIS (DRAFT)  
AID/LAC/DPP:JSTEPANEK (DRAFT)  
AID/LAC/DR:JWALL (DRAFT)  
STATE/ARA/CEN:KHENNESSY (DRAFT)

IMMEDIATE TEGUCIGALPA

AIDAC

E.O. 12356: N/A

TAGS:

SUBJECT: APPROVAL AND AUTHORIZATION OF USAID/HONDURAS  
STRUCTURAL ADJUSTMENT PROGRAM II PAAD (522-0396)

1. SUMMARY: A DAEC REVIEW OF THE USAID/HONDURAS  
STRUCTURAL ADJUSTMENT PROGRAM II PAAD WAS HELD ON JUNE 11,  
1993. THE A-AA/LAC CHAIRED THE MEETING WHICH WAS ATTENDED  
BY REPRESENTATIVES FROM LAC/DR, LAC/DPP, GC/LAC, LAC/CEN,  
FA/B, STATE/ARA/ECP, STATE/ARA/CEN, STATE/HA, POL/CDIE,  
POL/PAR, TREASURY AND OMB. USAID/HONDURAS WAS REPRESENTED  
BY MISSION DIRECTOR MARSHALL BROWN. THE PROGRAM WAS  
APPROVED AND AUTHORIZED BY A-AA STACEY RHODES ON SEPTEMBER  
30, 1993 AT A LEVEL OF DOLS 5 MILLION, TO BE OBLIGATED AND  
DISBURSED IN ONE TRANCHE.

2. DAEC DECISIONS

THE DAEC ISSUES FOCUSED ON REDUCED ESF FUNDING LEVELS AND  
THE QUESTION OF EXCESSIVE CONDITIONALITY. THAT  
CONDITIONALITY CONSISTS OF (A) ADOPTION OF A NEW BANKING  
SYSTEMS LAW, (B) PROGRESS ON PRIVATIZATION, (C) USE OF  
ANIMAL HEALTH AND PHYTOSANITARY REQUIREMENTS AS "DE FACTO"  
QUOTAS, (D) PROGRESS IN IMPLEMENTING THE COUNTRY'S FAR-  
REACHING AGRICULTURAL MODERNIZATION LAW, (E) A LIBERALIZED

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PRICE REGIME IN THE AGRICULTURAL SECTOR, AND (F) PROGRESS IN IMPLEMENTING THE ECONOMIC STABILIZATION PROGRAM. THE PRINCIPAL ISSUES FOR DISCUSSION IN THE DAEC WERE:

A. REDUCED ESF FUNDING LEVELS: THE DOLS 5 MILLION LEVEL PROPOSED FOR FY 1993 WAS A SIGNIFICANT REDUCTION FROM THE PREVIOUS YEAR'S DOLS 25 MILLION LEVEL. CONCERN WAS VOICED THAT THE REDUCED LEVELS MIGHT JEOPARDIZE REFORMS ALREADY UNDERWAY, OF WHICH THIS PROGRAM REPRESENTS THE FINAL STEP. EVEN AT THIS REDUCED AMOUNT, THE MISSION BELIEVES THAT THE MAJOR CONDITIONS OUTLINED IN THE PAAD ARE ACHIEVABLE.

B. CONDITIONALITY: THE BUREAU AND MISSION WERE IN AGREEMENT THAT THE MAJOR CONDITIONS PRECEDENT TO DISBURSEMENT ARE APPROPRIATE.

3. ALTHOUGH THE PAAD WAS APPROVED AS SUBMITTED AND THE BUREAU RECOGNIZED THE IMPORTANCE OF A CONTINUING POLICY REFORM PROGRAM IN HONDURAS, A REQUEST FOR PROGRAM AUTHORIZATION WAS DELAYED UNTIL CONFIRMATION OF A ESF FUNDING LEVEL FOR HONDURAS.

4. THE CN FOR THE HONDURAS STRUCTURAL ADJUSTMENT PROGRAM II WAS SENT TO CONGRESS ON JULY 16, 1993 AND EXPIRED ON JULY 30, 1993 WITHOUT OBJECTION.

5. PAAD ACTIVITY NUMBER 522-0396 WAS SIGNED ON 9/30/93 IN THE AMOUNT OF DOLS 5.0 MILLION, APPROPRIATION 72-112/31037, BUDGET PLAN CODE LES2-93-35522-KG31, PAAD GRANT NUMBER 522-K-608. MISSION IS AUTHORIZED TO PROCEED WITH OBLIGATION IN ACCORDANCE WITH APPROVED PAAD.

YY

JUL 16 1993

AGENCY FOR INTERNATIONAL DEVELOPMENT  
ADVICE OF PROGRAM CHANGEexpired  
7/31/93

COUNTRY : Honduras  
PROJECT TITLE : Structural Adjustment Program II  
PROJECT NUMBER : 522-0396  
FY 1993 CP REFERENCE : None  
APPROPRIATION CATEGORY : Economic Support Funds (ESF)  
LIFE OF PROJECT FUNDING : \$7,000,000 (ESF) (Grant)  
INTENDED FY 1993 OBLIGATION : \$7,000,000 (ESF)

This is to advise that A.I.D. intends to obligate \$7,000,000 in ESF funds in FY 1993 for the Structural Adjustment Program II in Honduras. A Congressional Notification is required because this is a new project that was not reported in the FY 1993 Congressional Presentation.

The purpose of this program is to enhance structural adjustment and stabilization of the Honduran economy through the provision of balance of payments assistance.

Annex: Activity Data Sheet

***USAID/HONDURAS***

***PROGRAM ASSISTANCE  
APPROVAL DOCUMENT  
(PAAD)***

***Structural Adjustment Program II***

***(522-0396)***



***FY 1993 (Updated Version)***

## Honduras

### PROGRAM ASSISTANCE APPROVAL DOCUMENT

FY 1993

Page Number

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Assistance Checklist  
Initial Environmental Examination

This Program Assistance Approval Document (PAAD) for the Honduras Structural Adjustment Program II (SAP II, 522-0396) was originally submitted to A.I.D.'s Bureau for Latin American and Caribbean Affairs (LAC) in May 1993. The PAAD proposed a funding level of \$7.0 million in Economic Support Funds (ESF). LAC reviewed the PAAD on June 8, 1993. As reported by State 191235 of June 24, 1993, the Bureau elected to defer approval of "an otherwise fine PAAD" due to "the potentially major reduction in ESF resources for the Agency and Bureau implied by the current budget process.

In late September 1993, it was decided to make available \$5.0 million in ESF funds for this SAP II Program. In the interim, the economic situation in Honduras had evolved somewhat. Most notably, the Honduran National Assembly had enacted legislation codifying Intellectual Property Rights (IPR). Enactment of this legislation was to have been included as a Condition Precedent to disbursement of SAP II funds. To reflect this situation, USAID/Honduras has revised certain sections of this PAAD to (a) cite the revised funding level; and (b) update the policy agenda to include verbatim those Conditions Precedent and Covenants that will be included in the Program Grant Agreement to be signed with the Government of Honduras for this activity. USAID has not, however, updated the analytical sections of this PAAD, which describe the economic situation of Honduras as of the date the PAAD was originally submitted. All references to "current" economic conditions in Honduras should therefore be interpreted to mean current as of May 1993.

## **I. RECOMMENDATION AND SUMMARY**

### **A. Recommendation**

USAID/Honduras requests authorization of an Economic Support Fund (ESF) grant in the amount of \$5 million. The grantee will be the Government of Honduras (GOH) acting through the Ministry of Finance and Public Credit (MFPC).

### **B. Program Summary**

In 1990, the Callejas Government launched the most far-reaching economic restructuring in Honduran history. Over the last three years, the U.S. has played a key role in supporting the reform measures which have liberalized the formerly inward-looking, protectionist and over-regulated economy. With the enactment this year of the proposed banking reform law, the liberalized, market-based framework will be essentially complete.

The Fiscal Year (FY) 1993 ESF program will seek to consolidate gains made in recent years under previous ESF programs and to encourage a deepening of the GOH commitment of the reforms enacted. The modest level of resources in the FY 1993 ESF program will not permit any bold new departures. Nevertheless, even a modest ESF program is critical, given the symbolic significance of U.S. support or lack thereof for the Government's economic program, over and above the monetary value of the assistance.

1993 is an election year, and the opposition party is calling for major changes in the adjustment program to "put a human face on it". There will be pressure on the GOH to backslide on what so far has been a most impressive economic structural adjustment and stabilization program. Our objective is to assure that, whichever party wins the election, it will inherit a sound policy framework and a healthy, growing economy, one which should be easier to build upon rather than to reverse.

The proposed ESF program will enable AID to continue economic policy dialogue discussions with the GOH in a number of key areas and to reinforce, in concert with the International Financial Institutions (IFIs), support for the integrity of the reform program. Like previous ESF programs, the FY 1993 program will be multifaceted. While the overall goal of the program will be the promotion of economic growth and social progress, specific objectives of the FY 1993 program will include:

- a) Enhancement of Honduras' competitiveness on world markets and the attraction of private investment.
- b) Generation of domestic savings and investment and an efficient allocation of credit among economic activities.

- c) Increases in agricultural production, exports, and employment, and
- d) Continuance of economic stabilization efforts.

These objectives support a multi-year agenda of GOH economic reforms. That agenda emphasizes policy improvements in three key sectors -- trade and investment, finance, and agriculture. While the Mission expects the International Monetary Fund (IMF) to play the lead role in stabilization, the ESF program also includes a stabilization component because stabilization underpins importantly the progress that the GOH has made in structurally adjusting its economy.

To accomplish these objectives, USAID/Honduras will encourage the GOH to adopt a select few new reforms building on policy dialogue already initiated. At the same time, USAID/Honduras will promote continued GOH adherence to the package of reforms that already is in place.

The new reforms consist of:

- Adoption of a new banking systems law.
- Additional progress on privatization, including the privatization of at least three more entities after September 30, 1993. In addition, progress will be continued toward the privatization of HONDUTEL -- the State telephone entity and second largest parastatal.

USAID/Honduras views these reforms as very important to the deepening of the entire GOH structural adjustment program. Without these further steps, the program remains incomplete. The US Country Team already has and will continue to exert considerable policy dialogue efforts to achieve movement on the part of the GOH on these issues.

There are several other areas where USAID/Honduras wants the GOH to consolidate and maintain reform progress.

- Effective enforcement of trade reform. Whereas tariffs were in the range of 0 to 100 percent, they now range between 5 and 20 percent and import quotas essentially have been eliminated.
- Progress in implementing the Agricultural Modernization Law.
- A liberalized price regime in the agricultural sector and a continued GOH commitment not to intervene in agricultural markets through price interventions or subsidies.
- Continued satisfactory progress in implementing the government's economic stabilization program.

These are areas where the GOH has introduced reforms, which USAID/Honduras views to be of considerable importance, and where USAID/Honduras does not want to see weakening of GOH commitment.

The primary rationale for the FY 1993 ESF program is support of the GOH's ambitious economic reform efforts. The program also will provide some balance of payments support that will help the GOH to make modest inroads in reducing the \$100 million financing gap estimated by the IMF for 1993. Local currency generated under the FY 1993 ESF also will bolster fragile domestic support for the economic reform program by funding critically needed safety net programs, among other items.

### **C. The GOH Structural Adjustment and Economic Stabilization Program**

Since January 1990, Honduras' reform efforts have been most impressive. The GOH is allowing market forces to allocate resources, reducing sharply the opportunities for rent-seeking behavior on the part of the GOH bureaucracy.

Key reforms include interest rate decontrol, introduction of open market operations -- an important stabilization mechanism, freeing of the exchange rate, a liberalized trade regime, elimination of most price controls, significant rationalization of the agricultural sector, privatization of 20 enterprises (11 of the total 31 "privatizations" occurred prior to the President Callejas administration), work on new banking legislation, a new investment code, and transport sector reforms to include private sector participation in road maintenance.

GOH reform efforts have yielded significant dividends.

