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

HONDURAS

PROJECT PAPER

POLICY ANALYSIS AND IMPLEMENTATION

AMENDMENT NUMBER 2

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AID/LAC/P-787
CR-386, 507, 744

PROJECT NUMBER: 522-0325

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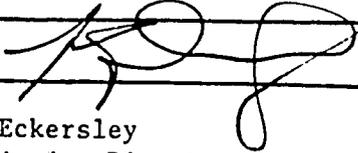
AGENCY FOR INTERNATIONAL DEVELOPMENT		PROJECT DATA SHEET		1. TRANSACTION CODE <input type="checkbox"/> A = Add <input checked="" type="checkbox"/> C = Change <input type="checkbox"/> D = Delete		Amendment Number <u>2</u>		DOCUMENT CODE <u>3</u>	
COUNTRY/ENTITY <u>Honduras</u>				3. PROJECT NUMBER <u>522-0325</u>					
6. BUREAU/OFFICE <u>LAC</u>				5. PROJECT TITLE (maximum 40 characters) <u>POLICY ANALYSIS AND IMPLEMENTATION</u>					
6. PROJECT ASSISTANCE COMPLETION DATE (PACD) <u>08/28/97</u>				7. ESTIMATED DATE OF OBLIGATION (Under "2." below, enter 1, 2, 3, or 4) A. Initial FY <u>87</u> B. Quarter <u>4</u> C. Final FY <u>97</u>					
8. COSTS (\$000 OR EQUIVALENT \$1 =)									
A. FUNDING SOURCE		FIRST FY			LIFE OF PROJECT				
		B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total		
AD Appropriated Total									
(Grant)		(3,000)	(500)	(3,500)	(22,850)	(3,500)	(26,350)		
(Loan)									
Other									
1. U.S.									
2. Host Country			200	200		17,950	17,950		
Other Donors)			150	150		1,000	1,000		
TOTALS		3,000	850	3,850	22,850	22,450	45,300		
9. SCHEDULE OF AID FUNDING (\$000)									
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF				7,000				7,000	
(2) IARDN				5,350		10,000		15,350	
(3) SDA				4,000				4,000	
(4)									
TOTALS				16,350		10,000		26,350	
10. SECONDARY TECHNICAL CODES (maximum 8 codes of 3 positions each)								11. SECONDARY PURPOSE CODE	
12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)									
A. Code									
B. Amount									
13. PROJECT PURPOSE (maximum 480 characters)									

To strengthen the Honduran capacity to formulate and implement economic policies and administrative reform.

14. SCHEDULED EVALUATIONS					15. SOURCE/ORIGIN OF GOODS AND SERVICES						
Interim	MM	YY	MM	YY	Final	MM	YY				
			01	94		01	96	<input checked="" type="checkbox"/> 000	<input type="checkbox"/> 941	<input checked="" type="checkbox"/> Local	<input type="checkbox"/> Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)
This amendment adds funding for the implementation of policy change in the agricultural sector and for the development of policy analysis and formulation capabilities in the area of environment and natural resources management.

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17. APPROVED BY	Signature 	Date Signed MM DD YY <u>017/21/97</u>	18. DATE DOCUMENT RECEIVED IN AID/W. OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM DD YY
	Title B. Loc Eckersley Acting Mission Director		

PROJECT AUTHORIZATION

(Amendment No. 2)

Name of Country: Honduras
Name of Project: Policy Analysis and Implementation
Number of Project: 522-0325

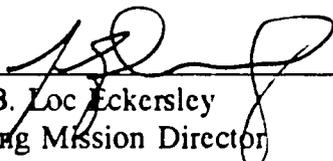
1. Pursuant to Sections 103, 106, 531, and 534 of the Foreign Assistance Act of 1961, as amended, the Policy Analysis and Implementation Project for the Republic of Honduras was authorized on August 28, 1987 and amended on March 5, 1990. That authorization is hereby further amended as follows:
 - a. Paragraph 1 of the authorization, as amended, is deleted in its entirety, and the following substituted therefor:
 1. Pursuant to Sections 103, 106, and 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Policy Analysis and Implementation Project for Honduras and the Honduran Council for Private Enterprise (COHEP) involving planned obligations of not to exceed Twenty-Six Million Three Hundred Fifty Thousand Dollars in grant funds ("Grant") over a ten year period from the date of authorization, subject to the availability of funds in accordance with the AID OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned Life of the Project is ten years from the date of initial obligation.
 - b. Paragraph 2 of the authorization, as amended, is deleted in its entirety, and the following substituted therefor:
 2. The Project includes a public sector component, a private sector component, and an agricultural and natural resources sector component. It consists of providing technical assistance, commodities and training: (1) to the Government of Honduras represented by the Central Bank of Honduras, the Ministry of Finance and Public Credit, and other public sector institutions involved in the formation of economic policy; (2) to the Honduran Council for Private Enterprise; and (3) to public sector entities involved in the formulation of agricultural and natural resources policies represented by the Ministry of Natural Resources, the Agricultural Development Council, SECPLAN and other public sector institutions.
2. Non-U.S. procurement is authorized under this amendment in accordance with the Agency Buy America guidance up to an aggregate amount of Four Hundred Thousand United States Dollars (\$400,000), or other amount as A.I.D. may agree in writing. Of

this amount, an estimated \$300,000 will be local procurement for services in project management, secretarial support, studies, and audit costs, and \$100,000 will be for third country training and observational tours. None of the currently planned local or third country procurement requires a waiver under the Buy America guidance. If, however, during implementation of the project, a local or third country procurement transaction is proposed that requires a waiver under the Buy America guidance, such waiver will be obtained before proceeding with the procurement.

3. Covenants

a. The Cooperating Country shall make every effort to ensure that counterpart funds are available in a timely and satisfactory manner. Likewise, the Cooperating Country shall provide A.I.D. with quarterly reports on the provision of counterpart contributions. These reports shall be provided no later than 30 days after the end of the quarter. Should the Cooperating Country fail to make available amounts designated in the budget or fail to make those amounts available in a timely and satisfactory manner as determined by A.I.D., A.I.D. may suspend assistance to one or more project activities until such time that A.I.D. shall determine that the assistance may be continued or that one or more of the project activities shall be terminated.

4. The authorization cited above remains in force except as hereby amended.

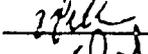
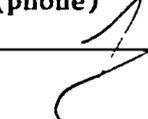


B. Loc Eckersley
Acting Mission Director
USAID/Honduras

7/21/92

Date

CLEARANCE PAGE

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**Policy Analysis and Implementation Project
Agricultural Sector Amendment
522-0325**

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I. Summary

The Agricultural Sector Amendment to the Policy Analysis and Implementation Project (PAIP) will continue to strengthen the capacity of the Honduran public and private sector to formulate and implement policy and administrative reforms. The project amendment has two major components. The first will support the implementation of policy changes secured by the recent passage of the Agricultural Modernization Law. The second component will support policy analysis and formulation in the area of environmental and natural resources management, with emphasis on environmental policy issues that are directly related to agriculture. The project will be divided into two phases of two years each. Policy benchmarks or indicators have been developed for each phase. A mid-term assessment of the achievement of these benchmarks will be undertaken to determine which activities should be continued in the second phase.

The estimated total cost of this amendment is \$23.0 million. AID will contribute \$10.0 million in grant funds and the Government of Honduras (GOH) will contribute the local currency equivalent of \$13.0 million over the five-year life of this amendment. The major GOH implementing agency for agricultural and natural resources management activities will continue to be the Agricultural Sector Policy Unit (UPSA) within the Secretariat of Natural Resources (SRN). Other public and private organizations receiving support through the project will be the National Agrarian Institute (INA), the National Cadastre Office (DEC), the National Property Registry, the General Directorate for Statistics and Census (DGEC), the National Environmental Commission (CONAMA), and various private sector agricultural and environmental organizations.

II. Background and Problem

The agricultural sector is the most important element in Honduras' economy. Not only does it provide food, fiber and fuel, but also employment, income, foreign exchange and savings for about 60% of the country's population. In recent times, performance in the agricultural sector has been severely constrained by a mix of inappropriate policies that have discouraged productive investment in the sector. Foremost among these policies were agricultural land use and tenure laws that did not guarantee secure land tenure. Without secure property rights, farmers not only had no incentive to make investments that would increase productivity, but also had no capacity to sell or rent their land or use it as collateral to obtain credit. Other policies that have limited agricultural growth have been guaranteed grain prices, consumer price controls, government interference in commodity marketing and subsidized interest rates.

Agricultural growth also depends on rational use and sound management of the country's natural resources. At present, a policy framework that encourages such rational and sustainable use of these resources is not in place. Land tenure policies have encouraged deforestation and extensive livestock production. Land tenure insecurity, with its lack of incentive for investment, has led to the mining of resources. Until recently all trees, even those on private land, were property of the state, thus giving little incentive for private tree management and reforestation. The lack of an effective agricultural water use law has inhibited investment in irrigation systems. Consequently, Honduras has developed only 15% of its potential for irrigated agriculture. Further development of irrigated agriculture would reduce pressure on fragile hillside lands. Lack

of controls on the shrimp industry in the Gulf of Fonseca may eventually lead to the demise of this important industry which accounts for significant amount of Honduras' exports.

The initial phase of this project supported the development and passage of the Agricultural Modernization Law which has eliminated many of the above policy and legal constraints. The most far reaching changes brought about by this law are those which improve land tenure security. More specifically the law:

- requires issuance of formal titles to agrarian reform beneficiaries.
- accelerates and broadens issuance of title to farmers on national and ejidal (or communal) land.
- eliminates the requirement that INA, the GOH agency responsible for titling agrarian reform land, approve all subsequent transfers of land that it has titled.
- clarifies and limits criteria for land expropriation
- permits unrestricted rental of privately-owned land
- eliminates discrimination against women in the transfer and titling of national and ejidal land.
- removes the state from control over the marketing, processing and export of forest products.

The new law also replaces guaranteed prices for basic grains with a price band system that links domestic prices to international trends, eliminates the GOH monopoly in basic grain trading and contains several provisions to improve rural finance. In sum, the Agricultural Modernization Law establishes a sound basis for future structural reform in the sector. It remains for these sound policy beginnings to be translated into changes that increase agricultural investment, production and exports. In addition, actions need to be taken to ensure agricultural growth takes place in an environmentally sustainable manner.