- While it is true that some of the growth can be attributed to GOH "pump-priming" in advance of this year's election, the country did grow 4.3% in 1992, the first positive growth in per capita terms since 1989.
- Inflation, which had accelerated to the almost unheard of level of 34 percent in 1991, has now returned to single digit rates. The GOH is committed to no longer financing government expenditures through printing money.
- The level of net foreign exchange reserves has been increased from a negative \$50 million in 1989 to a positive \$74 million by the end of 1992 -- a level equivalent to almost 1 month of imports. External debt has come down from \$3.3 billion in 1989 to \$3.1 billion in 1992 and a most favorable debt rescheduling was negotiated last October under the aegis of the Paris Club.
- Agriculture production has responded favorably to improved economic policies. While there was some backsliding in 1992 owing to ill-timed imports, the area planted in basic grains -- maize, beans, and rice -- has increased in response to price liberalization.

Coffee and banana production also is up in volume terms, although declining global prices have reduced export receipts.

- After substantial devaluation, the exchange rate has stabilized and there are signs that some flight capital has started to return to Honduras.
- Nontraditional exports, including shrimp and lobsters, are increasing. Shrimp exports were up 50% in 1991 and some 16 percent in 1992. Manufactured exports to the U.S. have risen, including \$123 million in 1990, \$208 million in 1991, and a projected \$312 million for 1992.
- While under the adjustment program initially the percent of the populace below the poverty line increased, in the past year there has been improvement. The percentage of the populace living below the poverty line has decreased two percentage points.

The GOH structural adjustment and stabilization program is now receiving considerable support from the IFIs -- World Bank, the Inter-American Development Bank (IDB), and the IMF. The USG played the key role in reopening credit lines with the IFIs which had been closed owing to arrearages. A massive bridging operation led by the U.S. Department of Treasury with substantial USAID/Honduras participation cleared Honduras' arrears to the IFIs in June 1990. The World Bank and IDB commenced disbursements on suspended operations and moved ahead with the design and approval of major new lending operations, including a number of sector programs. Net flows from the IDB and World Bank are or will be positive shortly. The IMF response was a \$41 million Stand-by followed by a \$53 million Enhanced Structural Adjustment Facility Arrangement. Planning documents suggest that the IFIs will be shouldering a greater share of the burden as our assistance levels decline.

## **II. FY 1992 ESF PERFORMANCE**

In August 1992, the FY 1992 ESF program of \$25 million was signed as a follow on to the FY 1991 program of \$58 million and the FY 1990 program of \$120 million. The FY 1992 ESF program encouraged reform in a number of key areas.

### **A. Agriculture**

On March 5, 1992, Congress approved and on March 19 President Callejas signed the far-reaching Agricultural Modernization Law. It guarantees full property rights to all titled lands, permits the sale and lease of land, gives ownership of the trees in the forests to the owners of the forest land, requires management plans prior to the exploitation of the forests, and clarifies the rules by which land could be expropriated by agrarian reform. Only plots larger than the established legal ceilings and land idle for more than 24 months may now be expropriated by agrarian reform. These measures together should promote development of land markets. The law also will facilitate reform of key institutions in the sector -- Honduran Corporation for Forestry Development (COHDEFOR) and the National Bank for Agricultural Development (BANADESA) -- the largest agricultural parastatal in the country. The law seeks to convert COHDEFOR from a State Corporation engaged in production and marketing of lumber to a government agency charged with proper management and protection of forest resourceq. For its part, as of December 1990, BANADESA had more than 40 percent of its loans in arrears, of which 75 percent were overdue for more than one year. More than 50 percent of BANADESA resources went to politically favored clients for non-agricultural uses. The Law prohibits loans from BANADESA to government entities and places an upper limit on loan size. In the area of marketing and trade, the law eliminated the State monopoly on grain trade, banned price controls as well as all trade licensing requirements, and deregulated the lumber and wood trade. The law also mandated the "privatization" of the grain handling and storage facilities, seed production and other State-owned production facilities.

Implementing the Agricultural Modernization Law requires the approval of a number of implementing regulations. There are 12 implementing regulations ("reglamentos"). The GOH has promulgated eight regulations which have been approved by the Attorney General and published in the country's official journal La Gaceta. The last four are expected to be put in final form shortly, including the most controversial one dealing with forestry. President Callejas announced that the GOH would be enforcing new legal stipulations relating to forestry.

## **B. Investment Code**

Submitted to the National Congress in October 1991, a new Investment Law was passed on May 28, 1992 and its implementing regulations were published in the country's "Gaceta" on September 19, 1992. A separate decree amended the Investment Law, derogating all laws contrary thereto and guaranteeing that the new investment law would take precedence over any previous legislation. The new Investment Law provides for equal treatment of domestic and foreign investors, broadening the range of activities in which foreign investors could participate and eliminating regulations which discriminated against foreign investment. The new code also reduces restrictions on the repatriation of earnings, streamlines procedures for registering and operating both foreign and domestic business, guarantees access to foreign exchange for business operations, and limits the GOH ability to impose price controls.

## **C. Trade Reform**

As part of its comprehensive trade liberalization program, late in 1992 the GOH eliminated the 10 percent import surcharge on selected items. While the GOH remains committed to total elimination of the import surcharge, it has not done away with the surcharge because of the impact of the total elimination on the public treasury -- some \$12.7 million per annum. The elimination of the 10 percent import surcharge on selected items last December had cost the public coffers \$8.5 million per annum. In the absence of the surcharge, tariffs would be in the 5 to 20 percent range, consistent with the GOH commitment to the Central American Regional Integration Movement. On April 1, all Central American countries harmonized their tariff schedules; all goods will carry like tariffs with non-Central American countries while within the region tariffs will be eliminated with some exceptions. On that date, Honduras adjusted tariffs to bring them in line with its Central American brethren. In reaching the common tariff levels, Honduras does not have to go as far as its neighbors, especially Costa Rica and Nicaragua whose overall tariff levels are higher. In the interim, the GOH has not moved to reintroduce customs exemptions.

## **D. Privatization**

The pace of the GOH "privatization" program picked up in 1992. 12 state enterprises worth roughly \$8.1 million were sold to the private sector. Included were three hotel complexes, two dairy plants, two metal manufacturers, a printing company, seed processing plant, cement plant, and a banana entity.

## **E. Financial Markets**

The GOH has made great strides in removing impediments to effective operation of financial markets. All Central Bank rediscount rates now are at least as high as the cost of deposit mobilization by the banking system. The remaining subsidy on the rediscount lines -- that to basic grains -- was eliminated in September. The GOH has unified the various directed credit lines. An auction, supported jointly by the GOH and the IDB under its multi-sector credit program loan, will replace the directed credit lines as a mechanism for the provision of credit to the various sub-sectors.

Impediments in interest rate determination have been removed. Previously, in order to prevent banks from discriminating against customers, commercial bank loans had to be made at rates that were within two percentage points of the bank's basic lending rate which had to be reported to the Central Bank and could be changed only once a month. However, restrictions on the margins and the frequency with which changes could be made in the basic lending rate were eliminated in April of last year.

One mechanism that would facilitate the effective functioning of financial markets would be reduction of the country's very high reserve requirement. The reserve requirement was recently increased to 36 percent from 34 percent; the reserve requirement had been sliced from 35 to 34 percent last year. Both the GOH and the IMF at this time favor a high reserve requirement, owing to the financing needs of the GOH. The reserve requirement may be satisfied by the purchase of government securities paying but four percent interest.

Open market operations, whose importance lie in their ability to be used by the monetary authority for stabilization purposes, were initiated in 1992. However, while the operations are conducted every two weeks as envisaged, these operations, according to the IMF, are not operating in the most transparent manner. The market is too "thin;" there are insufficient quantities of bonds. Moreover, the bonds are not sufficiently liquid. They cannot be sold by one private sector entity to another. As a consequence, there is little private sector participation in the open market operations; most bonds are purchased by parastatals and their pension funds.

## **F. Banking Legislation**

The GOH has prepared draft legislation to improve the regulation and supervision of the banking system. The new law is expected to be submitted this spring for Congressional approval with implementing regulations established shortly thereafter. Twin goals of the legislation are stimulation of domestic savings and an efficient allocation of loanable funds.

## **G. Foreign Exchange Markets**

On February 13, 1992, Congress approved a law authorizing the establishment of foreign exchange houses which could buy and sell foreign exchange for all transactions. In June, the Central Bank authorized the banking system to buy and sell foreign exchange at freely determined rates. The ultimate impact of the new regulations is the production of a market-based exchange rate system. In its wake, the parallel exchange rate system has all but disappeared. To satisfy their foreign exchange requirements, Hondurans use banks or the exchange houses rather than brokers in the parallel market.

## **H. Prices**

The GOH continues to liberalize prices. Price controls on three additional items -- sugar, vegetable oil, and cement -- were removed during the course of 1992. In the case of sugar, however, its sale is monopolized through a GOH parastatal; it is not a freely traded good. Price controls now remain on items that account for less than 5 percent of all items in the consumer price index.

## **I. Stabilization**

Based upon performance under the previous stand-by, Honduras received a \$53 million IMF Enhanced Structural Adjustment Facility Arrangement (ESAF) in June 1992. The GOH had adhered to four of five end-December 1991 targets under the July 1990 \$41 million stand-by, failing only the limit on net domestic financing of the public sector owing to a shortfall in projected external financing. Based on the then more than satisfactory GOH performance under the ESAF, a Paris Club meeting was convened in October 1992. As an outgrowth of the meeting, Honduras received some of the most generous rescheduling terms ever received by a recipient -- so called "Trinidad terms".

The first tranche of the FY 1992 ESF program was released in December 1992, based on what was up to that point a very impressive GOH performance on both stabilization and structural adjustment grounds. The monies were released prior to February's formal IMF review, assessing GOH progress on the ESAF arrangement. While that review revealed some difficulties with Honduras meeting some of the end-December 1992 targets, at the time we were considering disbursement in December the only target in jeopardy appeared to be the net international reserves target, ironically a target that was subsequently met. Notwithstanding any difficulties with meeting the targets on the ESAF, the IMF continues to accord the GOH good marks on structural reforms.

**J. Release of the Second Tranche of the FY 1992 ESF Monies**

USAID has not yet released the second tranche of \$12.5 million. We are awaiting further GOH progress on some remaining structural issues, most notably the presentation to Congress of legislation to improve the regulation and supervision of the banking system and completion and approval of the implementing regulations for the Agricultural Modernization Law. In addition, we will be monitoring closely the discussions between the GOH and the IMF. In all likelihood, some ESAF targets previously set for 1993 will have to be revised. Irrespective of any difficulties, the IMF remains convinced that the GOH remains committed to the Program.

### **III. ECONOMIC PERFORMANCE IN 1992**

#### **A. Growth**

According to Central Bank data, the economy grew a robust 4.3 percent in 1992, up from the IMF's earlier estimate of 3.5 percent for the year and 0.1 percent two years earlier. The economy is now growing on a per capita basis for the first time since 1989. The country's flexible exchange rate policy, together with reduced controls on import financing, gave Honduras increased access to imports, a prerequisite for achievement of economic output gains. Imports rose nearly 10 percent alone in 1992.

The most buoyant sector was construction which was up a whopping 30 percent in 1992, in contrast to 5.5 percent a year earlier. This reflected almost exclusively government construction activity; private construction activity fell for the third year in a row. The mining sector, a relatively unimportant sector in terms of size, also displayed vigor, growing almost 21 percent. The sector's growth can be attributed to activities in the quarries, which are providing stone for the GOH construction activity. The growth in the construction and mining sectors appears attributable in part to GOH "pump-priming" in advance of this year's election. In addition, financial services continued to be a source of strength, rising 7 percent. The liberalization of interest rates has provided for enhanced profit opportunities for formal and semi-formal financial institutions. Finally, growth of manufacturing rose 2.5 percentage points to 3.9 percent. Activity in the free zones continues brisk. More recent data suggest that the sector is extremely buoyant. During December 1992, output was some 12 percent higher than in December 1991. Moreover, exports of manufactures were up more than 40 percent in 1992, reaching \$310 million.

On the other hand, output growth in agriculture was disappointing. The sector grew only 2.9 percent in real terms, compared to a robust 6.3 percent a year earlier. International prices for the country's traditional exports -- bananas and coffee -- have been weak, down 15 and 25 percent, respectively, in 1992. Basic grains too were weak; ill-timed, competing imports depressed prices, reducing incentives for plantings. On the other hand, the growth of nontraditional exports -- shrimp, lobsters, and melons -- continues brisk. Following a 50 percent rise in 1991, shrimp export increased 16 percent in 1992. The service sector too did not exhibit strength, rising but 2.1 percent in 1992. The global recession took its toll on tourism.

**Honduras: Economic Growth  
(Percent)**

	1989	1990	1991	1992
Agriculture, Fisheries	10.0	1.1	6.3	2.9
Mining	13.0	-9.0	9.9	20.5
Manufacturing	3.8	0.7	1.4	3.9
Construction	14.7	-9.9	5.5	30.0
Utilities	4.6	13.3	0.8	7.0
Transport, Storage, Communications	6.5	3.8	2.9	3.8
Services including tourism	-4.5	-0.8	2.2	2.1
Financial Services	8.7	3.1	5.4	7.1
Housing	4.2	4.3	3.2	3.4
Public Administration	3.0	-14.7	-2.1	2.5
Community Services	1.0	-1.0	-8.1	-1.1
Overall Growth	4.3	0.1	3.2	4.3
=====	===	===	===	===

## B. Balance of Payments

The overall balance of the balance of payments weakened somewhat in 1992. The modest deterioration reflects some worsening of the current account and the capital account balances. The major reason for the deterioration in the current account balance was the almost 10 percent increase in imports, linked to Honduras' better than expected growth performance in 1992. Easier access to foreign exchange facilitated the increase in imports. Although there was some weakening in the capital account, official flows -- both transfers and loans -- continued significant, down only slightly to \$314 million from \$318 million a year earlier. Merchandise exports were up a negligible 1.6 percent and what increase was reported can be attributed to nontraditional exports such as shrimp.

### Honduras: Balance of Payments (US\$ Million)

	1989	1990	1991	1992
Current Account Balance	-388	-361	-392	-468
Exports, FOB	892	864	825	838
Imports, FOB	964	915	946	1030
Trade Balance	-72	-51	-121	-192
Services, net	-323	-320	-286	-294
Private Transfers, net	7	10	15	17
Capital Account Balance	386	398	419	396
Official Transfers, net	158	274	178	195
Direct Investment, net	51	44	45	46
Priv., M-T+L-T, net	-18	-22	-23	-4
Priv., Short-Term, net	-10	-28	8	-2
Official, net	160	160	140	119
Financial Intermeds., net	2	39	-9	-11
Other, net	43	-69	80	53
Overall Balance	-2	37	27	-73
Net International Reserves*	114.9	-49.9	31.7	74.3

\* End year at the Central Bank.

### **C. Operation of the Foreign Exchange Market**

Honduras' new foreign exchange rate system seems to be working well. It is true that the GOH maintains a 20 percent export surrender requirement. Exporters must give up their foreign exchange to banks who, in turn, must surrender to the Central Bank 20 percent at the interbank rate, a rate that, however, generally is no more than one or two percent less than the rate at the exchange houses. Also, others would argue that the exchange rate is overvalued, citing difficulties in obtaining large amounts of foreign exchange (more than \$1,500) at the commercial banks, the strong vested interests of some in the community to have access to cheap imports, and frequent central bank intervention to keep the exchange rate from depreciating. Nonetheless, the Lempira began the year at L5.7 = \$1 and ended the year at around L5.9 = \$1, only 3.5 percent lower. With the exception of the first three months of the year during which it crept up to five percent, generally speaking, the spread between the rate at the commercial banks and the exchange houses and the black market during the year was no more than 2 percent. This narrow spread contradicts the thesis of exchange rate overvaluation. There also has been little evidence of complaints on the part of the export community, suggesting that the export community does not feel that the exchange rate is overvalued. The relative stability of the Lempira in 1992 can be attributed principally to a cautious monetary policy that has helped produce high nominal short-term Lempira interest rates relative to dollar-denominated rates.

### **D. Fiscal Developments**

The public finances deteriorated in 1992; the overall budget deficit as a share of Gross Domestic Product (GDP) was in the neighborhood of 4.5 percent of GDP. This constitutes a reversal from the improvement in the two previous years when the overall deficit as a share of GDP fell from 8.5 to 2.5 percent, owing to improved tax collection efforts and cost recovery efforts in the parastatals, primarily through charging higher prices for the goods/services that they provide.

An important cause of the deterioration in 1992 was a disappointing performance on the part of the parastatal enterprises. For instance, the financial situation of ENEE -- the State electricity concern and the largest parastatal in the country -- deteriorated sufficiently that it needed a major infusion of funds from the central government budget. ENEE requires rationalization; its charges cover but 65% of its costs. The IMF had expected the parastatals to generate a surplus equivalent to two percent of GDP in 1992; in reality, a surplus of only one percent of GDP was reported.

While the IMF continues to be pleased with GOH stabilization efforts at the central government level, some weakening also was in evidence at that level. It is true that continued improvements in tax administration propelled tax revenues as a share of GDP from 15.5 percent in 1991 to 16.9 percent in 1992 -- the highest share ever recorded; the GOH expanded usage of withholding and enhanced import tax receipts through decentralization of collections. The increase would have been larger had it not been for the lapsing of the temporary export tax on extraordinary

gains. On the other hand, current expenditures as a share of GDP rose almost two percentage points, albeit owing, in part, to sharply increased allocations for interest, primarily external. The share of the budget going for goods and services fell, a disappointing development; schools need books and hospitals need supplies. Since 1989, expenditures on goods and services have fallen as a share of GDP by more than two percentage points. A 13.7 percent increase in the minimum wage implemented June 1 boosted expenditures on wages and salaries. And in anticipation of the upcoming elections and the desire to prime the economy, central government capital expenditures surged, rising as a share of GDP by one percentage point.

**Honduras: Fiscal Data\***  
(Lempiras Million)

	1989	1990	1991	1992
<u>Central Government</u>				
Current Receipts	1532	2021	2843	3320
Tax Revenue	1296	1841	2535	3067
Non-Tax Revenue	172	114	172	71
Transfers	64	66	136	182
Current Expenditures	1893	2392	2684	3304
Wages, Salaries, Soc. Sec.	846	1008	1169	1381
Goods and Services	486	467	501	473
Interest	357	431	649	1033
Transfers	204	486	365	417
Current Surplus/Deficit	-361	-371	159	16
Capital Expenditures	407	460	800	1089
Net Lending	19	49	-104	-38
Surplus/Deficit	-787	-880	-537	-1035
<u>Rest of Public Sector**</u>				
Surplus/Deficit***	-86	-134	123	NA
Overall Surplus/Deficit	-873	-1014	-414	NA
=====				

\* IMF Data in 1989 and 1990; GOH Data in 1991 and 1992.

\*\* Including parastatals.

\*\*\* IMF Data.

**Honduras: Fiscal Data\***  
(Percent of GDP)

	1989	1990	1991	1992
<u>Central Government</u>				
Current Receipts	15.0	16.1	17.3	18.3
Tax Revenue	12.7	14.7	15.5	16.9
Non-Tax Revenue	1.7	0.9	1.0	0.4
Transfers	0.6	0.5	0.8	1.0
Current Expenditures	18.5	19.1	16.4	18.2
Wages, Salaries, Soc. Sec.	8.3	8.1	7.1	7.6
Goods and Services	4.8	3.7	3.1	2.6
Interest	3.5	3.4	4.0	5.7
Transfers	2.0	3.9	2.2	2.3
Current Surplus/Deficit	-3.5	-3.0	1.0	0.0
Capital Expenditures	4.0	3.7	4.9	6.0
Net Lending	0.2	0.4	-0.6	-0.2
Surplus/Deficit	-7.7	-7.1	-3.3	-5.7
<u>Rest of Public Sector*</u>				
Surplus/Deficit	-0.8	-1.1	0.8	NA
Overall Surplus/Deficit	-8.5	-8.2	-2.5	NA
=====				
GDP in Millions of Lempiras	10213	12553	16406	18166

\* IMF Data in 1989 and 1990; GOH Data in 1991 and 1992.

## E. Interest Rates

The interest rate structure in Honduras has two salient characteristics: interest rates that are positive in real terms especially in terms of lending rates and a large spread between lending and deposit rates. Owing to the GOH's stabilization efforts, inflation is now in the single digit levels -- around 9 percent. In contrast, lending rates range between 21 and 26 percent<sup>9</sup> savings and time deposit rates, in the neighborhood of 9 to 13 percent. Positive real interest rates are the preferred mode. The virtue of positive real interest rates is that access to credit is expanded to a wider range of customers than would be the case in the absence of positive real interest rates.

A number of factors appears responsible for the positive real interest rates. In addition to interest rate decontrol, credit demand has been robust. Commercial bank credit to the private sector expanded 25 percent in 1992, in contrast to 15 percent in 1991. At the same time, Central Bank monetary policy is becoming more restrictive. The growth rate of the money supply defined narrowly has come down from almost 16 percent in 1991 to around 9 percent in 1992. An additional factor responsible for high interest rates in Honduras is the 36 percent reserve requirement.

The high reserve requirement, together with a lack of competition among banks and the existence of a number of non-performing loans in bank portfolios, are responsible for the extremely large spread between deposit and lending rates within banks. The Central Bank is seeking to promote competition in the banking system. One way is through easing requirements for the opening of new banks -- a stipulation that will be taken care of in the GOH's new banking law to be submitted to Congress shortly. In the interim, branches of banks from El Salvador and Euatemala are to be allowed to operate within the country. As for the 36 percent reserve requirement, the GOH, IMF and various donors including USAID would like to see the requirement lowered considerably, a development that cannot be pursued at the moment given the GOH's financing requirements. One banker noted that for every 5 percentage point reduction in the reserve requirement, lending rates could be lowered by at least 1.5 percent.

### HONDURAS: Interest Rates

	1987	1988	1989	1990	1991	1992
<u>Interest Rates</u>						
Lending	15.5	15.4	15.4	17.1	21.9	21.0
Deposit	9.6	8.6	8.6	8.8	11.5	11.5
<u>Consumer Price Inflation</u>	2.4	4.6	9.8	23.3	33.9	8.8

## F. Social Sector Performance

One of the primary goals of the GOH structural adjustment program is to shift through depreciation of the currency the incentives in the country toward production and away from consumption. At least in the early stages of the adjustment program, this favored the rural populace -- the poorest segment of the populace -- at the expense of urban residents, especially lower and middle class consumers. Smallholders in Honduras produce rice, beans, and maize. In 1991, rural producers sharply increased production of rice and beans, obtaining respectively increases of 34 percent and 27 percent. While maize production was up only one percent in 1991, it had risen more than 9 percent in 1990, reaching historically high levels. In 1992, production of the country's traditional agricultural exports -- bananas and coffee -- went up, rising 8 and 31 percent, respectively. As for the lower and middle class urban consumers, they had to contend with a 90% increase in the cost of the basic consumption basket between 1989-91 and, consequently, at least in the initial stages of the adjustment program the percentage of the populace living below the poverty line increased -- almost 6 percentage points between April 1989 and May 1991. (The basic consumption basket consists of those items that must be consumed by the poorest to survive.) Of course, some of this decline can be attributed to a carry-over of the impact of the poor economic policies pursued by the previous administration.