Current constraints to effective analysis and implementation in both the agricultural and natural resource sectors can be divided into three interrelated categories. The first is the limited capability of public and private sector entities to analyze and formulate policies and to implement policy reforms. The staff of the organizations involved in the Agricultural Modernization Law, UPSA and two private organizations representing agricultural interests, are still weak in the area of agricultural policy analysis. Policy analysis capabilities in the area of environment and natural resources management are practically non-existent. A second constraint is limited availability of data. Honduras lacks some of the most basic economic and physical data. The last agricultural census was taken in 1974. Price information at various marketing levels is difficult to locate and unreliable. Import and export data as well as data on credit to the sector are inconsistent. A full national cadastre is needed to provide clear property rights and fulfill the

objective of more efficient, productive and ecologically sound land use. Data on natural resource use and depletion is scarce. A final constraint is unclear institutional responsibilities, especially in the area of natural resources management, where responsibilities are fragmented and overlapping and there is no clear authority for enforcement of existing natural resource use regulations.

III. Relationship to AID and Country Strategy

This project will continue to support the design and implementation of policy reforms required for the disbursement of ESF funds under the Mission's Structural Adjustment Program (SAP). In addition, it supports two of the Mission's Strategic Objectives: **Increased Agricultural Investment, Production and Exports; and More Efficient Management and Sustainable Use of Selected Natural Resources**, by creating the policy framework for achieving both these objectives and by increasing access to factors of production (primarily land). The activities financed by this amendment will also support Central American Strategy initiatives to:

- stimulate agricultural production and trade through removal of macroeconomic and sectoral policy constraints; promoting technology improvements; reducing tenure insecurity; and promoting agribusiness development and trade linkages with U.S. and neighboring markets.
- promote sound environmental laws and regulations which are effectively enforced and rational management of natural resources by the public and private sectors to ensure long-term sustainability and high economic return.

The project will complement other donor efforts, particularly the joint IBRD/IDB agricultural sector structural adjustment loan (AGSAL). The AGSAL has policy objectives which are virtually identical to those of the PAIP. Coordination with IBRD/IDB has been excellent and will be maintained. Few other donors are involved in the policy analysis and formulation work. However, the UNDP and FAO are supporting the agricultural census and the PAIP is coordinating with them to avoid duplication.

IV. Objectives

The overall purpose of this project is to improve the capacity of Honduran public and private sector entities to formulate and implement economic policies and administrative reforms.

The amendment to the PAIP has two specific subpurposes: The first is to implement policies aimed at increasing agricultural investment, production and exports (with emphasis on implementing the Agricultural Modernization Law). The following conditions will exist at the end of the project as a result of achievement of this subpurpose:

- Issuance and registration of 10,000 land titles annually.
- Increase in number of registered land sales of 20 percent by 1996 over 1991.

- Reduction in number of land invasions from 40 in 1990 to zero in 1996.
- Establishment of a functioning price band mechanism for three agricultural commodities.
- Divestiture of all GOH grain-handling facilities.
- Establishment of four farmer-owned rural financial institutions (cajas rurales).

The second subpurpose of this amendment is to develop policies and administrative reforms that promote more efficient management and sustainable use of selected natural resources. The conditions that will exist at the end of the project as a result of achievement of subpurpose are:

- Improved Agricultural Water Use Law approved
- Implementing regulations for the Water Use Law approved.
- Improved Environmental Legislation approved.
- Implementing regulations for the Environmental Legislation approved.

The Logical Framework for this amendment, which provides further information on project purpose and outputs and their indicators, is provided in Annex A.

V. Detailed Project Description

The project amendment consists of two components that correspond to the two subpurposes. These components, as well as the project implementation strategy, are described below.

A. Implementing the Agricultural Modernization Law with Emphasis on Land Tenure.

1. Land Title Transfer

The project will finance a Land Tenure Security Advisor to work with UPSA and INA, the GOH organization responsible for distributing both agrarian reform and national lands. Technical assistance will help INA to divest itself of its social programs (credit, technical assistance, etc.) and to focus on and expand its land titling activities. The project will also work with INA on contracting its property survey and delineation functions to private firms and develop various options for making the title registry process self-financing.

Both cadastre and property registry systems will be upgraded. Land Tenure Advisors will assist INA and the National Property Registry, the organization within the judicial branch that is responsible for registering land titles, to develop regulations for implementing the Cadastral Law and the Folio Real Registry System (which maintains information based on a specific piece of land rather than the person who owns it). PAIP advisors, in coordination with the Mission's

Municipal Development Project, will also assist in creation of decentralized property registers at the municipal level. This will require computer facilities in every department to manage property information. The GOH will provide resources for hardware and software and the project will provide training to departmental personnel in proper operation of the system.

In addition to improving procedures for titling, the project will develop a financing mechanism or "land bank" to increase small farmers access to credit for the purchase of land.

2. Marketing and Trade

The Agricultural Modernization Law eliminates GOH commodity marketing, especially in basic grains. The PAIP, in close collaboration with the Mission's Privatization Project, will develop a strategy by which the GOH will divest itself of the IHMA (the Honduran Institute for Agricultural Marketing) facilities. PAIP/UPSA will present various sale options to policy makers with assistance provided by short-term privatization specialists. The GOH will implement the strategy selected.

Through assistance from PAIP consultants, UPSA/IHMA will develop the conditions for an efficient private grain trade by removing market restrictions and building the support systems. UPSA will study the basic grain supply system, from seed to post-harvest storage and distribution, and design policies to facilitate efficient free marketing. The project will also assist the GOH to develop a price and market information system so small farmers have a chance to increase their returns and grain standards and weights that will make trade more agile. In addition, implementation of a system of negotiable warehouse receipts will further improve grain marketing.

As Honduras liberalizes its economy, regional and foreign trade policies assume greater importance. The PAIP will assist UPSA to analyze foreign trade issues and to generate responses to external conditions that enhance Honduran producers' positions in world markets. It will help IHMA to implement the basic grain price band system and develop a policy governing a strategic reserve. PAIP technical assistance and training will educate Honduran agriculturalists, who have enjoyed a protected trade position, about opportunities afforded by open trade. It will also assist them to meet the challenges inherent to world trade and free market competition.

3. Rural Finance

The Agricultural Modernization Law mandates the Agricultural Development Bank, BANADESA, to serve small clients and limits the size of loans. It creates grassroots financial organizations (cajas rurales) controlled by small farmers and agrarian reform beneficiaries. Specialists in rural finance will assist government officials to write regulations governing these institutions. The project has already contracted technical assistance to assess their feasibility.

If these prove feasible, a PAIP/UPSA credit advisor will assist in the implementation and operation of these institutions in which agrarian reform land holders will manage their own financial portfolios. PAIP/UPSA technicians and consultants will develop operational guidelines

and procedures for the cajas rurales and assist in training and advising their employees and managers. Models will be developed for each caja rural. A network of the institutions will be established for mutual support.

Implementing the new credit system will require training for the many small farmers who have little or no experience with credit. They will need to be "acclimatized" to managing credit as another farm asset. Small farmers frequently avoid commercial credit sources because the application process overwhelms them. The Honduran financial sector avoids agricultural loans because it does not know how to evaluate the risks involved in agricultural projects. The credit advisor will work to overcome these constraints of access to agricultural credit. Training to both farmers and credit agents will be provided.

Training in credit delivery and management are available from the private sector through such entities as Zamorano and INCAE. The project's role will be that of initial facilitator and information provider, supporting contacts between users and training organizations.

4. Institutional Development and Data Collection

The project will seek to strengthen the analytical capabilities of counterpart organizations, especially UPSA, through technical assistance, training and institutional reform. UPSA will receive assistance in budgeting, planning and evaluation. Private sector agricultural organizations, such as CONACAPA and CONPAA, who played an important role in passage of the Agricultural Modernization Law, will receive technical assistance, training and some commodities to cultivate their capabilities to analyze and articulate policies.

The new law creates the legal foundation for agrarian reform groups to be reorganized under alternative forms of tenure (individual, mixed, collective). The PAIP will provide technical assistance and training to the staff of UPSA and INA to design a program to assist agrarian reform groups to manage themselves under new organizational forms. The project will also assist UPSA and INA to improve the capacity of small farmers to manage funds and use land as an asset. Finally, the project will develop models of independent corporate entities that can provide technical assistance on a fee-for-service basis. It will develop business plans for these entities, establish the legal process necessary for their creation and publicize their existence.

More reliable data is needed to analyze policy alternatives and to evaluate the implementation of reforms. The project amendment will strengthen the information base. The project will assist the DGEC to undertake an agricultural census. Once this census is completed, sample surveys will be taken to obtain crop and livestock production data. A national rural household survey will be initiated. The national household survey will collect gender disaggregated data and will also obtain information to assess the impact of policy reforms on nutritional status. The use of satellite imagery to obtain physical agricultural crop data will be investigated.

The PAIP will review existing data collection processes and storage methods. The project also will assess analysis methodology and dissemination procedures. UPSA will assemble existing data banks maintained by all agricultural institutions and from them develop its own data in a

form which can be easily updated and maintained. To guide development of the data bank, UPSA will survey data users to determine what problems exist with current data sources and how to correct them. Data and information specialists financed by the PAIP will question decision makers about their data and analysis needs. On the basis of reviews and comments, survey forms will be changed to respond to the needs of users. The technical assistance contractor will be required to sensitize UPSA staff regarding the importance of gender issues and to ensure that all socioeconomic data collected are disaggregated by gender.

The PAIP will assess the adequacy of current data processing hardware and software in key policy related organizations. The project will finance necessary new hardware and software for both public and private sector offices responsible for policy analysis. A data bank specialist, working in UPSA, will oversee the data improvement activities of the project.

Once assembled, data will be disseminated to users in a form appropriate for their needs and capabilities. While private sector companies often rely on proprietary sources of data, small farmers must rely on government sources. Dissemination to these groups, where members are often scattered and illiterate, is particularly difficult. PAIP advisors will assist UPSA to conduct a survey to determine the data most needed by farmers (price information, volumes of trade, weather, cost of inputs, etc.) and the most effective means of dissemination. UPSA will then develop a continuing campaign of information sharing.

B. Support to Continued Policy Analysis with Emphasis on Natural Resources.

1. Natural Resource Policy Reform

PAIP assistance to define a plan for natural resource policy analysis and implementation will follow the model taken in developing the Agricultural Modernization Law. Policy analysis will build on the policy inventory recently completed as part of ROCAP's RENARM project. Natural resource policy activities will focus on four areas: a) sustainable forest management, b) watershed management, c) sustainable agriculture and, d) wildlands and biodiversity. These four areas fall primarily under the control of the SRN and are critical for the agricultural sector.

The project will hire a senior natural resources advisor to oversee its efforts in the natural resource field. UPSA will hire counterparts with designated responsibility for natural resource policy analysis. Initially PAIP will concentrate on increasing the awareness of UPSA personnel regarding environmental issues. Short-term consultants who are subject area specialists will assist UPSA personnel review the current status of natural resource/environmental issues most immediately affecting Honduras. These consultants also will conduct brief surveys of Honduran natural resource/environmental problems and write scopes of work for more in-depth analyses. The senior natural resources/environmental advisor, working with the director of UPSA and representatives of the PVO community, will then develop a work plan for conducting in-depth analyses and educating policy makers and the public. Once the core analyses have been completed, UPSA and the private groups will begin the development of a national strategy.