More recently, the adjustment program appears to be producing gains that are redounding to the entire populace. Growth reached 4.3% in 1992, the first increase in per capita terms since 1989. Latest data suggest an explosion in the manufacturing sector, which is now growing almost 12 percent per year. Manufactured exports to the U.S. and non-traditional exports, especially shrimp, are increasing rapidly. Inflation, which had produced sharply increased food costs in the past for urban residents, is abating, falling from over 34 percent in 1991 to single digit levels today. As a consequence, the cost of the basic consumption basket was up less than one percent over August 1991/August 1992. Moreover, all indicators of unemployment show improvement in recent years. For instance, open unemployment has declined over 1990-92 from 5 to 4.5%, the number of underemployed has fallen over 1990-92 from 565,000 to 518,000; and the percent of the populace working without financial compensation has gone down over the similar period from 14.2 to 10.8 percent. As a consequence, the percentage of the populace living below the poverty line has come down two percentage points over May 1991/March 1992.

GOH efforts to mitigate the adverse effects of the adjustment program have met with mixed success. The GOH was unable to maintain social welfare expenditures in real per capita terms, which fell 3 percent over 1989-92, despite sharp increases in expenditures on "safety net" programs -- short term employment generation and income transfer programs. On the other hand, Congress approved a series of minimum wage increases that produced a 17 percent increase in the minimum wage in real terms during the 1990-92 period. While the minimum wage primarily covers the public sector and formal sector employment, it does represent one component of a social safety net program designed to cushion the real incomes of vulnerable social groups.

**HONDURAS: Incidence of Poverty and Indigence  
1988 - 1992**

	JUN 1988	APR 1989	MAY 1990	MAY 1991	MARCH 1992
Poverty Line Monthly Income (Lemps.)*	105.21	116.74	153.25	226.75	242.89
Population Below Poverty Line (%)	64.62	68.5	73.0	74.28	72.18
Indigence Line Monthly Income (Lemps.)	65.70	72.90	95.70	141.60	151.68
Population Below Indigence Line (%)	50.72	54.13	59.69	61.43	57.66

\* Today, one U.S. Dollar is worth about six Lempiras.

Nevertheless, GOH "safety net" programs have assumed considerable importance. Without the GOH "safety net" programs, the social situation might have become dire indeed. These "safety net" programs include Fondo Hondureño de Inversión Social -- Honduras Social Investment Fund (FHIS) -- and Programa de Asignación Familiar -- Family Allowance Program (PRAF). FHIS provides monies for infrastructure, basic needs, informal sector support, and institutional strengthening. Over 1990-92, FHIS funded 4,002 projects with a total value of \$84.5 million; jobs generated amounted to 111,112. For its part, by the end of 1992 PRAF had provided assistance valued at more than \$13 million to 244,277 women and children. PRAF provides (a) food coupons for children under five, pregnant/lactating women, and primary school children whose mothers are extremely poor, (b) occupational training for poor women and (c) essential primary school supplies.

USAID/Honduras is seeking to help the GOH cushion the impact of the adjustment program on those segments of the Honduran populace most adversely affected through requiring the GOH to put up local currency for the "safety net" programs. As an outgrowth of agreements between the GOH and USAID, the GOH has put up or is putting up the local currency equivalent of almost \$12.8 million for FHIS and \$8.5 million for PRAF. The USAID/Honduras support for FHIS has financed 325 projects, generated 35,000 person months of employment and benefitted 250,000 people.

## **G. IFI Support**

Owing to USG efforts, the GOH structural adjustment and stabilization program is now receiving considerable support from the International Financial Institutions (IFIs) -- World Bank, IDB, and IMF. The USG played the key role in reopening credit lines with the IFIs which had been closed owing to arrearages. A massive bridging operation led by the U.S. Department of Treasury with substantial USAID/Honduras participation cleared Honduras' arrears to the IFIs in June 1990, and IFI lending resumed in earnest shortly thereafter.

Over 1990-92, Honduras received \$234 million from the World Bank, much of it in balance of payments form, including a structural adjustment loan, an energy sector program, an emergency oil supplemental, and IDA program help. Four initiatives amounting to \$182 million are envisaged for 1993, including \$60 million for an Agricultural Sector Adjustment Credit (AgSAC) developed jointly with the IDB, \$65 million for a transport sector activity, and another \$32 million in IDA program help.

Whereas IDB commitments to Honduras averaged roughly \$50 million in the 1980s, commitments have averaged \$153 million over 1990-92. Net flows were positive in 1992, a first in recent history. A good portion of the commitments have been provided in balance of payments form, consisting of \$60 million in support of the World Bank SAL, \$105 million energy sector hybrid loan co-financed with the World Bank, \$110 million for roads, \$40 million for the AgSAC to be co-financed by the World Bank, and \$60 million for the Multi-Sector Credit (MC) program. The MC program, which will encourage reform in the financial sector, will make monies available to the private sector via auction for medium- and long-term lending purposes. The program is intended to help replace the subsidized central bank credit lines, which have been eliminated. IDB activities proposed for 1993 include, among others, most importantly an investment sector program.

The IMF response was a \$41 million Stand-by Arrangement negotiated in July 1990. With Honduras having been declared IDA-only and having undertaken a number of impressive reforms, the country received a follow on \$53 million Enhanced Structural Adjustment Facility (ESAF) arrangement in the Summer of 1992. Based on a more than satisfactory performance under the ESAF, Honduras last October received some of the most generous Paris Club debt-rescheduling terms ever received by a developing country -- so called "Trinidad Terms."

## **H. Economic Outlook**

Honduras' balance of payments and growth prospects remain difficult. Honduras will continue to need exceptional balance of payments support, the type of assistance that our ESF program provides. Last October's Paris Club meeting was an important step in the right direction, reducing the country's near term debt servicing requirements.

Our 1993 ESF program of \$5 million, although very modest in size, will, nonetheless, assist in reducing the financing gap of around \$100 million identified by the IMF for 1993. The IMF is hoping that the gap can be erased without the need for major depreciation of the country's currency; while depreciation of the currency would generate additional exports and restrain imports helping to erase the gap, it would fuel inflation. What will be key for Honduras in 1993 is the successful negotiation of debt rescheduling agreements with its non-Paris Club creditors.

The most substantive problem confronting Honduras is the marketing difficulties for bananas in the European market. Unless the European Economic Community (EEC) reconsiders its decision owing to pressure from West Germany or Latin American banana producers mount a successful challenge to the EEC decision within GATT, Honduran banana exports to the European market promise to decline. In 1992, Latin American producers exported roughly 2.7 million metric tons of bananas to the European market; under the EEC proposal that figure will be reduced to 2.0 million metric tons. We estimate Honduras' potential losses at \$23 million - - roughly 8 percent of its total banana exports in 1992, if Honduras cannot find a market for the displaced banana exports. These losses could grow if the reduced access to the European market on the part of Latin American producers creates a glut on the U.S. market and causes prices to fall in that market.

There also are some ominous signs in the shrimp subsector -- a star-performer in recent years. While export value was up some 16 percent last year, prices weakened. According to the domestic business community, the sub-sector may be encountering increased competition from the Chinese. However, a more substantive reason for the decline may have been the U.S. economic recession. Also, while the large shrimp farms in the country's south are unaffected, the artisanal fishing industry operating in the Caribbean Sea is encountering an embargo in the U.S. market because of insufficient progress in equipping its boats with turtle exclusion devices (TEDs).

On the other hand, the situation can only improve in the coffee subsector which after bananas generates the most significant amount of export receipts. Last year's more than 25 percent slide in global coffee prices cannot be expected to continue.

## **I. Reform Prospects**

We have been talking with GOH officials and members of the business community. There is almost universal sentiment that sufficient progress has been made under the country's structural adjustment and stabilization program that it will be difficult to "backtrack." Nonetheless, there is apprehension over what the opposition Liberal Party means when it says it wants to put a "human face" on adjustment. In the interim, the USG Country Team is identifying the key economic advisors of both candidates and will be holding meetings with those advisors in order to convince them of the need for continued economic reform. For its part, USAID/Honduras is helping the GOH to establish a Economic Policy Analysis and Implementation Unit. The

Unit, very much wanted by the GOH, will prepare position papers for the GOH that will help it, we hope, extol the virtues of economic adjustment.

There also apparently has taken place a "quantum leap" in the GOH mentality toward the need for stabilization which underpins importantly the country's structural adjustment progress. Inflation now is viewed with fear; it will no longer be tolerated, auguring well for the future. The GOH does not want to see any increase in inflation, cognizant of the nexus that exist between budget deficits, printing money to finance the deficits, subsequent exchange rate depreciation, inflation, and ultimately increases in the percent of the populace living below the poverty line.

For instance, there were signs of difficulties in the fiscal accounts in 1992, mostly in the parastatal sector where the State electricity entity -- ENEE -- required a major transfusion of funds from the central government budget. With 1993 an election year, the situation would only be expected to worsen. However, the GOH already has moved to address potential difficulties for 1993, cutting the budgets of each parastatal by between 25 and 30 percent.

#### **IV. NEGOTIATING AGENDA FOR THE FY 1993 ESF PROGRAM**

As in previous ESF programs, the overall goal is the advancement of economic and social progress through the promotion of sustainable growth. As such, the Mission is aiming for positive real growth per capita, a target that was reached last year. In addition to support of the GOH stabilization program, the Mission's ESF program continues to focus on three sectors, including (a) agriculture, (b) finance, and (c) trade and investment. Progress in these sectors is critical to achievement of the Mission's overall goal.

The agricultural sector objective is growth of at least 3.5 percent per annum, compared to an average annual agricultural growth rate of 1.7 percent during the 1980s. Without a sharp increase in agricultural growth, it would be most difficult to achieve the overall GDP growth target in the Mission's ESF program. The Mission has set two agricultural policy targets, whose achievement would greatly facilitate attainment of the sectoral growth target, including (1) the clarification of land tenure rights and the encouragement of the functioning of land markets and (2) the liberalization of agricultural product markets and elimination of agricultural trade controls.

In the financial sector component, USAID/Honduras is seeking a large increase in domestic saving, a requirement if the economy is to register significant improvement. Therefore, a target of the financial sector component is to increase the share of domestic savings in GDP from an estimated 7.7 percent in 1992 to 9.4 percent in 1994. In order to increase domestic savings, the Mission is seeking to: (1) strengthen the soundness of the Honduran financial system, (2) eliminate forced domestic banking system financing of the public sector, (3) allow private sector credit to be allocated by market criteria, and (4) enable the financial system to generate medium and long term savings and to channel these savings to economically and financially viable activities.

The trade and investment component has three aims: (1) progress toward a transparent system of trade taxes with low rates and low dispersion, (2) enhanced access of Honduran products to international markets, and (3) improvement of the investment climate.

In order to fully benefit from structural reforms, the GOH must follow sound stabilization policies. This means reducing the public sector fiscal deficit, keeping domestic financing of the deficit low and building up international reserves, all of which are sought under this ESF program.

##### **A. The Agenda**

The FY 1993 ESF agenda contains reform elements at two levels. At one level, USAID/Honduras identified two areas in which further reforms are required to deepen the GOH structural reform program:

- Adoption of a new banking system law.
- Additional progress on privatization.

These reforms are viewed as essential, and without their implementation the structural adjustment program would be incomplete. Extensive policy dialogue discussions building on past such discussions will be held between the US Country Team and the GOH to assure compliance.

At a somewhat lower level, there are select few areas where USAID/Honduras would like to see the GOH consolidate its adjustment program.

- Effective enforcement of trade reforms.
- Progress in implementing the Agricultural Modernization Law.
- No price interventions or subsidies by the State in agricultural markets.
- Satisfactory progress in implementing the IMF's \$53 million ESAF Stabilization program.

These are areas (a) where the GOH has introduced reforms, (b) which are of considerable importance, and (c) where USAID/Honduras does not want to see any backsliding. In one or two of these areas, some signs of backsliding have been in evidence, and the ESF program could give the GOH the requisite clout to resist movement backward.