The national strategy will evolve through a series of public discussions, awareness campaigns and information dissemination activities carried out by both public and private sector environmental organizations with project assistance. It will use the surveys developed above as the basis for discussion. The **process** of developing this strategy will be as important as the strategy itself. It gives diverse groups the opportunity to contribute their expertise, have their issues heard and learn from others. The process also creates "owners" of the strategy and implementation is facilitated.

From the strategy, the GOH and private sector organizations will develop, with PAIP assistance, an action plan for dealing with the selected issues. The action plan will serve to guide the development of sustainable natural resource management in Honduras. Organizations such as Fundación VIDA, an umbrella group of Honduras' environmental NGOs, will be guided by the action plan. Projects and activities must be consistent with the strategy to receive official sanction and support.

The PAIP also will develop a special program of seminars and training activities for public officials on environmental trade-offs and issues. They will be exposed to the most recent literature and theories concerning the conflicts and complementarities between environment and development.

During the process of strategy development and based on data generated from project activities, specific interventions may be developed. These are likely to include some form of incentive program for the conversion of commercial users of fuelwood to electricity, incentives for export of finished wood products coupled with disincentives for export of raw lumber, greatly expanded forms of public education on issues related to the natural resource management, and increased emphasis on privatization of irrigation district management. These are only illustrative examples. The actual interventions must be based on further analysis.

2. Defining Institutional Relationships

The project will assist the GOH to define institutional relationships among the various entities involved in natural resources management. As the SRN's primary planning unit, UPSA will sort out the institutional responsibilities to enhance successful reform implementation. The PAIP will provide short term technical assistance for this purpose. It will yield clearly defined lines of authority and logical divisions of institutional responsibility between public and private sector.

The project will assist the GOH in defining the proper roles of the public sector organizations, not only in policy analysis, but also in implementation of reforms. The project will clarify the role of the private sector in this regard. This will involve analyses of the appropriate structure of public sector policy making and of policy implementation responsibilities. The project will assist the GOH to develop the institutional approach to greatly improve management and enforcement of natural resource management and environmental rules and regulations. The PAIP's assistance in actually implementing natural resource policy will be limited. Instead it will establish a solid policy basis for the management of Honduras' natural resources and help attract other donors willing to implement environmental programs.

C. Project Implementation Strategy

The project will be divided into two phases of two years each. The Mission, in collaboration with UPSA, has developed policy benchmarks or performance indicators for each year within Phase I and Phase II. These benchmarks are listed in Table 1. An assessment of progress on achievement of benchmarks will be held at the end of Phase I. This assessment will determine whether the project has been successful in achieving benchmarks and will continue as planned; be modified to eliminate components where the GOH has shown no progress; or terminated altogether if there is lack of GOH commitment to the program. Such an assessment is particularly important due to presidential elections and the transition in government that will take place in late 1993 and early 1994.

VI. Financial Plan

The Agricultural Sector Amendment to the PAIP will cost \$23.0 million. AID will provide \$10.0 million from the Agriculture, Rural Development and Nutrition (ARDN) functional account and the GOH will provide the equivalent of \$13.0 million in local currency generated under the PL-480 Title III Program. A summary budget follows. Additional financial information is provided in Annex E.

SUMMARY PROJECT AMENDMENT BUDGET BY COMPONENT (000 US Dollars)

	AID	GOH*	TOTAL
COMPONENT I	\$5,900	\$12,300	\$18,200
LAND TITLE/TRANSFER	\$2,400	\$8,900	\$11,300
MARKETING & TRADE	\$1,500	\$400	\$1,900
RURAL FINANCE	\$1,200	\$100	\$1,300
INSTITUTIONAL DEVELOPMENT & STATISTICS	\$800	\$2,900	\$3,700
COMPONENT II	\$4,100	\$700	\$4,800
NATURAL RESOURCES POLICY	\$2,050	\$500	\$2,550
DEFINING INSTITUTIONAL RELATIONSHIPS	\$2,050	\$200	\$2,250
GRAND TOTAL	\$10,000	\$13,000	\$23,000

* Local Currency Dollar Equivalent

Table 1 - Policy Benchmarks

	Phase I		Phase II	
	1993	1994	1995	1996
COMPONENT I Land Title Transfer	10,000 titles issued and registered streamlined titling procedures implemented regulations for land sale financing mechanism developed	10,000 titles issued and registered registered land sales increased by 10% from 1991 land invasions reduced to no more than 15 land sale financing mechanism functioning	10,000 titles issued and registered	10,000 titles issued and registered registered land sales increased by 20% from 1991 land invasions reduced to zero
Marketing and Trade	price band functioning for two commodities detailed plan developed for improving market information available to producers	price band functioning for three commodities divestiture of all GOH owned grain handling facilities implementation and expansion of market information system	development of system of warehouse receipts for non-perishable agricultural commodities	

	Phase I		Phase II	
	1993	1994	1995	1996
Rural Finance	<p>regulations approved for the establishment of farmer owned financial institutions</p> <p>additional policy studies leading to policy changes designed to improve the functioning of rural financial markets</p>	<p>establishment and functioning of one farmer owned financial institution</p> <p>appropriate legislative or executive action to implement improved rural financial policies</p>	<p>establishment of one additional farmer owned financial institution</p> <p>implementation of the policy reforms relating to rural financial markets</p>	<p>establishment of two additional farmer owned financial institutions</p>
Institutional Development and Data Collection	<p>completion of the agricultural census</p> <p>improved semi-annual rural household survey completed</p> <p>completion of the organizational restructuring of INA, IHMA and COHDEFOR reflecting changed responsibilities set forth in the agricultural modernization law and which limit number of employees</p>	<p>completion of improved semi-annual rural household survey</p> <p>cross-tabulations and analytical documents, based on the surveys produced and distributed</p> <p>full implementation of the reorganization of INA, IHMA and COHDEFOR</p>	<p>completion of improved semi-annual rural household survey</p> <p>widespread dissemination of the survey data and analytical documents</p>	<p>completion of improved semi-annual rural household survey</p>

	Phase I		Phase II	
	1993	1994	1995	1996
COMPONENT II Natural Resource Policy Reform	completion of the National Natural Resource Environmental Strategy development of an agenda of policy issues to be analyzed increased public awareness of environmental issues as measures by public opinion poll	approval by Congress of the Water Law completion of at least 2 major policy studies from the agenda developed in prior year	approval of implementing regulations for the Water Law approval by Congress of the Environmental Legislation additional legislation developed based on policy studies at least 2 additional policy studies completed	approved implementation regulations for the Environmental Legislation additional legislation developed implementation of approved new law and regulations
Defining Institutional Relationships	Decree clarifying functions and responsibilities of CONAMA, the Ministry of Natural Resources, COHDEFOR and others with respect to natural resource management and the environment	necessary reorganization of institutions UPSA has staff capable of analyzing and recommending policy changes in the natural resource/environment area	all related institutions carrying out assigned functions UPSA recommending policy reforms based on analyses conducted UPSA, through the budget process, exercising monitoring responsibility over the implementation of policy by the sector institutions	

VII. Implementation Arrangements

A. Obligating Instruments

This amendment will be executed through an amendment to the existing Handbook 3 Bilateral Agreement with the Government of Honduras.

B. Implementing Agencies and Arrangements

1. The Agricultural Sector Planning Unit (UPSA)

The principal GOH implementing agency will be the Agricultural Sector Planning Unit or UPSA within the Secretariat for Natural Resources. UPSA is the technical secretariat of the Agricultural Development Council (CODA), the official policy-making body of the agricultural sector. This council is comprised of the directors of all public sector agricultural entities. UPSA's major responsibilities are: 1) to coordinate the formulation and implementation of agricultural sector policy reform; and 2) the development of the public sector agricultural budget.

Under the project, UPSA will coordinate the provision of technical assistance and training by an institutional contractor to other public and private entities involved in the implementation of reforms related to the Agricultural Modernization Law. Also, with the assistance of an institutional contractor, it will conduct policy studies in the area of environmental and natural resources management and coordinate the development of a national strategy and a legal framework to address environmental/natural resources problems. Finally, it will lead efforts to clarify responsibilities of various Honduran public and private organizations in the management of natural resources.

2. Other Participating Organizations

Several Honduran public and private sector organizations involved in environmental and natural resource management issues will receive project financed technical assistance through UPSA. These organizations include: the National Agrarian Institute (INA); the National Cadastre Office (DEC), the National Property Registry; the General Directorate for Statistics and Census (DGEC); and the National Environmental Council (CONAMA), the commission within the Presidency charged with coordinating environmental efforts, and various private sector agricultural and environmental groups. An expanded description of these organizations' roles is provided in Annex F.

3. USAID Project Monitoring Responsibilities

USAID's Office of Agriculture and Rural Development will continue to be responsible for monitoring the implementation of this project component. A project officer contracted through a PASA with USDA will administer the project with the assistance of a FSN PSC Project Liaison Officer. Implementation of project activities will be the responsibility of an institutional contractor (IC). The chief of the IC's technical assistance team will report to the project

committee and work on a day-to-day basis with the head of UPSA's policy analysis unit and the USAID project officer and project liaison officer.

4. The Project Committee

The project committee, composed of the Minister of Natural Resources, or his designee and representatives of UPSA, the IC and USAID will continue to guide the implementation of the project. This committee is responsible for:

- identifying policy analysis and implementation needs;
- developing yearly workplans to address these needs;
- presenting policy and institutional reform recommendations to the executive and legislative branches;
- monitoring the progress of policy analysis and implementation activities.

C. Procurement Plan

The authorized source, origin and nationality of goods and services procured under this amendment to the PAIP project is the United States. Project-financed goods and services will be procured in accordance with relevant AID Handbooks, AID Acquisition Regulations, and the Federal Acquisition Regulation as applicable. Local procurement will be carried out in accordance with the procedures of Handbook 1B. In addition, the project will comply with the Agency's rules and procedures for Gray Amendment procurement.

AID will execute a level-of-effort type contract with an institutional contractor to provide technical assistance and training services, manage observational tours, and procure some of project-financed commodities. AID may also procure some commodities (mostly computer software and hardware) directly. AID also plans to amend an existing PASA agreement for project management to extend the services through the life of the project and to contract directly for the services of a FSN project liaison officer. This amendment will also partially finance the services of a financial analyst for the entire PAIP project. Additional information on project procurement is provided in Annex F.

D. Buy America

The project has been designed in accordance with the Agency's Buy America Guidance. None of the currently planned local procurement requires a waiver under this guidance. If, however, during project implementation, an activity is proposed that requires a waiver, such waiver will be obtained before proceeding with the transaction.

VIII. Information System and Evaluation

Information System: UPSA, with the assistance of the institutional contractor, will manage the project information system. The major users of the information will be UPSA, the SRN and USAID. The information system will attempt to measure both the impact of implementing the policy changes brought about by the Agricultural Modernization Law and progress made on formulating policies to improve natural resources management. The system will also measure the achievement of the various policy benchmarks set forth in Table 1 and outputs set forth in the project logframe.

Details on indicators that will be used to measure achievement of project purpose and output are provided in Annex G. The information system will generate semi-annual reports. Information will include gender-disaggregated data and family level indicators wherever possible.

Evaluation Plan: The project will finance midterm (9/94) and final (9/96) evaluations. Further information is provided in Annex G.

IX. Analytical Considerations

The Social Soundness, Administrative/Institutional and Environmental Analyses contained in the initial Project Paper and Amendment No. 1 remain valid. An updated Economic Analysis (Annex H) estimates that, if we adopt the extremely conservative assumption that a significant improvement in agricultural policies would increase the value of agricultural production by a scant 2% over its 1991 level, and that this increase would occur in the two years following project completion, the project component's internal rate of return at market prices would be 80.6%. Reducing the increase in output level to 1% would still generate a rate of return of 14.5%. Thus, the project component appears to generate a highly favorable rate of return under extremely conservative assumptions regarding its impact on agricultural production.

ANNEXES

ANNEX A

LOGICAL FRAMEWORK

	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>A.1 OVERALL PROJECT GOAL</p> <p>To promote sustained economic growth and stability</p>	<p>A.2 Measures of Goal Achievement</p> <p>a. Higher real sector GDP growth rates</p> <p>b. Lower fiscal deficits as percent of GDP</p> <p>c. Lower current account deficit in balance of payments as a percentage of GDP</p>	<p>A.3</p> <p>Central Bank reports</p> <p>National accounts</p>	<p>A.4</p> <p>GOH Maintains stable economic policy environment</p> <p>Favorable private investment climate prevails</p>
<p>B.1 OVERALL PROJECT PURPOSE</p> <p>To improve the capacity of Honduran private and public sector entities to formulate and implement economic policies and administration</p>	<p>B.2 End of Project Status</p> <p>See overall logframe for Project 522-0325</p>	<p>B.3</p>	<p>B.4</p>

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	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>SUBPURPOSE I: To implement policies aimed at increasing agricultural investment, production and exports (with emphasis on implementing the Agricultural Modernization Law)</p>	<p>a. Issuance and registration of 10,000 titles annually.</p> <p>b. Number of registered land sales increases by 20 percent by 1996 from 1991.</p> <p>c. Number of land invasions reduced from 40 in 1990 to zero in 1996.</p> <p>d. Establishment of functioning price band mechanism for three agricultural commodities.</p> <p>e. Divestiture of all GOH owned grain handling facilities.</p> <p>f. Establishment and functioning of four farmer owned financial institutions (<i>cajas rurales</i>).</p>	<p>Project monitoring</p> <p>Project data bank</p> <p>Consultant reports</p> <p>Economic reports</p>	<p>Continued commitment of the GOH</p>

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	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>SUBPURPOSE II: To develop policies and administrative reforms that promote more efficient management and sustainable use of selected natural resources.</p>	<ul style="list-style-type: none"> a. Improved agricultural Water Use Law approved. b. Implementing regulations for Water Use Law approved. c. Improved Environmental Legislation approved. d. Implementing regulations for the Environmental Legislation approved. 	<p>The GOH Official Gazette</p> <p>Copies of laws, decrees, regulations and policy determinations.</p>	<p>Continued private sector participation</p>

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	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
C.1 OUTPUTS	C.2 Output Indicators	C.3	C.4
a. Improved mechanism for land titling.	a. Revised procedures and organization developed for INA, the National Property Registry and Cadastre. Proper implementation of revised procedures.	Project monitoring Routine project reports Project evaluations	TA is contracted and mobilized on a timely basis
b. An improved agricultural land market.	b. A functioning land transfer mechanism (land bank) established.	The GOH Official Gazette	
c. Mechanism that reduces/eliminates GOH intervention in agricultural commodity marketing.	c. Elimination of price controls and IHMA's market transactions at administered prices, and substitute with development of a market information system and grain weights and standards.	Poll on public awareness of environmental issues to be conducted in 1992 to establish baseline and again in 93,94,95.	
d. Mechanism that improves rural financial markets.	d. Legal and regulatory framework established for farmer owned rural financial institutions (<i>cajas rurales</i>)		
e. Improved collection and distribution of agricultural data.	e. Completion of the national agricultural census and semi-annual rural household surveys. Distribution of results.		
f. Environmental/Natural Resource management policy studies undertaken	f. Increased public awareness of environmental issues.		
	g. Completed policy studies.		

	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
Outputs (continued)			
g. National Environmental/Natural Resources strategy developed.	h. Completed National Honduran Environmental Strategy Document		
h. Improved institutional arrangements for the effective management of natural resources/environment.	i. Issuance of decree defining the institutional arrangements for management of natural resources/environment		
D.1 INPUTS	D.2	D.3	D.4
	AID GOH Total	Project records	Funds are available
TECHNICAL ASSISTANCE	\$ 7,950		
TRAINING	\$ 250		
COMMODITIES	\$ 400		
PROJECT MANAGEMENT	\$ 1,000		
AUDITS/EVALUATIONS	\$ 400		
AGRICULTURAL STATISTICS			
LAND TITLING/TRANSFER			
GOH TECHNICAL SUPPORT			
TOTAL	\$10,000 \$13,000 \$ 23,000	GOH Budgets	



SECRETARIA DE ESTADO EN EL DESPACHO DE RECURSOS NATURALES
REPUBLICA DE HONDURAS

*Del Despacho del Señor
Secretario*

Tegucigalpa, M.D.C.
2 de julio de 1992

Señor
Marshall Brown
Director Agencia Internacional
para el Desarrollo (AID)
Su Despacho

Señor Director:

El propósito de esta carta es de solicitar, en nombre del Gobierno de Honduras (GdeH) la cooperación de la Agencia para el Desarrollo Internacional de los Estados Unidos (AID) para el desarrollo del Sector Agrícola del país mediante el financiamiento de la extensión del Componente Agrícola del Proyecto de Análisis de Ejecución de Políticas (522-0325.0). Los resultados de la primera fase de este proyecto han sido de gran utilidad para el Gobierno y pueblo de Honduras. La asistencia técnica y apoyo logístico del Proyecto han contribuido en forma importante y sustancial en el diseño del programa de Modernización y Desarrollo del Sector Agrícola (PMDA) que conllevó a la aprobación de la Ley para la Modernización y Desarrollo Agrícola (LMDA) por parte de nuestro Congreso Nacional. En esta misma fase concluiremos el diseño y aprobación de los Reglamentos de la LMDA, así como de los planes para reformar algunas instituciones del sector público agrícola. Sin embargo, en el futuro requeriremos cooperación técnica adicional para la ejecución de los mandatos de la LMDA.

Como es de su conocimiento el PMDA plantea reformas profundas en las políticas gubernamentales para el desarrollo del sector agrícola. La orientación básica del Programa consiste en permitir que las señales del mercado orienten las decisiones de los productores de manera que los recursos del sector se utilicen de manera más eficiente en beneficio de las mayorías. Por lo que el planteamiento esencial del PMDA es el de liberalizar el comercio de factores y productos del sector, retornar al sector privado mayor autonomía y responsabilidad en la prestación de servicios y garantizar el respeto a la inversión. Sin embargo no podemos dejar de considerar que existen sectores marginados en nuestra sociedad que requieren de atención especial para su desarrollo por lo que enfocaremos los subsidios estatales en los grupos marginados antes que generalizarlos mediante la manipulación de las señales de mercado. El PMDA reforma las políticas en las áreas de comercialización agrícola nacional e internacional, finanzas rurales, tenencia de los recursos (tierra y bosques), y de los servicios de generación y transferencia de tecnología. Se requerirá por lo tanto, asistencia técnica con experiencia de campo en la ejecución de políticas similares



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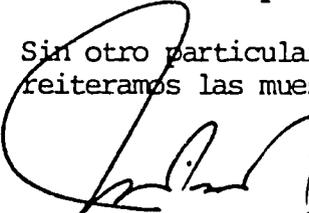
en otros países, así como en la transformación de las instituciones ejecutoras de las políticas.

Nos preocupa, además, el deterioro acelerado del medio ambiente que hemos venido observando. Siendo este un problema sumamente complejo y de implicaciones muchas veces irreversibles consideramos que ha de ser prioritario el desarrollo de políticas acertadas para su manejo. Debido a que ésta es un área en que la ciencia comienza a desarrollarse y que no existe mucha experiencia nacional al respecto requerimos de su cooperación técnica en esta área.

Tomando en cuenta las razones anteriormente expuestas estamos solicitando la extensión del Proyecto por el término de cuatro años para que nos proporcionen asistencia técnica y financiera con su debido apoyo logístico en las áreas de comercio agrícola nacional e internacional, tenencia de la tierra, desarrollo institucional, finanzas rurales y manejo de los recursos naturales y del medio ambiente.

Para dicha extensión el GdeH contribuirá con aproximadamente 70 millones durante los cuatro años del proyecto. Estos fondos servirán para fortalecer los aparatos del estado de recolección, procesamiento y diseminación de estadísticas y censos, análisis y ejecución de políticas y comerciales, titulación y registro de tierras y reforma agraria.

Sin otro particular al cual referirnos, y deseándole el mayor de los éxitos, le reiteramos las muestras de nuestra más alta consideración y estima.


Mario Nufio Gamero
Ministro de Recursos Naturales



ANNEX D DETAILED PROJECT DESCRIPTION

I. BACKGROUND

A. INTRODUCTION

This second amendment to the Policy Analysis and Implementation Project (PAIP) builds on the mission's past success in effecting policy changes. It supports the Government of Honduras (GOH) in the implementation of the recently passed Agricultural Modernization Law. In addition, it will provide support for the development of specific policy interventions in the critical area of sustainable natural resource management. Activities under the amendment will support two of the mission's strategic objectives:

- (i) Increase agricultural investment, production and exports; and
- (ii) More efficient management and sustainable use of selected natural resources.

This PP amendment describes the Honduran agricultural and natural resource sectors, presents a summary of constraints facing the sectors. It also explains how the project will support GOH policy implementation and formulation issues. This paper provides the rationale and strategy for the Agricultural component of the project.