## **B. New Banking Legislation**

The GOH has prepared draft legislation to improve the regulation and supervision of the banking system. The legislation provides for strengthened supervision of the commercial banking system, new disclosures rules, an easing in requirements for the start-up of new banks, and restrictions on insider trading, among other items. That legislation is now being "brokered" with the commercial banks in the anticipation that any differences will be resolved and that a new law will be submitted this spring for Congressional approval. Presentation to Congress of new banking legislation is a condition precedent to disbursement of the second tranche of the FY 1992 ESF program, and we propose that satisfactory progress toward financial sector reform (by which we mean - and will so communicate to the GOH by Program Implementation Letter - congressional passage of the law) be a condition precedent for release of FY 1993 ESF monies.

## **C. Privatization**

As of May 1993, 31 entities had been privatized by the GOH, 20 of which have taken place since President Callejas assumed the Presidency. The worth of these 31 enterprises has been estimated

at \$132 million, and they account for about 18 percent of the total value of all the parastatals. Privatization is of importance. Firms that are private rather than public operate according to market forces and price signals, and this contributes to greater economic efficiency. For instance, a private firm would respond to an increase in the price of one of its inputs by seeking to reduce use of that input, producing cost savings. Privatization also would bolster the public finances; some enterprises continue to be major drains on the budget.

The second tranche of our FY 1992 program required five privatizations, in addition to those implemented as part of the 1991 program. Since disbursement of the second tranche of the FY 1991 program, at least seven additional entities already have been privatized, satisfying the requirement for the FY 1992 ESF program. Our proposed conditionality for the FY 1993 program calls for the privatization of at least three more entities after September 30, 1993. These three privatizations, together with progress toward the ceding of HONDUTEL -- the State telephone company -- to the private sector, would constitute satisfaction of this condition. We will push hard for the privatization of HONDUTEL. The privatization of HONDUTEL, the second largest parastatal, would be an impressive achievement, sending important positive signals to both the domestic and foreign business community.

## **D. Trade**

The GOH's comprehensive customs reform program has reached its goals, achieving a balance between trade liberalization and attention to the GOH's revenue needs. With respect to trade liberalization, in contrast to before 1990 when tariffs ranged between 0 and 100 percent, tariffs are now between 5 and 20 percent and the 10 percent import surcharge was lifted earlier this year on roughly half of the remaining items to which it still applied. Imports quotas theoretically also have been eliminated. On the other hand, the GOH is not neglecting its revenue needs. The GOH adjusted its import valuation factor from \$1 = L.5.4 to \$1 = L. 5.7 at the end of December and did not eliminate earlier this year all of the remainder of the import surcharge, a measure that would have cost the public coffers L. 75 million per annum.

A new tariff regime agreed upon within the Central American Integration Movement came into existence as of April 1. With respect to countries outside Central America, the GOH is adjusting tariffs to bring them in line with those in other Central American countries on comparable goods. The new tariff regime calls for a range of between 5 and 20 percent. Vis-a-vis its Central American neighbors, Honduras is moving toward free trade, eliminating tariff barriers.

We will not be looking for any new initiatives here. However, what we will be seeking is the avoidance of backsliding. GOH recourse to animal health requirements in the "chicken parts" war has elements of a "de facto" quota. In that "war," the GOH refused entry of chicken parts, supposedly on the grounds that the parts did not meet minimum animal health requirements. However, the parts had received the blessing of the U.S. Department of Agriculture. The real reason for the refusal was pressure from the powerful domestic chicken producer community.

Similar "games" have been played with maize imports. Here phyto-sanitary requirements were used to keep out maize imports. Then in 1992, quite abruptly, imports were allowed to flood in, producing significant dislocations; domestic prices fell and production declined. In general, the manner in which maize imports have been controlled has contributed to significant economic inefficiency. Imports of rice have been affected likewise.

The issue of animal health and phyto-sanitary requirements has tremendous psychological importance for the investment climate. The main thrust of the trade liberalization program is the reduction of protection to domestic concerns and their exposure to global market forces. Use of animal health and phyto-sanitary requirements as "de facto" quotas will keep those concerns so protected from being able to compete internationally since there will be no incentives to make their operations more efficient. Through competition induced by trade liberalization, exporters and importers learn about new products and processes arising from international advances in technology, and the spill over of technology contributes to growth. The improper use of animal health and phyto-sanitary requirements to preclude competing imports also will affect adversely Honduran consumers who must pay more, in all likelihood, for less desirable domestic goods. As a consequence, we will seek from the GOH a commitment to refrain from the improper utilization of such requirements as a means of blockage of imports of competing goods.

We also will seek a similar commitment on the export side. The GOH had been reducing export quotas, replacing them with a registration system for statistical purposes only. While only six items still are subject to quotas or outright bans, the GOH has been reintroducing them on a selected basis. The most recent example were frijoles (beans). The problem with export restrictions is that they discourage production of those products on which they are levied.

## **E. Agriculture**

Full implementation of the landmark Agricultural Modernization Law is an important key to the attainment of our sectoral growth objective in agriculture. If fully implemented, the Law will (a) encourage the development of land markets, which heretofore have not existed, (b) promote an appropriate balance between conservation and development of forestry resources through rationalization of COHDEFOR, and (c) reduce GOH intervention in the agricultural sector thereby allowing market forces and price signals to allocate resources. Such reforms would do much to produce increases in production, employment and exports in the agricultural and forestry subsectors.

The elimination of price interventions or subsidies by the State in agricultural markets has been an objective of past ESF programs, and we suggest that it be maintained in the FY 1993 ESF program. This is an issue of sufficiently critical importance for the Honduran economy that we will want to keep the GOH's "feet to the fire" on the matter. Moreover, USAID remains concerned with GOH intervention in agricultural markets. Use of the strategic grain reserve has not been consistent with the regulations governing its operations. As a result of such operations, the GOH incurred losses exceeding \$20 million in 1992. The GOH, though, will be addressing

this issue; as part of the PL 480 Title III agreement for FY 1993, the GOH will replace the strategic grain reserve with a financial reserve account in 1994. The GOH also has approved a fertilizer subsidy for coffee producers. However, the GOH is arguing that the subsidy is a one time affair, designed to offset the significant decline in global coffee prices.

## **F. Stabilization**

In June 1992, the GOH secured a \$53 million Enhanced Structural Adjustment Facility (ESAF) arrangement from the IMF. The ESAF arrangement contains six targets, including (a) Limits on Central Government Expenditures, (b) Limits on the Net Domestic Financing of the Public Sector, (c) Ceilings on the Stock of Net Domestic Assets of the Monetary Authority, (d) Stock of Net International Reserves of the Central Bank, (e) Limits on New Nonconcessional External Loans by the Public Sector, and (f) Stock of External Payments Arrears. The ESAF arrangement also contains a number of structural benchmarks, including (a) allowing banks and foreign exchange houses to conduct foreign exchange transactions at freely-determined rates, (b) eliminating the remaining import surcharge, (c) eliminating the remaining export permits, (d) adopting a bi-weekly program of open market operations, (e) doing away with the interest rate subsidy on the Central Bank rediscount line for basic grains, and (f) introducing implementing regulations for implementing the Agricultural Modernization Law.

While the IMF has generally been quite pleased with GOH progress on the structural benchmarks, there is some concern with performance under the end-December 1992 stabilization targets. Although the GOH met the net international reserves target, it did not meet some of the targets, e.g. limits on the net domestic financing of the public sector.

At the time that we are considering disbursement of the FY 1993 ESF program, discussions will be held with the IMF Resident Representative. The GOH's access to resources under the ESAF will constitute evidence sufficient to satisfy this condition.

## **V. Program Implementation**

### **A. "Tranching"**

The size of the FY 1993 ESF program --only \$5 million -- suggests the desirability of disbursement in one tranche. Disbursement in one tranche will give us more leverage. For instance, the FY 1992 program of \$25 million was sufficiently large that disbursement in two tranches of \$12.5 million each, both greater than the entire FY 1993 program, gave sufficient leverage. Moreover, the nature of the reforms sought lends itself better to a one tranche program. USAID/Honduras will disburse as soon as the GOH adopts the new banking system law, introduces the Intellectual Property Rights legislation, and undertakes requisite "privatization," contingent on no significant weakening of GOH commitment in the other areas identified by this PAAD for emphasis. A target date may be September. The GOH need for disbursement should be greatest late in the year when the country's international reserve position is weakest, owing to the surge of seasonal imports and the paucity of exports of coffee whose harvest begins early in the ensuing year.

### **B. Monitoring**

Monitoring of the GOH's multi-year economic structural adjustment and stabilization program is an ongoing concern. USAID/Honduras has studies in process, some of whose results could be utilized as inputs for next year's program. One study is underway, and a second is expected to start by mid-calendar year 1993.

The first will attempt to trace the effects of the policy reforms on changes in the prices of agricultural commodities and resulting changes in agricultural output and to estimate the effects of these changes on the incomes of different household groups within the country. An important question that the study will answer is whether policy reforms promote economic equality or inequality. Using data from the GOH's Multi-Purpose Household Survey and agricultural production surveys, an analysis is being made of the changes that have occurred in household incomes for eight income classes for urban, rural, and rural agricultural and rural-nonagricultural classifications. A rural social accounting matrix (SAM) is also being constructed as a basis for analyses of the changes occurring in the agricultural sector. Estimates are being made of the effect of these policy reforms on employment in the agricultural sector. While this study will provide ample information on the overall economic impact of changes in the agricultural sector induced by policy reform, it does not measure the impact of changes elsewhere. The impact of changes elsewhere may be the subject of a new Mission study.

The second study is a sample household survey to collect detailed information on the food expenditure and consumption patterns of Honduran households and their education and health

status, as well as information on their incomes and employment. This study will allow the examination of relationships between public policy and food consumption.

### **C. "Institutionalization"**

To assist in institutionalizing/implementing the structural adjustment and stabilization program, A.I.D. is financing an advanced degree program in economics and is helping the GOH establish an Economic Analysis and Implementation Unit. 23 Hondurans already have received Masters Degrees in Economics and our program has a goal of 10 Ph.Ds. Those candidates awarded degrees, a portion of which will end up working within the GOH, will help the GOH define, execute, and carry out economic policy programs, interfacing with officials from the International Financial Institutions -- IMF, World Bank, and IDB -- as required. The Economic Analysis and Implementation Unit, which is now being established, will be headed by a GOH official and have a staff of Honduran professionals drawn from the Central Bank and other GOH Ministries. A resident expatriate adviser, together with expatriate specialists in economic policy analysis and implementation, will guide the unit's efforts. The unit will help the GOH assess various policy options and, once a policy option is chosen, help the GOH implement the policy.

### **D. Use, Monitoring and Audit of Dollar Resources**

#### **1. Use of Dollar Resources**

The Central Bank of Honduras (CBH) will establish Separate Account(s) at commercial bank(s) in the United States chosen by the CBH as its correspondent bank(s). The Separate Account(s) will be interest bearing and any interest earned on the funds deposited in the Separate Account(s) will be used in the same manner and for the same purposes as the balance of payments disbursements.

Funds deposited in the Separate Account(s) and interest generated by such funds may be used to finance CIF value of private sector imports (except for materials and equipment which could cause significant tropical deforestation) from the U.S. in the following categories:

- agricultural inputs (with the exception of pesticides)
- capital goods
- intermediate goods
- spare parts
- petroleum products

As with the 1992 PAAD, a condition precedent to disbursement will require evidence, acceptable to A.I.D., of an appropriate system for disbursements from such account, including supporting documentation, eligibility of transactions, etc.

## **2. Monitoring and Audits**

### **a) Monitoring**

The Mission's Office of Economic and Program Analysis is responsible for the overall monitoring of the ESF Dollar Cash Transfer Programs. The Office of the Controller's Financial Analysis and Review Section (CONT/FARS) monitors the utilization of ESF dollars transferred to the Government of Honduras (GOH). It ensures that the funds are deposited and can be tracked from the Separate Account(s) to their final use and that program funds are properly managed and accounted for in accordance with the ESF Agreements.

The CBH provides the mission with periodic reports showing the uses of both the dollar deposits and interest generations and monthly bank reconciliations supported by copies of bank statements for each Separate Account. The CBH also is required to establish and maintain files for each transaction funded from the Separate Account(s). Each file contains documents which support the transaction's eligibility, establish that payment has been made and demonstrate that commodities have been cleared through Honduras's customs and have entered the economy.