B. HONDURAS: ITS AGRICULTURAL AND NATURAL RESOURCE SECTORS

1. The Honduran Economy

Honduras, like most of Latin America, adopted an import substitution model and enjoyed acceptable levels of growth throughout the 1960s. During the 1970s, however, the closed, protectionist policies of the import substitution model began to exact a high cost on the Honduran economy, and by the 1980s the Honduran economy was in trouble. The extent of the Honduran economic decline during the decade of the 80s is well articulated in the Mission's Country Development Strategy Statement (CDSS) for the period FY92-FY96. In general, these include:

- ✓ Stagnant Gross Domestic Product (GDP) that has not kept pace with population growth;
- ✓ Balance of payments problems as indicated by growing current account deficits that exceeded 17 percent of GDP in 1990;

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- ✓ External debts that exceeded 150 percent of GDP and 328 percent of total exports in 1990;
- ✓ Excessive government spending that rose to more than 16 percent of GDP by the end of the decade of the 80s; and,
- ✓ An overvalued exchange rate that reduced the country's comparative export position.

By the beginning of the 90s, the need for economic reform in Honduras was critical. The Callejas government, which assumed office in January of 1990, was quick to identify past policy failures and adopt a program of economic reforms. They included:

- ★ Macroeconomic policy restraint in monetary and fiscal policies designed to reduce the fiscal deficit and correct the external imbalances;
- ★ Measures designed to promote an outward orientation of Honduras economic activities including liberalization of the exchange rate, trade reforms; and,
- ★ Commitment to move towards the elimination of all price controls, subsidies and privatization of parastatals.

The goal of the policy reform package was to reduce aggregate demand so macroeconomic equilibrium could be restored and to promote economic growth, especially in the tradeable sector. The underlying assumption is that getting policies right and correcting macroeconomic imbalances are prerequisites for broadly based, sustainable growth of the Honduran economy. Nowhere is this more true than in the agricultural and natural resource sectors.

2. The Honduran Agricultural Sector

The agricultural sector is critical to Honduras' economy. It provides not only food, fiber and fuel, but also employment, income, foreign exchange and savings for about 60 percent of the population. Agriculture's importance to the economy is the reason that the mission has a strategic objective of "increased agricultural investment, production and exports." During modern times, however, the performance of the Honduran agricultural sector has been restrained by a mix of inappropriate policies. Macroeconomic imbalances have been exacerbated by sectoral policies that distort economic signals and stifle productive investment in agriculture. Without investment, growth in the sector first stagnated and then declined. Per capita agricultural growth was negative throughout the 80s, and nutritional levels of the Honduran population declined to pre 80s levels. As a basic measure of well-being, the caloric deficit has been estimated at 20 percent.

The policies that restrained Honduran agriculture were often touted as protective and beneficial

to the poorest producers and consumers, but the reality has often been quite the opposite. In Honduras, the benefits of guaranteed grain prices seldom have accrued to small farmers, but instead enriched larger producers (greater than 50 hectares) and grain merchants. Also, consumer price controls and an inefficient government trading monopoly, the Honduran Grain Marketing Institute (IHMA) have insured that grain supplies were insufficient to meet demand, and, as always in scarcity, poor consumers were penalized by high prices.

Agricultural credit was distributed through the National Agricultural Development Bank (BANADESA), at subsidized interest rates which distorted economic signals and misallocated investment capital. Where credit is subsidized, the demand for loanable funds always exceeds the supply which, in turn, is allocated by criteria other than return on investment. In these circumstances, the poor and disenfranchised rarely have access to adequate and timely credit.

Government agricultural agencies assigned to provide technical assistance tend to serve large and well capitalized producers (many of whom could afford to pay for technical assistance) at the expense of small and needy farmers. In Honduras, for example, more than 80% of large producers (50 hectares or more) reported that the technical assistance they received from the National Agrarian Institute (INA, the agency responsible for implementation of the agrarian reform program) was frequent and of good quality, while only 20% of small producers (less than 10 hectares) reported adequate technical assistance from INA.

Land is the principle productive resource of Honduras, and the lack of secure land tenure has been the greatest constraint to growth in the agricultural sector. Honduras must intensify its land use if the agricultural sector is to contribute to broadly based, sustainable economic growth, but to intensify land use requires costly investment in productive infrastructure such as irrigation systems and processing facilities for high value crops. Without secure land tenure agricultural investment will remain suboptimal and the Honduran economy will be deprived of its most potent engine of growth.

Secure land tenure infers a bundle of rights accruing to the landowner. These rights include not only access to and use of the land itself, but the right to convert one's land to capital through sale, rental or mortgage. Without these rights, the incentive, as well as the capacity, to invest in one's land resource are diminished, productivity remains low, land markets are distorted, and mobility of factors into and out of agriculture is reduced.

Agricultural land use and tenure laws in Honduras have guaranteed under-investment in the land resource because, property owner or not, no one is assured of full rights to property. Agrarian reform beneficiaries have usufructuary rights to farm land assigned to them, but they have been unable to sell or rent the land or use it as collateral for a private bank loan. This isolates them from land markets and commercial credit. Non-reform landowners have been subject to capricious expropriation criteria ("efficient social use") which constrain investment in high value annual crops and sound land management practices, while giving incentives for land invasions

by *campesino* groups. Occupation of national lands by inhabitants who hold no formal title to it is widespread. These farmers enjoy neither secure access to the land they farm nor the opportunity to convert it to capital, and they will remain marginal producers. Furthermore, land rental is prohibited under the agrarian reform law for all classes of producers. This prohibition reduces mobility of labor and capital in the agricultural sector, makes it difficult for the landless to obtain access to land and gives further rise to land invasions.

The macroeconomic reform program of the Callejas government has important implications for agriculture. Success of the economic reform program and agriculture's capacity to respond and generate growth are inextricably linked. In an agricultural economy like Honduras, macroeconomic reforms are necessary, but not sufficient, conditions for economic growth. The government must implement sound agricultural sector policies to reinforce macroeconomic reforms and to address the problems of the sector. Implementation programs require an understanding of the constraints facing the agricultural sector. This paper describes constraints and responses in sections III.C. and III. D. 1. respectively.

3. The Honduran Natural Resource Sector

Sustainable economic growth, for most countries, depends on rational utilization and sound management of their resource endowments. The LAC Bureau's sub-objective of "encouraging preservation and sustainable use of the natural resource base" recognizes this fact. The mission's strategic objective of "more efficient management and sustainable use of selected natural resources" reaffirms the importance of the natural resource base in Honduras. Without rational utilization and sound management of the resource base, Honduras will forego significant opportunities for sustainable economic growth. At the moment, the policy framework to encourage the rational and sustainable use of the natural resource base is not in place.

The incentive for rational utilization depends upon a policy framework which accurately reflects the true value of resources being consumed and clearly defines property rights. The opportunity for sound management depends upon the development of technical capabilities within public and private institutions responsible for the country's natural resource base. These conditions have not always existed in Honduras. There is an increasing awareness that the policies of the past encouraged activities which were detrimental to the country's stock of resources and prevented a rational flow of economic benefits. As in the agricultural sector, the policies that governed resource utilization and management distorted economic signals and property rights.

Honduras is endowed with an abundant natural resource base--soil, water, forests, diverse ecosystems--on widely varying terrain. The resource base includes a range of bio-systems from mangrove estuaries to cloud forests. Rapid population growth, among the highest in Central America, and policies promoting unequal distribution of productive land and wealth have resulted in significant resource degradation. Honduran pine and broad-leaf forests are being destroyed,

and because all trees (even on private land) are property of the state¹, there is little incentive for private tree management and reforestation.

Land tenure policies of the past encouraged deforestation and extensive livestock production. Tenure insecurity, and the corresponding lack of incentive for investment, resulted in mining of resources. Appropriate implementation of the Agricultural Modernization Law will have significant impacts of natural resource use and environmental degradation.

Population pressure is another significant contributor to forest degradation in Honduras. Deforestation produces other destructive environmental consequences, and it deprives inhabitants of areas with otherwise unusable soils the opportunity to gain productive employment through managed harvesting of forest resources. Soil erosion and inappropriate farm practices on hillsides create the conditions for siltation and flooding and shorten the productive life of watersheds.

Honduras has only developed 15 percent of its potential for irrigated agriculture. That part which is developed is operated at very low rates of efficiency. Water use fees are low and mostly not collected. Increased productivity from the development of irrigated agriculture should reduce pressure on fragile hillside lands.

Trade in wildlife has not been effectively controlled, the participation by Honduras in international conventions and treaties notwithstanding. Honduras is a member of the Convention on International Trade of Endangered Species (CITES). The Secretariat of Natural Resources (SRN) through the Natural Resources Directorate (RENARE) is responsible for implementation of CITES. Many RENARE personnel are not able to identify endangered species of flora and fauna. There is only one documented case of RENARE successfully taking someone to court who was trying to illicitly export wildlife, in this case the popular scarlet macaws.

Control over the import, registration and proper use of pesticides rests with the SRN. Technical personnel within the SRN believe that many pesticides are being sold by individuals or commercial distributors who have not been registered to do so. Quality control sampling and a system of commercial registry are not in place. At the present time, the primary control on the use of pesticides in Honduras is the regulations and controls in place in the United States. When banned pesticides or residues higher than permitted are found on products entering the U.S. market these products are rejected.

Over the past seven years, cultivated shrimp production has grown substantially in Honduras. Production is located on wetlands bordering the Gulf of Fonseca. The industry depends primarily on the natural Gulf fishery for larvae, a practice which will deplete natural production. The industry also pumps water from the estuaries feeding the Gulf and returns drainage water to the

¹ The Agricultural Modernization returns tree tenure to the land owner.

Gulf. The industry has developed without a master plan to guide it. Although little data is available, some groups have charged that development of the shrimp industry threatens the mangroves along the shores of the Gulf. An initial study is already underway and the project will work with the SRN planning and policy analysis unit (UPSA) and private interests to develop sound policies designed to permit the sustainable use of these natural resources.

There is a growing consensus within Honduras that its path to economic development depends increasingly on more rational use and sound management of its rich natural resource base. To lay the basis for these conditions, analyses of specific policies which impact the natural resource sector must be completed, and the institutional basis for effective implementation of natural resource policies and activities must be strengthened. The principal natural resource policy issues and a description of project activities to overcome them is contained in sections III. C. and III. D. 2.

C. MISSION RESPONSE

In the late 80s, the GOH began to address concerns regarding the deteriorating economic situation in Honduras. Leveraging mission resources with support from the IMF, World Bank and IDB, the effort has achieved considerable progress toward implementing macroeconomic policy reforms.

The lempira was devalued and now the official rate closely parallels the black market rate. Passive interest rates were raised and loanable deposits are increasing. Active interest rates are positive and will be market determined as part of this year's economic program. The range of customs duties is being compressed and lowered, and a price band system is to be implemented for basic grain imports. Agricultural commodity prices have been liberalized, and the preferential exchange rate for basic grain imports was eliminated. These changes, supported by the mission's ESF program, are building a macroeconomic policy basis for increased agricultural investment, production and exports. In addition, as prices begin to reflect the real value of their products, a basis is laid for determining and assigning the real social, as well as economic, costs of natural resource depletion.

GOH initiatives have led to institutional changes in the Honduran agencies charged with responsibility for the environment. The National Environmental Commission (CONAMA), a new commission created in July 1990 by presidential decree, is responsible for coordinating environmental efforts and acting as a clearinghouse for various government environmental activities. CONAMA is preparing a new environmental framework law and a national environmental action plan. CONAMA will represent the GOH in various regional and international fora. The Honduran Forestry Corporation (COHDEFOR), traditionally a state corporation involved in lumber production and marketing, is now in charge of forest management, watershed protection and national parks. RENARM, the ROCAP environmental project, assembled an inventory of policies affecting the natural resources of Honduras. This

inventory serves as the basis for further policy analyses.

The GOH congress has created a fund for the protection of the environment which will be managed by a private foundation known as the Foundation for Environment and Development (Fundación VIDA). The Mission is assisting VIDA with the development of financial controls and operating procedures. VIDA is a private membership organization. It is expected that VIDA will play an important role in policy reforms, possibly representing private interests in this process.

More than \$495 million in life of project funding from DA, ESF and PL-480 accounts are at work addressing critical issues and constraints in agriculture. Areas being addressed include technology generation and extension, hillside farming, forestry development, export promotion, rural savings mobilization, institutional development, irrigation and policy analysis. Full implementation of the Agricultural Modernization Law will greatly enhance the economic development impact of the Mission's agricultural and natural resources portfolio. In an attempt to improve land tenure security among landless farmers, USAID/Honduras funded a land titling program. It developed procedure and institutional capacity within INA for efficient and effective survey and adjudication of small farm titles. At the project's PACD (12/90), more than 3.6 million hectares had been surveyed, 40,000 titles had been issued and 5.4 million lempiras in payments for titled land had been collected.

The most effective mission response to problems encountered in the agricultural and natural resource sectors has been the Policy Analysis and Implementation Project (PAIP). Technical support provided by the project developed the analytical underpinnings of debate on agricultural policy issues. As a result, policy debates have become increasingly less political and correspondingly more technical in nature. The project has supported the Agricultural Sector Planning Unit (UPSA) and the analytical work performed by the project has responded to needs identified by the Secretariat of Natural Resources (SRN). UPSA is the Minister's staff unit responsible for policy analysis and policy design. In addition, UPSA has responsibility for preparing the consolidated agricultural sector budget.

The project has also provided valuable support to broadening public participation in debates of agricultural policy issues. Two private sector organizations have received technical support from the project, the National Council of *Campesinos* for Agricultural Policy (CONACAPA) and the National Committee of Producers for Agricultural Policy (CONPPA). It should be noted that CONACAPA is made up of several existing *campesino* organizations including two National *Campesino* Women's Movements. The purpose of CONACAPA is to represent the *campesino* sector on policy issues, to interface with public sector technical teams and to advise *campesino* organizations on policy issues. CONPPA represents the large private producers and agribusinesses. It serves as a sounding board for policy issues. Although traditionally the positions taken by the two groups have been adversarial, with assistance from the PAIP they have increasingly found common interests in agricultural policy issues, most recently in the passage

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of the Agricultural Modernization Law.

GOH passage of the Agricultural Modernization Law is the most significant achievement to date of the PAIP. The law addresses many of the problems that have constrained agricultural investment, productivity and exports in Honduras. The law also clarifies property rights, and thus it addresses many of the policy issues that have led to unsustainable exploitation of natural resources.

Many of these are far reaching changes which, if implemented properly, will improve access to land and resolve much of the insecurity related to property rights, thus increasing investment in agriculture and improving natural resource management. This amendment responds to these dramatic changes in the law and will support implementation of the following:

- ★ Issuance of formal titles to agrarian reform beneficiaries, either on a corporate, individual or collective basis.
- ★ Acceleration and broadening the issuance of clear title to individual farmers on national and *ejidal* (communal lands) land, dropping a prior minimum size requirement and reducing the time of occupation requirement from ten to three years.
- ★ Elimination of the requirement that INA approve all subsequent transfers of lands that have been titled by INA.
- ★ Clarifying and limiting the criteria for land expropriation, thus allowing private landowners to produce crops other than permanent ones without fear of capricious expropriation.
- ★ Permitting the unrestricted rental of privately held land, thus increasing the mobility of productive factors and access to land by non-property owners.
- ★ Eliminating prior discrimination against women in the transfer and titling of national and *ejidal* lands.
- ★ Removing the state from control over the marketing, processing and export of forest products.
- ★ Insuring owners of forest land that their property rights will be respected, thus giving them incentives to reforest and properly manage timber stands for sustainable production.

In addition, the law also changes the following aspects of the sector:

- ★ It eliminates guaranteed prices for basic grains and replaces them with a price band system that links domestic prices to international trends while isolating the economy from the inherent instability of international commodity prices.
- ★ It privatizes most of the government grain handling and storage facilities.
- ★ It eliminates the government monopoly in basic grain trading through IHMA, and assigns it the responsibility to manage the strategic reserve and price band system.
- ★ It directs the agricultural development bank, BANADESA, to concentrate its credit activities on small farmers by limiting the size of loans it makes and preventing it from loaning to public entities.
- ★ It establishes the legal basis to reassign funds held in trust by BANADESA for the capitalization of credit institutions (*Cajas Rurales*) owned and operated by agrarian reform beneficiaries.
- ★ It legislates payments of "seed capital" of L.2000 per year for three years to each agrarian reform beneficiary, once a permanent title is issued.
- ★ It eliminates several overlapping public agricultural extension services and lays the basis for an agricultural science and technology directorate, DICTA, which will assist the start-up of private agricultural consulting companies.

The land tenure portions of the law represent major compromises among rural interest groups who have a history of antagonism and distrust. The law successfully addresses the definition of property rights in the agrarian reform sector. All of the groups involved in the design of this historic piece of legislation were concerned with the equal treatment of both men and women. This law does away with the discriminatory practices of the past. With PAIP support, the GOH, through proper implementation of this law, has the potential to alleviate the historical isolation of much of the sector from financial markets and the management problems associated with collective ownership under uncertain property rights and rigidities in property rights transfers. The uncertainty created by the threat of expropriation is expected to be reduced because objective expropriation criteria are clearly defined in the new law. The threat of private land invasions by *campesinos* is reduced because the law facilitates access to land, reducing a major cause of invasions, and because the major *campesino* organizations support the new policy. The problem of landlessness (estimated at 100,000–150,000 families) is still growing in spite of the agrarian reform. To lessen the land problem, especially considering high population growth rates and job scarcity, the law must be effectively implemented.

The Honduran macroeconomic stabilization program has set the stage for effective interventions in the agricultural sector. The Agricultural Modernization Law establishes a sound basis for

future structural reform in the sector, and the PAIP project has provided competent and constructive support to public and private agents of change in the agricultural sector. It remains now for these sound policy beginnings to be translated into change.

II. PROJECT AMENDMENT DESCRIPTION

A. PROBLEM STATEMENT

The Policy Analysis and Implementation Project (PAIP) was designed to strengthen the Honduran capacity to identify policy failures, conduct sector analysis and design policy reforms. PAIP's primary counterpart in the agricultural sector has been UPSA, the planning unit of the SRN. The project has assisted in the development of two private organizations that have been instrumental in the passage of the Agricultural Modernization Law, CONACAPA and CONPPA.

The PAIP has been very successful in accomplishing its mission. Policy failures have been identified in the areas of basic grains pricing, exports, rural financial markets, land tenure, technology generation and extension and public sector development. Appropriate analyses have been completed and policy reforms recommended. As mentioned earlier, this project was instrumental in the Callejas government's effort to revitalize agricultural sector through the development and passage of the Agricultural Modernization Law.

Successful policy design and analysis, however, demand a plan for effective policy implementation and a continuing program of policy review and refinement. There are gaps in the analysis of policy reforms, especially in the area of rational utilization of the country's limited natural resources. Institutional capabilities in policy analysis and implementation are weak, both in the public and private sectors.

The problem which this amendment addresses is how to assist the Honduran agricultural sector to develop, implement and maintain a policy framework that promotes agricultural investment, production and exports in an environmentally sustainable manner.

B. PROJECT AMENDMENT GOAL AND PURPOSE

This project contributes to the goal of **promoting sustained economic growth and stability**. This goal is consistent with mission and bureau objectives of broad-based, sustainable economic growth and efficient management of natural resources. The purpose of the project is to improve the capacity of Honduran public and private sector entities to **formulate and implement economic policies and administrative reforms**. The project purpose directly supports the attainment of the mission strategic objectives of **increasing agricultural investment, production and export and efficiently managing the natural resource base of Honduras**. Through PAIP support to GOH policy implementation and formulation, Honduran agriculture will experience increased long-run and sustainable opportunities for improved income, employment and

nutritional levels. The primary objective of the project is not institution building. The emphasis will be on policy analysis, policy reform and implementation.

This amendment to the PAIP has two specific subpurposes: The first is to implement policies aimed at increasing agricultural investment, production and exports (with emphasis on implementing the Agricultural Modernization Law). The following conditions will exist at the end of the project as a result of achievement of subpurpose I:

- ★ Issuance and registration of 10,000 land titles annually.
- ★ Increase in number of registered land sales of 20 percent by 1996 over 1991.
- ★ Reduction in number of land invasions from 40 in 1990 to zero in 1996.
- ★ Establishment of a functioning price band mechanism for three agricultural commodities.
- ★ Divestiture of all GOH grain-handling facilities.
- ★ Establishment of four farmer owned rural financial institutions (*cajas rurales*).

The second subpurpose of this amendment is to develop policies and administrative reforms that promote more efficient management and sustainable use of selected natural resources. The conditions that will exist at the end of the project as a result of achievement of subpurpose II:

- ★ Improved Agricultural Water Use Law approved
- ★ Implementing regulations for the Water Use Law approved.
- ★ Improved Environmental Legislation approved.
- ★ Implementing regulations for the Environmental Legislation approved.

C. CONSTRAINTS TO ANALYZING AND IMPLEMENTING EFFECTIVE AGRICULTURAL AND NATURAL RESOURCE POLICIES

Effective analysis and implementation of policies in both the agricultural and natural resource sectors face an interrelated set of constraints. These are discussed below:

- 1. Limited Capability of Public and Private Sector Entities to Analyze and Formulate Policies and to Implement Reforms**

Responsibility for formulating and analyzing agricultural policy should be shared between the public and private agricultural interests. On the public side, primary responsibility falls on the planning unit of the Secretariat of Natural Resources known as UPSA. UPSA is a recently created unit responsible for agricultural sector planning, policy analysis and coordination of international technical assistance. UPSA also controls the budget process for the SRN and associated public sector institutions (INA, IHMA, BANADESA, COHDEFOR, etc.). These entities implement agricultural policies, but they do not have direct responsibility for policy formulation and analysis. On the private sector side are the two organizations representing small farmer/agrarian reform beneficiaries and large producer/agribusiness interests, CONACAPA and CONPPA, respectively. The recently passed Agricultural Modernization Law is a product of collaboration between these private groups and the public agencies, coordinated by UPSA.