The CBH is authorized to make disbursements from the Separate Account(s) to finance eligible transactions through direct payments (letters of credit or collections/supplier's credit) and reimbursements to the CBH or to local commercial banks. Our close monitoring of the Separate Account(s) helps the CBH to manage the account(s) correctly and ensures that ESF dollars are used for agreed upon purposes.

### **b) Audits**

We expect that the Controller General of Honduras (CGH), the GOH's central audit agency, will perform annual audits of the Separate Account(s) established under ESF Dollar Cash Transfer Programs. The CGH has already performed audits of GOH organizations managing USAID projects which have demonstrated that its capability to carry out these audits is adequate. The Office of the RIG/A/T recently evaluated the CGH audit procedures and concluded that the CGH has the capability to conduct audits under the "Guidelines for Financial Audits Contracted by Foreign Recipients."

Should it be necessary, the Mission may also contract, through the Non-Federal Audit Program, qualified independent audit firms to perform annual audits of the ESF dollar Separate Account(s). The Mission will assure that all audit recommendations are closed by the GOH in a timely manner. Host country owned local currency funds generated by the program will be used to fund these audits.

## **E. Programming, Monitoring, and Accountability of Local Currency Resources**

### **1. Programming**

The Mission recently completed a General Assessment of the accountability environment of the GOH. The General Assessment analyzed the financial and budgeting systems of selected GOH ministries and decentralized agencies to determine if the GOH can ensure accountability for local currency funds.

Based on the findings of the Assessment, the Mission concluded that there is sufficient confidence in the GOH's budgetary systems to program local currency under the Specific Sector Support (budgetary and extra budgetary activities), General Sector Support and General Budget Support programming modes. However, since programming funds for General Budget Support requires a high level of Mission involvement, the Mission plans to exercise this programming option on a case by case basis. For instance, programming of local currency for General Budget Support would be used for GOH severance payments for the reduction of public sector employees in order to contribute to a reduction in the GOH's deficit.

The Mission plans to program funds in the following order of priority (programming modes are in parentheses):

1. GOH counterpart to USAID/GOH bilateral projects (Specific Sector Support).
2. Eighteen month reserve for USAID Trust Fund needs (Trust Funds). At least 10 percent of local currency generations will be used for this purpose.
3. Counterpart to other donors, GOH and PVO projects (Specific Sector Support).
4. Budget support to help meet requirements of a particular sector, ministry or budget line-item of the GOH (General Sector Support).

Funds may also be programmed, on a case by case basis, for General Budget support, as discussed above.

### **2. Monitoring**

The Mission's Office of Development Finance is responsible for the overall management and monitoring of local currency programs. The Office of CONT/FARS assists it in the financial monitoring of funds, carrying out financial assessments and reviews of recipient organizations and monitoring audits of local currency financed activities.

### 3. Accountability

#### a) Management of the Special Account

Our recent General Assessment also concluded that the GOH, through the Office of Public Credit within the Ministry of Finance and Public Credit (MFPC), has adequate accounting, financial, and internal control systems for managing the ESF local currency Special Account. The General Assessment found that MFPC has not developed the capability to perform audits of the Special Account, because, according to GOH legislation, the MFPC is not responsible for performing audits of GOH activities. The Controller General of Honduras is charged with this responsibility.

We expect that the Controller General of Honduras will perform or contract periodic audits of the local currency Special Account. The RIG/A/T has determined that the GOH Controller General has the ability to conduct audits under the "Guidelines for Financial Audits Contracted by Foreign Recipients." These audits will be financed with local currency from the Special Account. To ensure appropriate audit coverage, the Mission and the MFPC have agreed to reserve local currency funds from the program to cover the cost of independent audits of the Special Account, if required.

Upon receipt of ESF dollars, the GOH will deposit the local currency equivalent to the dollar disbursement. To assure that local currency generations are not commingled with other GOH resources, the funds will be deposited into a Special Account at the CBH in the name of the MFPC. This account will be non-interest bearing in accordance with Honduran law.

The MFPC will report monthly to USAID on all deposits to, withdrawals from, and disposition of local currency from the Special Account. These reports will be accompanied by the Special Account bank statements and reconciliations of the account. The Mission will review these reports to ensure that funds have been disbursed for agreed upon purposes and will verify at least one monthly report on an annual basis.

#### b) Assurance that local currencies disbursed from the Special Account were used for agreed upon purposes

Lastly, the General Assessment found that the MFPC has the capability to monitor disbursements made from the Special Account for individual transactions. Occasionally, the MFPC will make lump sum disbursements to recipient agencies. In these cases, the Mission and the MFPC will set up procedures to ensure accountability requirements are met. The Mission will receive quarterly or semiannual progress and financial reports from recipient agencies that manage local currency funds programmed in support of USAID financed projects and GOH specific projects.

The Mission's Office of CONT/FARS performs financial assessments and reviews of local currency recipient agencies, as required. We expect the Controller General of Honduras to

perform financial audits of GOH recipient agencies under the Recipient Audit Program which will include the audit of local currency funds. In addition, to ensure appropriate audit coverage, the Mission and the MFPC have agreed to reserve funds from the Special Account to cover the cost of independent audits of recipient agencies, if required.

**c) Performance Indicators**

Most local currency funds are to be programmed as the GOH's contribution to its bilateral projects with USAID. These projects include appropriate performance indicators, as do other donor projects. For GOH Specific Sector and General Sector activities, the MFPC has agreed to develop appropriate performance indicators and establish reporting and verification mechanisms to monitor their progress. Annual assessments of performance will be made and incorporated in subsequent programming decisions. Specific performance indicators and monitoring responsibilities for all local currency uses will be included in the programming Implementation Letters signed between the Mission and the MFPC.

## **VI. CONDITIONS AND COVENANTS**

### **A. Conditions Precedent to Disbursement**

Prior to the disbursement of the Grant or to the issuance by A.I.D. of documentation pursuant to which such disbursement will be made, the Grantee shall provide to A.I.D., in form and substance satisfactory to A.I.D., except as A.I.D. may otherwise agree in writing:

1. A written opinion of counsel acceptable to USAID that this Agreement has been duly authorized and/or ratified by, and on behalf of the Grantee, in accordance with the laws of the Republic of Honduras, and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all its terms.
2. A statement of the names of the persons holding or acting in the office of Minister of Finance and Public Credit, together with a specimen signature of that person.
3. Evidence that the Grantee has established a Separate Account in the United States for ESF dollar disbursements, which evidence shall describe the mechanism by which funds will be disbursed from the account. The disbursement mechanism should include requirements for supporting documentation for each transaction funded from the separate account which indicates the transaction's eligibility, establishes that payment has been effected, and, as applicable, demonstrates that commodities have been cleared through customs and have entered the economy. This supporting documentation will permit monitoring of disbursements. USAID will outline the requirements for periodic reports in a Program Implementation Letter.
4. Evidence of satisfactory progress in implementing financial sector reforms.
5. Evidence of satisfactory progress in implementing Honduras' privatization program.
6. Evidence of effective enforcement of trade reforms.
7. Evidence of satisfactory progress in implementing the Agricultural Modernization Law.
8. Evidence of maintenance of a liberalized price regime in the agricultural sector and non-intervention in agricultural markets, including evidence of the absence of price interventions and subsidies.
9. Evidence of satisfactory progress in implementing the Economic Stabilization Program.

A separate Program Implementation Letter (PIL) will outline more specifically actions USAID will regard as necessary for satisfaction of Conditions Precedent 4 through 9.

## **B. Covenants**

The Grantee will covenant that, unless A.I.D otherwise agrees in writing, it will:

1. Immediately following the ESF disbursement, and in no event later than thirty (30) days thereafter, deposit into a Special Account in the Central Bank of Honduras established for this Program, the Lempira equivalent of such disbursement. The Lempira disbursement will be calculated by using the highest rate of exchange which, on the date of disbursement of dollars to the Separate Account, is not unlawful in Honduras. These Lempiras will be programmed for such purposes as will be mutually agreed upon in writing by the Grantee and USAID, provided that not less than ten percent (10%) of such Lempiras will be available on request to meet administrative expenses of the USAID Mission to Honduras.
2. Maintain current its interest payments and installments of principal, and any other payment required under any other loan, guaranty, other agreement between the Government of Honduras or any of its agencies and the Government of United States of America or any of its agencies.
3. Comply with the other terms and conditions contained herein or in other agreements between the Parties, including without limitation the conditions precedent satisfied as part of the Program Grant Agreement for the Structural Adjustment I Program (522-0365) dated September 10, 1992.

## **C. Negotiating Status**

The conditions precedent and covenants in the FY 1993 ESF program have been discussed with the GOH. According to the President of the Central Bank, the GOH endorses the 1993 ESF PAAD, including the conditionality contained therein. All of the areas of conditionality are items in which the U.S. Country Team, including USAID/Honduras, is pursuing economic policy discussions with the GOH.

**ASSISTANCE CHECKLIST**

**FY 1993 STRUCTURAL ADJUSTMENT PROGRAM (522-0396)**

A. **CRITERIA APPLICABLE TO BOTH DEVELOPMENT ASSISTANCE AND ECONOMIC SUPPORT FUNDS**

**1. Host Country Development Efforts (FAA Sec. 601(a)):** Information and conclusions on whether assistance will encourage efforts of the country to:

- (a) increase the flow of international trade;
- (b) foster private initiative and competition;
- (c) encourage development and use of cooperatives, credit unions, and savings and loan associations;
- (d) discourage monopolistic practices;
- (e) improve technical efficiency of industry, agriculture, and commerce; and
- (f) strengthen free labor unions.

**2. U.S. Private Trade and Investment (FAA Sec. 601(b)):** Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

**3. Congressional Notification**

**a. General requirement (FY 1993 Appropriations Act Sec. 522; FAA Sec. 634A):** If money is to be obligated for an activity not previously justified to Congress, or for an amount in excess of amount previously justified to Congress, has Congress been properly notified (unless the Appropriations Act notification requirement has been waived because of substantial risk to human health or welfare)?

**b. Notice of new account obligation (FY 1993 Appropriations Act Sec. 514):** If funds are being obligated under an appropriation account to which they were not appropriated, has the

1. Assistance will support open market reform which will indirectly contribute to Honduran efforts to achieve these objectives.

2. Balance of Payments Assistance to the GOH will help meet private sector financing requirements for imports from the U.S., thus stimulating U.S. private trade and investment.

3.a. Yes.

3.b. N/A.

President consulted with and provided a written justification to the House and Senate Appropriations Committees and has such obligation been subject to regular notification procedures?

**c. Cash transfers and nonproject sector assistance** (FY 1993 Appropriations Act Sec. 571(b)(3)): If funds are to be made available in the form of cash transfer or nonproject sector assistance, has the Congressional notice included a detailed description of how the funds will be used, with a discussion of U.S. interests to be served and a description of any economic policy reforms to be promoted?

3.c. Yes.

**4. Engineering and Financial Plans** (FAA Sec. 611(a)): Prior to an obligation in excess of \$500,000, will there be: (a) engineering, financial or other plans necessary to carry out the assistance; and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

4.a. Yes.

**5. Legislative Action** (FAA Sec. 611(a)(2)): If legislative action is required within recipient country with respect to an obligation in excess of \$500,000, what is the basis for a reasonable expectation that such action will be completed in time to permit orderly accomplishment of the purpose of the assistance?

5. GOH has indicated that it is committed to passing the IPR and Banking Legislation prior to disbursement of the assistance.

**6. Water Resources** (FAA Sec. 611(b); FY 1993 Appropriations Act Sec. 501): If project is for water or water-related land resource construction, have benefits and costs been computed to the extent practicable in accordance with the principles, standards, and procedures established pursuant to the Water Resources Planning Act (42 U.S.C. 1962, *et seq.*)? (See A.I.D. Handbook 3 for guidelines.)

6. N/A.

**7. Cash Transfer and Sector**

**Assistance (FY 1993 Appropriations Act Sec. 571(b)):** Will cash transfer or nonproject sector assistance be maintained in a separate account and not commingled with other funds (unless such requirements are waived by Congressional notice for nonproject sector assistance)?

7. Yes.

**8. Capital Assistance (FAA Sec. 611(e)):** If project is capital assistance (e.g., construction), and total U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability to maintain and utilize the project effectively?

8. U.S. assistance will not be used to finance capital assistance.

**9. Multiple Country Objectives (FAA Sec. 601(a)):** Information and conclusions on whether projects will encourage efforts of the country to:

- (a) increase the flow of international trade;
- (b) foster private initiative and competition;
- (c) encourage development and use of cooperatives, credit unions, and savings and loan associations;
- (d) discourage monopolistic practices;
- (e) improve technical efficiency of industry, agriculture and commerce; and
- (f) strengthen free labor unions.

9. Assistance will support open market reform which will indirectly contribute to Honduran efforts to achieve these objectives.

**10. U.S. Private Trade (FAA Sec. 601(b)):** Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).

10. See response to No. 2 above.

**11. Local Currencies**

**a. Recipient Contributions (FAA Secs. 612(b), 636(h)):** Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

11.a. Program Agreement requires that up to 10% of host country local currency be available for USAID administrative expenses.

**b. U.S.-Owned Currency (FAA Sec. 612(d)):** Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

11.b. No

**c. Separate Account (FY 1993 Appropriations Act Sec. 571).** If assistance is furnished to a foreign government under arrangements which result in the generation of local currencies:

(1) Has A.I.D. (a) required that local currencies be deposited in a separate account established by the recipient government, (b) entered into an agreement with that government providing the amount of local currencies to be generated and the terms and conditions under which the currencies so deposited may be utilized, and (c) established by agreement the responsibilities of A.I.D. and that government to monitor and account for deposits into and disbursements from the separate account?

11.c.(1)(a) Yes.

11.c.(1)(b) Yes.

11.c.(1)(c) Yes.

(2) Will such local currencies, or an equivalent amount of local currencies, be used only to carry out the purposes of the DA or ESF chapters of the FAA (depending on which chapter is the source of the assistance) or for the administrative requirements of the United States Government?

11.c.(2) Yes.

(3) Has A.I.D. taken all appropriate steps to ensure that the

equivalent of local currencies disbursed from the separate account are used for the agreed purposes?

11.c.(3) Yes.

(4) If assistance is terminated to a country, will any unencumbered balances of funds remaining in a separate account be disposed of for purposes agreed to by the recipient government and the United States Government?

11.c.(4) Yes.

## 12. Trade Restrictions

a. **Surplus Commodities (FY 1993 Appropriations Act Sec. 520(a)):** If assistance is for the production of any commodity for export, is the commodity likely to be in surplus on world markets at the time the resulting productive capacity becomes operative, and is such assistance likely to cause substantial injury to U.S. producers of the same, similar or competing commodity?

12.a. N/A.

b. **Textiles (Lautenberg Amendment) (FY 1993 Appropriations Act Sec. 520(c)):** Will the assistance (except for programs in Caribbean Basin Initiative countries under U.S. Tariff Schedule "Section 807," which allows reduced tariffs on articles assembled abroad from U.S.-made components) be used directly to procure feasibility studies, prefeasibility studies, or project profiles of potential investment in, or to assist the establishment of facilities specifically designed for, the manufacture for export to the United States or to third country markets in direct competition with U.S. exports, of textiles, apparel, footwear, handbags, flat goods (such as wallets or coin purses worn on the person), work gloves or leather wearing apparel?

12.b. No.

13. **Tropical Forests (FY 1991 Appropriations Act Sec. 533(c)(3)(as**

referenced in section 532(d) of the FY 1993 Appropriations Act): Will funds be used for any program, project or activity which would (a) result in any significant loss of tropical forests, or (b) involve industrial timber extraction in primary tropical forest areas?

13.a. No.

13.b. No.

#### 14. PVO Assistance

a. **Auditing and registration** (FY 1993 Appropriations Act Sec. 536): If assistance is being made available to a PVO, has that organization provided upon timely request any document, file, or record necessary to the auditing requirements of A.I.D., and is the PVO registered with A.I.D.?

14.a. N/A.

b. **Funding sources** (FY 1993 Appropriations Act, Title II, under heading "Private and Voluntary Organizations"): If assistance is to be made to a United States PVO (other than a cooperative development organization), does it obtain at least 20 percent of its total annual funding for international activities from sources other than the United States Government?

14.b. N/A.

#### 15. Project Agreement

**Documentation** (State Authorization Sec. 139 (as interpreted by conference report)): Has confirmation of the date of signing of the project agreement, including the amount involved, been cabled to State L/T and A.I.D. LEG within 60 days of the agreement's entry into force with respect to the United States, and has the full text of the agreement been pouched to those same offices? (See Handbook 3, Appendix 6G for agreements covered by this provision).

15. USAID/Honduras will cable confirmation of the signing of project agreement and send copies to the required offices, as applicable under Handbook 3, Appendix 6G.

16. **Metric System** (Omnibus Trade and Competitiveness Act of 1988 Sec. 5164,

as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance activity use the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

**17. Women in Development (FY 1993 Appropriations Act, Title II, under heading "Women in Development"):** Will assistance be designed so that the percentage of women participants will be demonstrably increased?

**18. Regional and Multilateral Assistance (FAA Sec. 209):** Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs.

**19. Abortions (FY 1993 Appropriations Act, Title II, under heading "Population, DA," and Sec. 524):**

a. Will assistance be made available

16. Metric measurements are standard in Honduras. Cash transfer assistance will not require measurements.

17. No. Other projects in Honduras are doing this.

18. No. The project will encourage open markets and increase trade. Other donors have complementary regional projects that also work with cooperatives.

to any organization or program which, as determined by the President, supports or participates in the management of a program of coercive abortion or involuntary sterilization?

19.a. No.

b. Will any funds be used to lobby for abortion?

19.b. No.

**20. Cooperatives (FAA Sec. 111):** Will assistance help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life?

20. No.

**21. U.S.-Owned Foreign Currencies**

a. **Use of currencies (FAA Secs. 612(b), 636(h); FY 1993 Appropriations Act Secs. 507, 509):** Are steps being taken to assure that, to the maximum extent possible, foreign currencies owned by the U.S. are utilized in lieu of dollars to meet the cost of contractual and other services.

21.a. The U.S. does not have excess local currency which would be available for this use.

b. **Release of currencies (FAA Sec. 612(d)):** Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

21.b. No.

**22. Procurement**

a. **Small business (FAA Sec. 602(a)):** Are there arrangements to permit U.S. small business to participate equitably in the furnishing of commodities and services financed?

22.a. N/A.

b. **U.S. procurement (FAA Sec. 604(a) as amended by section 597 of the FY 1993 Appropriations Act):** Will all procurement be from the U.S., the recipient country, or developing countries except as otherwise determined in accordance with the

22.b. N/A. Cash transfer assistance will be provided to the GOH. This assistance will help it meet private sector financing requests for U.S. imports.

criteria of this section?

**c. Marine insurance (FAA Sec. 604(d)):** If the cooperating country discriminates against marine insurance companies authorized to do business in the U.S., will commodities be insured in the United States against marine risk with such a company? 22.c. N/A.

**d. Non-U.S. agricultural procurement (FAA Sec. 604(e)):** If non-U.S. procurement of agricultural commodity or product thereof is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity? (Exception where commodity financed could not reasonably be procured in U.S.) 22.d. N/A.

**e. Construction or engineering services (FAA Sec. 604(g)):** Will construction or engineering services be procured from firms of advanced developing countries which are otherwise eligible under Code 941 and which have attained a competitive capability in international markets in one of these areas? (Exception for those countries which receive direct economic assistance under the FAA and permit United States firms to compete for construction or engineering services financed from assistance programs of these countries.) 22.e. No.

**f. Cargo preference shipping (FAA Sec. 603):** Is the shipping excluded from compliance with the requirement in section 901(b) of the Merchant Marine Act of 1936, as amended, that at least 50 percent of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed shall be transported on privately owned U.S. flag commercial vessels to the extent such vessels are available at fair and 22.f. Yes.

reasonable rates?

**g. Technical assistance**  
(FAA Sec. 621(a)): If technical assistance is financed, will such assistance be furnished by private enterprise on a contract basis to the fullest extent practicable? Will the facilities and resources of other Federal agencies be utilized, when they are particularly suitable, not competitive with private enterprise, and made available without undue interference with domestic programs?

22.g. N/A.

**h. U.S. air carriers**  
(International Air Transportation Fair Competitive Practices Act, 1974): If air transportation of persons or property is financed on grant basis, will U.S. carriers be used to the extent such service is available?

22.h. N/A.

**i. Termination for convenience of U.S. Government** (FY 1993 Appropriations Act Sec. 504): If the U.S. Government is a party to a contract for procurement, does the contract contain a provision authorizing termination of such contract for the convenience of the United States?

22.i. N/A.

22.j. N/A.

**j. Consulting services** (FY 1993 Appropriations Act Sec. 523): If assistance is for consulting service through procurement contract pursuant to 5 U.S.C. 3109, are contract expenditures a matter of public record and available for public inspection (unless otherwise provided by law or Executive order)?

22.k. See response to No. 16 above.

**k. Metric conversion**  
(Omnibus Trade and Competitiveness Act of 1988, as interpreted by conference report, amending Metric Conversion Act of 1975 Sec. 2, and as implemented through A.I.D. policy): Does the assistance program use

the metric system of measurement in its procurements, grants, and other business-related activities, except to the extent that such use is impractical or is likely to cause significant inefficiencies or loss of markets to United States firms? Are bulk purchases usually to be made in metric, and are components, subassemblies, and semi-fabricated materials to be specified in metric units when economically available and technically adequate? Will A.I.D. specifications use metric units of measure from the earliest programmatic stages, and from the earliest documentation of the assistance processes (for example, project papers) involving quantifiable measurements (length, area, volume, capacity, mass and weight), through the implementation stage?

22.1. Yes.

**1. Competitive Selection**

**Procedures (FAA Sec. 601(e)):** Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

**23. Construction**

23.a. N/A.

**a. Capital project (FAA Sec. 601(d)):** If capital (e.g., construction) project, will U.S. engineering and professional services be used?

23.b. N/A.

**b. Construction contract (FAA Sec. 611(c)):** If contracts for construction are to be financed, will they be let on a competitive basis to maximum extent practicable?

23.c. N/A.

**c. Large projects, Congressional approval (FAA Sec. 620(k)):** If for construction of productive enterprise, will aggregate value of assistance to be furnished by the U.S. not exceed \$100 million (except for productive enterprises in Egypt that were described in the Congressional

Presentation), or does assistance have the express approval of Congress?

24. N/A.

**24. U.S. Audit Rights** (FAA Sec. 301(d)): If fund is established solely by U.S. contributions and administered by an international organization, does Comptroller General have audit rights?

25. Yes.

**25. Communist Assistance** (FAA Sec. 620(h)). Do arrangements exist to insure that United States foreign aid is not used in a manner which, contrary to the best interests of the United States, promotes or assists the foreign aid projects or activities of the Communist-bloc countries?

26.a. Yes.

**26. Narcotics**

**a. Cash reimbursements** (FAA Sec. 483): Will arrangements preclude use of financing to make reimbursements, in the form of cash payments, to persons whose illicit drug crops are eradicated?

26.b. Yes.

**b. Assistance to narcotics traffickers** (FAA Sec. 487): Will arrangements take "all reasonable steps" to preclude use of financing to or through individuals or entities which we know or have reason to believe have either: (1) been convicted of a violation of any law or regulation of the United States or a foreign country relating to narcotics (or other controlled substances); or (2) been an illicit trafficker in, or otherwise involved in the illicit trafficking of, any such controlled substance?