Passage of the Law and the subsequent need to review, refine and adjust implementation strategies increases the demands on the public and private entities with policy responsibilities. The necessary policy analysis capability is insufficient and not institutionalized in either public sector or private sector entities. Without this capability Honduran agricultural interests cannot successfully implement the provisions of the Law or respond to changing national, regional and world situations with effective policies.

UPSA has a staff of about 40 persons and a budget of L. 2.5 million. It is particularly weak in its ability to provide the SRN and the GOH with timely, accurate and relevant economic policy analyses. For instance, UPSA has no economist with experience in agricultural trade or marketing, a distinct handicap in an economy in the process of liberalizing regional and world trade. The macroeconomic capabilities of UPSA's staff are poor, making it unable to represent effectively agricultural interests in GOH fora with the Central Bank or Ministry of Economy. The PAIP staff (well trained but very small) works closely with UPSA technicians, but have not been able to improve quality sufficient to meet demands expected for implementation of the Law.

UPSA conducts policy reform design in a collaborative manner, involving the appropriate public and private sector institutions in the process. This is especially important in obtaining widespread support for policy change and results in more effective implementation of reforms. UPSA will maintain the collaborative approach as it moves forward with the design of implementation regulations and with the analysis and design of natural resource policy.

Essential to implementing the policy reforms, is the ability of the UPSA technicians to manage the budget process in a manner reflecting the reform's priorities and spirit. Budget resources must be assigned to (or away from) the appropriate public sector entities to implement effectively the Law's sweeping and controversial policy changes. Without increased capability to manage this process, the policy changes cannot be implemented, and potential improvements in the sector will be lost.

The private sector entities, CONACAPA and CONPPA, have demonstrated their willingness and

usefulness to the policy process. Neither of them has a professional staff or the technical capability to advance their own policy interests into the public forum. PAIP staff have assisted both organizations, but without minimal analytical capabilities the long term usefulness of the entities is questionable. These entities are, however, essential to the long run success of policy reforms in the sector.

Perhaps most important is UPSA's ability to assume leadership in the analysis of natural resource management issues. While the Agricultural Modernization Law makes profound changes in the agricultural sector, and more clearly defines the property rights of forest owners, its primary focus is on production agriculture and not natural resources. UPSA will need assistance on natural resource issues and will need to involve the proper private and public sector entities in the process.

Honduras faces growing internal and external pressure to sustainably manage its natural resource base. Left to preservationists, the country will lose valuable opportunities to exploit rationally its resources and provide needed employment and incomes. Left to the free market, Honduras will lose its resource base to unsustainable harvesting of irreplaceable natural endowments.

Presently, neither UPSA nor the PAIP staff can analyze the difficult choices Honduras will face. A program of natural resource policy initiatives, similar to that mounted for the agricultural sector, is essential to provide Hondurans with innovative solutions to natural resource issues. This will involve working closely with National Environmental Commission (CONAMA) and the private environmental groups on the refinement of the Environmental Action Plan and on the development of the Environmental Framework Law. The Action Plan needs to be developed into a strategy which will guide both policy analysis and resources in the future. The Environmental Framework Law will clarify institutional responsibilities and refine other macro level policy issues.

One of the most troublesome institutional issues with respect to natural resource management and environmental degradation is enforcement of the rules. The GOH must establish clear enforcement procedures. The creation of a type of special environmental regulation enforcement entity with power to arrest violators of coastal concessions, people who start forest fires, harvesting of standing timber not covered by an approved management plan, etc., is needed. It is too early to determine where such an enforcement entity should be placed institutionally, but it is an important issue to be addressed.

2. Limited Availability of Data for Analyzing and Implementing Agricultural and Natural Resource Policy Changes

Although debate on agricultural policy issues has become increasingly analytical, the information base to support the debate has not grown accordingly. Only limited data for agricultural and natural resource policy analysis exist in Honduras. Although the basic precepts of the

Agricultural Modernization Law are well founded in economic principles, implementing the changes will be difficult without a more adequate data base. Moreover, monitoring, implementation and refining policies as situations change will require more than the scant information now available.

Honduras lacks some of the most basic economic and physical data. The last agricultural census was taken in the early 1970s. There is no dependable source for area planted, yields and production of any crops other than basic grains and coffee. Price information at the various marketing levels (farm-gate, wholesale, retail) are difficult to locate and unreliable. There are no series which indicate seasonal fluctuations of agricultural prices or compare real and nominal prices. Cost of production data, where they exist, are out of date or unrepresentative. Import and export data are inconsistent and scattered throughout several government offices. Data on credit to agricultural (from private and public sources), investment in the sector and sectoral value added are unavailable or inconsistent. Weights for calculating real price series are outdated and distort both inflation and purchasing power calculations. Each of these basic data series are necessary to conduct accurate and timely economic analyses and monitor the policy implementation process.

The lack of reliable sector-wide information on the economic characteristics, activities, and performance of rural households is especially bothersome. Although Honduras has a multipurpose household survey program, it is designed more with urban than with rural households in mind. As the country embarks on a new economic and natural resource policy, it lacks baseline information to assess impacts on rural people.

A full national cadastre is required to fulfill the promise of clear property rights and the policy objective of more efficient, productive and ecologically sound land use. Complete cadastral mapping of the country is essential for titling, clarifying which lands are available, determining property taxes, settling disputes and generating the data for land use and watershed planning. Decentralization of cadastre information to the municipal level is needed.

Reliable data is likewise scarce in the natural resources area. Data on resource depletion rates, inventories and status need to be developed to design new policies and to monitor progress on implementation. For example, the GOH must develop incentive programs to induce commercial users of fuel-wood to convert to electricity. However, in order to develop such a program, cost data are needed on fuel-wood use by bakeries, pizzerias, lime and brick kilns and other commercial fuel-wood consumers.

The shrimp industry in the south must be made responsible for developing its own sources of larvae to avoid depletion of the natural shrimp in the Gulf of Fonseca. However, before a rational government intervention to induce such action can be developed, information on the costs and feasibility of developing larvae production will be needed. Another way to induce the industry to develop larvae production would be to assess a depletion tax. Information on

depletion rates are needed in order to establish a rational tax rate. Similarly, information is lacking to establish appropriate prices for agricultural water, stumpage fees, and mineral extraction fees.

3. Unclear Institutional Responsibilities and Limited Capabilities to Implement Policies

Passage of the Agricultural Modernization Law creates a set of new challenges for the agricultural sector. The most immediate is to assure the successful implementation of policies that provide secure land tenure and clear property rights. This challenge will be particularly difficult to fulfill given INA's inability to respond to an increased demand for titles. As many as 200,000 individuals may be eligible for titles under the new law. Furthermore, since passage of the Law, many land users who refused titles under the Land Titling project now want them. In addition, more than 2,800 agrarian reform groups (potentially 60,000 titles) could request their lands be adjudicated as individual parcels.

A constraint to meeting the expected demand for titles is lack of an efficient system processing title information, driven by user demand and financed by user fees. The existing process is neither well known nor simple. The most important constraint to investment, once a secure title is obtained, remains unwillingness by bankers, lawyers, judges and local leaders to recognize the value of a title.

Senior GOH staff recognize the extent of natural resource policy issues facing Honduras. They point out that GOH institutional arrangements for analyses and management of natural resource and environmental concerns are fragmented. This fragmentation constrains the GOH's ability to develop consensus within government and the private sector.

The Secretariat of Natural Resources functions as a central planning and coordinating agency for some aspects of natural resource management. CONAMA is supposed to coordinate public and private efforts, but the scope of its mandate is not clear. CONAMA has only a limited professional staff to carry out its tasks. GOH commitment to CONAMA is obscured by the fact that it is funded by the United Nations. CONAMA does not have operational authority.

Responsibility for forest resources, watershed resource management, and management and protection of national parks and preserves is confusing. COHDEFOR was responsible for Honduran forest resources on private and national land. Watershed protection on national land, and management of national parks and reserves, until recently was shared with SRN. Although COHDEFOR recently assumed responsibility from SRN, neither funding nor staff positions were shifted to COHDEFOR. Furthermore, COHDEFOR has not revamped its structure since lumber production and marketing functions were abolished. The current capability of this agency to discharge effectively its new responsibilities is limited. Additional policy and planning staff with expertise in ecology, wildlife, natural resource economics, park management, and hillside

agriculture are needed.

The GOH must establish clear authority for the enforcement of natural resource use policies. As mentioned above, CONAMA does not currently have operational responsibilities. The SRN has responsibility for monitoring fisheries, agricultural water use and mineral extraction. The Ministry of Tourism has responsibility for coastal resources. COHDEFOR has responsibility for forest resources and for national parks and protected areas. None of these institutions is strong on enforcement of existing regulations.

There is an emerging private sector led environmental community in Honduras. Several organizations have recently been created and others are in the process. These organizations were recently galvanized into action, opposing a GOH initiative to allow a multinational firm to harvest pine in the Mosquitia. This recent experience bodes well for the future. It is anticipated that through the umbrella PVO organization (Fundación VIDA), the project can involve actively private interest in policy formulation.

Private agriculturalists also bear responsibility for implementing change, and they are constrained by tradition, as well as technical competence. Agriculturalists, and especially agrarian reform beneficiaries, must adapt to the new policy environment. Failure to do so will constrain the investment which secure tenure should insure. After decades of state control over economic decision making in agriculture, it will be difficult for farmers to internalize the extent to which they will now be on their own. Many expect that if they fail, the state will still rescue them. Thus, while producers welcome the opportunity for more control over their destiny, many do not appreciate that they will be responsible for dealing with the corresponding risks. Additionally, many lack the management skills to run farm enterprises effectively.

Agricultural and *campesino* organizations must assist the process of agricultural sector economic liberalization by providing their members with sound advice, training and management skills. Few organizations are technically prepared to do so. This constrains implementation of the new policies and threatens the success of the reform package.

D. DETAILED DESCRIPTION OF PROJECT COMPONENTS

1. Implementing the Agricultural Modernization Law with Emphasis on Land Titling

The first subpurpose of the amended PAIP is to implement policy changes secured under the Agricultural Modernization Law. The emphasis will be improved land tenure security and property rights. To accomplish the objective, the project will work with several public and private organizations. This will lead to institution building in these organizations, but the primary objective is implementation of reforms. Project activities include technical assistance, training and commodity procurement. The project outputs are listed below and a detailed description of

activities planned under the first component follows.