27. Yes.

**27. Expropriation and Land Reform** (FAA Sec. 620(g)): Will assistance preclude use of financing to compensate owners for expropriated or nationalized property, except to compensate foreign nationals in accordance with a land reform program certified by the President?

28. Yes.

**28. Police and Prisons (FAA Sec. 660):** Will assistance preclude use of financing to provide training, advice, or any financial support for police, prisons, or other law enforcement forces, except for narcotics programs? 29. Yes.

**29. CIA Activities (FAA Sec 662):** Will assistance preclude use of financing for CIA activities? 30. Yes.

**30. Motor Vehicles (FAA Sec. 636(i)):** Will assistance preclude use of financing for purchase, sale, long-term lease, exchange or guaranty of the sale of motor vehicles manufactured outside U.S., unless a waiver is obtained? 31. Yes.

**31. Military Personnel (FY 1993 Appropriations Act Sec. 503):** Will assistance preclude use of financing to pay pensions, annuities, retirement pay, or adjusted service compensation for prior or current military personnel? 32. Yes.

**32. Payment of U.N. Assessments (FY 1993 Appropriations Act Sec. 505):** Will assistance preclude use of financing to pay U.N. assessments, arrearages or dues? 33. Yes.

**33. Multilateral Organization Lending (FY 1993 Appropriations Act Sec. 506):** Will assistance preclude use of financing to carry out provisions of FAA section 209(d) (transfer of FAA funds to multilateral organizations for lending)? 34. Yes.

**34. Export of Nuclear Resources (FY 1993 Appropriations Act Sec. 510):** Will assistance preclude use of financing to finance the export of nuclear equipment, fuel, or technology? 35. Yes.

**35. Repression of Population (FY 1993 Appropriations Act Sec. 511):** Will assistance preclude use of financing for the

purpose of aiding the efforts of the government of such country to repress the legitimate rights of the population of such country contrary to the Universal Declaration of Human Rights?

36. No.

**36. Publicity or Propaganda (FY 1993 Appropriations Act Sec. 516):** Will assistance be used for publicity or propaganda purposes designed to support or defeat legislation pending before Congress, to influence in any way the outcome of a political election in the United States, or for any publicity or propaganda purposes not authorized by Congress?

37. N/A.

**37. Marine Insurance (FY 1993 Appropriations Act Sec. 560):** Will any A.I.D. contract and solicitation, and subcontract entered into under such contract, include a clause requiring that U.S. marine insurance companies have a fair opportunity to bid for marine insurance when such insurance is necessary or appropriate?

38. No.

**38. Exchange for Prohibited Act (FY 1993 Appropriations Act Sec. 565):** Will any assistance be provided to any foreign government (including any instrumentality or agency thereof), foreign person, or United States person in exchange for that foreign government or person undertaking any action which is, if carried out by the United States Government, a United States official or employee, expressly prohibited by a provision of United States law?

39. No.

**39. Commitment of Funds (FAA Sec. 635(h)):** Does a contract or agreement entail a commitment for the expenditure of funds during a period in excess of 5 years from the date of the contract or agreement?

**40. Impact on U.S. Jobs (FY 1993**

Appropriations Act, Sec. 599):

40.a. No.

(a) Will any financial incentive be provided to a business located in the U.S. for the purpose of inducing that business to relocate outside the U.S. in a manner that would likely reduce the number of U.S. employees of that business?

40.b. No.

(b) Will assistance be provided for the purpose of establishing or developing an export processing zone or designated area in which the country's tax, tariff, labor, environment, and safety laws do not apply? If so, has the President determined and certified that such assistance is not likely to cause a loss of jobs within the U.S.?

40.c. No.

(c) Will assistance be provided for a project or activity that contributes to the violation of internationally recognized workers rights, as defined in section 502(a)(4) of the Trade Act of 1974, of workers in the recipient country?

**C. CRITERIA APPLICABLE TO ECONOMIC SUPPORT FUNDS ONLY**

C.1. Yes.

**1. Economic and Political Stability (FAA Sec. 531(a)):** Will this assistance promote economic and political stability?

To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA?

C.2. No.

**2. Military Purposes (FAA Sec. 531(e)):** Will this assistance be used for military or paramilitary purposes?

C.3. N/A.

**3. Commodity Grants/Separate Accounts (FAA Sec. 609):** If commodities are to be granted so that sale proceeds will

accrue to the recipient country, have Special Account (counterpart) arrangements been made? (For FY 1993, this provision is superseded by the separate account requirement of FY 1993 Appropriations Act Sec. 571 (a), see Sec. 571(a)(5).)

C.4. Yes.

**4. Generation and Use of Local Currencies (FAA Sec. 531(d)):** Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? (For FY 1993, this provision is superseded by the separate account requirements of FY 1993 Appropriations Act Sec. 571(a), see Sec. 571(a)(5).)

**5. Cash Transfer Requirements (FY 1993 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 571(b)).** If assistance is in the form of a cash transfer:

5.a. Yes.

**a. Separate account:** Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds?

5.b. yes

**b. Local currencies:** Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements?

5.c. AID and GOH jointly program local currency use. Priority is given to USG development assistance or ESF priorities. See 11(a) on P.4

**c. U.S. Government use of**

**local currencies:** Will all such local currencies also be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, or to carry out development assistance (including DFA) or ESF purposes?

5.d. Yes.

**d. Congressional notice:**

Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

6. N/A.

**6. Capital Projects (Jobs Through Exports Act of 1992, Sec. 306, FY 1993 Appropriations Act, Sec 595):** If assistance is being provided for a capital project, will the project be developmentally-sound and sustainable, i.e., one that is (a) environmentally sustainable, (b) within the financial capacity of the government or recipient to maintain from its own resources, and (c) responsive to a significant development priority initiated by the country to which assistance is being provided. (Please note the definition of "capital project" contained in section 595 of the FY 1993 Appropriations Act.)

**INITIAL ENVIRONMENTAL EXAMINATION/  
CATEGORICAL EXCLUSION**

11

PROJECT LOCATION: HONDURAS

PROJECT TITLE: Structural Adjustment Program II (FY 93 ESF Balance of Payments Program)

PROJECT NUMBER: 522-0365

FUNDING: \$7 Million (ESF)

LIFE OF PROJECT: One Year (FY93)

IEE PREPARED BY: Rafael Rosario  
USAID/Honduras 

**RECOMMENDED THRESHOLD DECISION:**

**A. Program Description:**

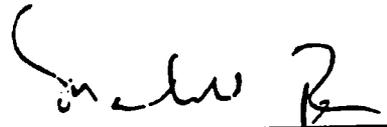
The program consists of a \$7 million grant in support of the Government of Honduras (GOH) Economic Stabilization and Recovery Program. AID resources will be made available to the GOH in one disbursement (a) linked to continued GOH progress in implementing its ambitious structural adjustment and stabilization program and (b) keyed to the financing requirements of the GOH's program. The dollars provided under this program will be available to finance a range of essential private sector imports from the United States. Host country owned local currencies generated under the program will be used to support public and private development activities.

**B. Recommendation:**

This program qualifies for a Categorical Exclusion under 22 CFR 216.2 (c) (2) (vi), "Contributions to international, regional or national organizations by the United States which are not for the purpose of carrying out a specifically identifiable project or projects." Categorical exclusions in Section 216.2 (c) are not applicable to assistance for the procurement or use of pesticides. Further, according to Congressional Legislation, ESF appropriated funds shall not be used in a way that would result in any significant loss of tropical forests. Therefore, the program agreement between the GOH and AID will exclude pesticides and materials and equipment that could lead to significant tropical deforestation as eligible uses of separate account funds.

Based on the above, it is recommended that no further environmental study be undertaken for this program and that a "Categorical Exclusion" be approved.

Approved:



\_\_\_\_\_  
Marshall D. Brown  
Mission Director  
USAID/Honduras

Date:

5/5/97

Concurrence:

\_\_\_\_\_  
James S. Hester  
LAC Bureau  
Environmental Officer

Date:

\_\_\_\_\_

**CLEARANCE SHEET**

**DATE:** April 30, 1993

**SUBJECT:** Initial Environmental Examination

**PROJECT TITLE:** Structural Adjustment Program II (FY 93 ESF Balance of Payments Program)

**Clearance:** DHarrison, EPA  
RWhelden, DF  
CBrown, RLA  
LEckersley, DMD

DMH  
W  
CB w/ changes  
J



U.S. AGENCY FOR  
INTERNATIONAL  
DEVELOPMENT

LAC-IEE-93-26

**ENVIRONMENTAL THRESHOLD DECISION**

Project Location : Honduras

Project Title : Structural Adjustmant Program  
(FY 93 ESF Balance of Payments  
Program).

Project Number : 522-0365

Activity Funding : \$7 million (ESF)

Life of Project : 1 year (FY 93)

IEE Prepared by : Rafael Rosario, Environmental  
Officer USAID/Honduras

Recommended Threshold Decision: Categorical Exclusion

Bureau Threshold Decision : Concur with Recommendation

Comments : Categorical exclusion under 22  
CFR 216.2(c)(2)(vi) is approved.  
Concurrence subject to condition  
stated in IEE and placed in  
Grant Agreement that there  
will be neither (1) procurement  
nor use of pesticides; nor (2)  
support for activities or for  
the procurement or use of  
equipment that could lead to the  
extraction of timber or  
significant deforestation  
without first receiving LAC  
Bureau Environmental Officer's  
approval of an appropriate  
Environmental Assessment.

*James S. Hester* Date June 10, 1993  
James S. Hester  
Chief Environmental Officer  
Bureau for Latin America  
and the Caribbean

Copy to : Marshall D. Brown, Director,  
USAID/Honduras

Copy to : Rafael Rosario, Environmental  
Officer, USAID/Honduras

Copy to : John Walls, LAC/DR/CEN

Copy to : Wayne Williams, REA/CEN

Copy to : James Vanderbos, LAC/CEN

Copy to : IEE File

APPR: JH (JH)  
DRAFT: JH (JH)  
CLEAR: KM (KM)  
CLEAR: ( )  
CLEAR: ( )  
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CLEAR: ( )

UNCLASSIFIED

AID/LAC/DR/E:JHOMZIAK:JH:IEE93-26  
06/10/93 647-9487  
AID/LAC/DR/E:JHESTER

LAC/DR/CEN: JWALLS (INFO)

LAC/CEN: JVANDERBOS (INFO)

ROUTINE TEGUCIGALPA  
GUATEMALA

AIDAC TEGUCIGALPA ATTN: R. ROSARIO, GUATEMALA ATTN: W.  
WILLIAMS

E.O. 12356: N/A

TAGS:

SUBJECT: ENVIRONMENTAL THRESHOLD DECISION FOR STRUCTURAL  
ADJUSTMENT PROGRAM (FY 1993 ESF BALANCE OF PAYMENTS  
PROGRAM).

REF: IEE PREPARED BY R. ROSARIO, ANNEX TO HONDURAS - FY  
1993 PAAD.

1. LAC CHIEF ENVIRONMENTAL OFFICER, JAMES HESTER, HAS  
REVIEWED AND HEREBY APPROVES MISSION REQUEST FOR A  
CATEGORICAL EXCLUSION FOR SUBJECT PROGRAM.
2. NO PESTICIDES MAY BE PROCURED OR USED UNDER THIS  
PROJECT, NOR WILL THERE BE SUPPORT FOR ACTIVITIES OR FOR  
THE PROCUREMENT OR USE OF EQUIPMENT THAT COULD LEAD TO THE  
EXTRACTION OF TIMBER OR SIGNIFICANT DEFORESTATION WITHOUT  
FIRST RECEIVING LAC BUREAU ENVIRONMENTAL OFFICER'S  
APPROVAL OF THE APPROPRIATE ENVIRONMENTAL ASSESSMENT.
3. IEE NUMBER IS LAC-93-26. COPY OF THE ENVIRONMENTAL  
THRESHOLD DECISION IS BEING SENT TO MISSION FOR INCLUSION  
IN PROJECT FILES. YY

UNCLASSIFIED