Expected outputs of the first component are:

- ▶ Establishment of a rapid land titling and property registry system sustained by collections from land owners.
- ▶ Establishment of an improved agricultural land market and a functioning land transfer mechanism (land bank) which finances the sale and purchase of agricultural land for small farmers.
- ▶ Mechanisms that reduce/eliminate GOH intervention in agricultural commodity markets.
- ▶ Mechanisms that improve rural financial markets.
- ▶ Improved collection and distribution of agricultural data.

To obtain the outputs above, technical assistance will be provided to UPSA in four specific areas: land titling, marketing and trade, rural finance, and institutional development and data collection.

a. Land Title Transfer

Land titling is the primary emphasis of the first component, so the PAIP will direct considerable resources at the successful implementation of the titling activity. A land tenure security advisor, working with UPSA and INA is essential. INA will expand its land transfer capabilities developed under the Land Titling Project to handle the increased demand brought about by the provisions of the Law. The PAIP will assist UPSA to eliminate most of INA's social programs (credit, technical assistance, etc.), and reassign resources to the titling effort.

PAIP also will work with INA on contracting property survey and delineation functions to private firms, rather than on developing that capacity in INA. PAIP assistance will try to make the titling effort self-financing. The Land Titling Project determined that the per hectare cost of land titling ranged from 3 to 7 Lempiras. Beneficiaries are clearly able to pay these, or even somewhat higher, costs particularly if amortized over time. Project assistance will establish specific procedures to institutionalize a self-sustaining title registry process. PAIP advisors will review experiences, establish expected demand for titles under the new law, and recommend cost-effective alternatives to the current system.

The cadastre and property registry systems will be upgraded with project resources. Land tenure advisors will assist INA and the Property Registry, in the judicial branch, to develop regulations

for implementing the Cadastral Law and Folio Real² registry system. The project will, in conjunction with the Municipal Development Project (which is decentralizing urban cadastre) decentralize the rural cadastre. Assistance will include the requirement to describe parcels by their cadastral map coordinates and update the registry when properties change hands. This effort will be carried out in coordination with the urban cadastral survey being conducted by the mission's Municipal Development project.

PAIP advisors in conjunction with the Municipal Development Project will assist in the creation of decentralized property registers at the municipal level. This will facilitate land transfer and municipal tax administration. This requires computer facilities in every department to manage property information. The GOH will provide resources for hardware and software, and the project will assist with proper training for the departmental personnel operating the system.

In addition to assisting the efficient transfer of land under government programs, the PAIP project will deepen the land market by designing a financing mechanism. The "land bank" will facilitate the movement of productive factors by making land accessible to small farmers.

It is anticipated that the PAIP will assist the GOH in the issuance of 10,000 land titles annually. In addition, these titles will be registered and will facilitate an improved land market. Implementation of the land rental portion of the Law will also enhance access to land for small farmers.

b. Marketing and Trade

The Agricultural Modernization Law eliminates GOH commodity marketing, especially basic grains. The PAIP, in close collaboration with the Mission's Privatization Project, will develop a strategy by which the GOH will divest itself of the IHMA facilities. Divestiture and privatization are complex and emotional subjects, and the strategy will depend on the GOH's objectives. It can simply sell the facilities as is, or it can try to direct their sale to particular groups. PAIP/UPSA will present these options to policy makers with assistance provided by short-term privatization specialists. The GOH will implement the strategy selected.

Through PAIP consultants, UPSA/IHMA will develop the conditions for an efficient private grain trade by removing market restrictions and building the support systems. UPSA will study the basic grain supply system, from seed to post-harvest storage and distribution, and design policies to facilitate efficient free marketing. A more efficient system delivers food to consumers at lower real costs. To improve market efficiency, government must fix the "rules of the game" and maintain them fairly. The government, through the SNR and IHMA, will provide price and market information so small farmers have a chance to increase their returns. The GOH must

² The Folio Real system maintains registry information based on a specific piece of land as opposed to maintaining information based on a person.

develop grain standards and weights that make trade more agile. In addition, implementation of a system of negotiable warehouse receipts will further improve grain marketing. The PAIP will assist the GOH in these activities with technical advisors and training.

As Honduras liberalizes its economy, regional and foreign trade policies assume greater importance than under a closed trading model. The agricultural sector produces goods, known as tradeable, that are particularly sensitive to tariff levels, non-tariff barriers and international market trends. The PAIP will assist UPSA to analyze foreign trade issues and to generate responses to external conditions that enhance Honduran producers' positions in world markets. It will help IHMA to implement the basic grain price band system and develop a policy governing a strategic reserve. PAIP technical assistance and training will educate Honduran agriculturalists, who have enjoyed a protected trade position, to opportunities afforded by open trade. It will also assist them to meet the challenges inherent to world trade and free market competition.

It is anticipated that all IHMA silos will be placed in private hands during the life of the project. In addition, the GOH will manage the strategic grain reserve as a fund for the purchase of grain rather than a physical reserve. The GOH will have a market information system and a weights and standards systems in place by the end of the project.

c. Rural Finance

The Agricultural Modernization Law mandates BANADESA to serve small clients and limit the size of loans. It creates grassroots financial organizations, *cajas rurales*, in the hands of small farmers and agrarian reform beneficiaries. Specialists in rural finance will assist government officials to write regulations governing these institutions. The project has already contracted technical assistance to assess their feasibility. This effort will be undertaken in close coordination with the *campesino* organizations.

If these prove feasible, a PAIP/UPSA credit advisor will assist the implementation and operation of these institutions in which small land holders will manage their own financial portfolios. PAIP/UPSA technicians and consultants will develop operational guidelines and procedures for the *cajas rurales* and assist in training and advising their employees and managers. Models will be developed for each *caja rural*. A network of the institutions will be established for mutual support.

Implementing the new credit system will require training for the many small farmers who have little or no experience with credit. They will be "acclimatized" to managing credit as another farm asset. Small farmers frequently avoid commercial credit sources because the application process overwhelms them. The Honduran financial sector avoids agricultural loans because it does not know how to evaluate the risks involved in agricultural projects. The credit advisor will work to overcome these constraints of access to agricultural credit. Training to farmers and

credit agents will be provided. All efforts will be made to ensure women have equal access to the new credit mechanisms and training courses.

Training in credit delivery and management are available from the private sector through such entities as Zamorano and INCAE. The project's role will be that of initial facilitator and information provider, supporting contacts between users and training organizations.

It is anticipated that four *cajas rurales* will be established during the life of the project. A mechanism for financing land sales and purchases will also be in place.

d. Institutional Development and Data Collection

PAIP will devote resources to institutional development and data collection. The analytical capabilities of its counterpart organizations, especially UPSA, will be improved through training, technical assistance and institutional reform. Institutional development will assist UPSA to redirect agricultural sector budgets toward priority programs and activities. PAIP will provide assistance in government budgeting, planning and evaluation. UPSA control over GOH human and financial resource allocations for the agricultural public sector will insure that adequate funding for implementation of the Law is assigned to each institution.

Organizations such as CONACAPA and CONPPA are responsible for passage of the Agricultural Modernization Law. If they are to continue their participation, they must be able to analyze and articulate policies of interest to their constituents. The project will provide technical assistance, training and some commodity procurement to cultivate the institutional capabilities of private sector agricultural organizations. They, in turn, must discover and respond to the needs of their members. They must lead the agricultural policy debate in Honduras and not merely respond to government initiatives.

The Law creates the legal foundation for existing agrarian reform groups to be reorganized under alternative forms of tenure (individual, mixed, collective). The PAIP will support the efforts of UPSA and INA to transform these groups. Technical assistance and training will be provided to the staff of UPSA and INA designed to assist these groups as they learn to manage themselves under new organizational forms. The PAIP will assist UPSA and INA to improve the capacity of small farmers to manage funds and use land as an asset (loan collateral), a factor of production and a means for the accumulation of savings.

The PAIP will develop models of independent corporate entities which can provide technical assistance to small farmers on a fee-for-service basis. The PAIP will develop business plans for these entities, establish the legal processes necessary for their creation and publicize their existence. The PAIP will train their personnel to train farmers in areas such as farm management, financial planning, and marketing.

Before effective analysis can occur, or the implementation of reforms can be evaluated, more (and more reliable) data must be collected. This is particularly true for agricultural production and price data, and rural socioeconomic data. The project will insure that socioeconomic data are collected so as to be able to disaggregate it by gender. The technical assistance contractor will be required to sensitize UPSA staff to the importance of gender issues. In addition, specific data will be needed for evaluating reform implementation and experience of agrarian reform beneficiaries as they are integrated into the free market economy.

The PAIP project amendment will strengthen the information base for agricultural policy analysis. A planned agricultural census is needed to provide the basis for sample surveys. Sample surveys will be taken to obtain crop and livestock production data. A national rural household survey will be undertaken. The national household survey will collect gender disaggregated data and will also obtain information to assess the impact of policy reforms on nutritional status. The use of satellite imagery to obtain physical agricultural crop data will be investigated.

The PAIP will review existing data, collection processes and storage methods at public sector institutions. The project also will assess analysis methodology and dissemination procedures. UPSA will assemble existing data banks maintained by all agricultural institutions and from them develop its own data in a form which can be easily updated and maintained. To guide development of the data bank, UPSA will survey data users to determine what problems exist with current data sources and how to correct them. Data and information specialists financed by the PAIP will question decision makers about their data and analyses needs. On the basis of reviews and comments, survey forms will be changed to respond to the needs of users.

The PAIP will assess the adequacy of current data processing hardware and software in key policy related organizations. The project will finance necessary new hardware and software for both public and private sector offices responsible for policy analysis. A data bank specialist, working in UPSA, will oversee the data improvement activities of the project. It cannot be overemphasized that accurate, timely and relevant data are essential if Honduras is to implement successfully the provisions of the Agricultural Modernization Law. Economic theory has pointed the GOH in the right direction, but accurate data will guide how far and how fast implementation can occur.

Once assembled, data will be disseminated by UPSA to users in a form appropriate for their needs and capabilities. While private sector companies often rely on proprietary sources of data, small farmers must rely on government sources. Dissemination to these groups, where members are often scattered and illiterate, is particularly difficult. PAIP advisors will assist UPSA to conduct a survey to determine the data most needed by farmers (price information, volumes of trade, weather, cost of inputs, etc.) and the most effective means of dissemination. UPSA will then develop a continuing campaign of information sharing. This is an essential responsibility of UPSA.

2. Support to Continued Policy Analysis with Emphasis on Natural Resource Management and Environmental Policy in Agriculture

The second subpurpose will assist UPSA to fulfill its responsibility for natural resource and environmental policy analysis. Much less is known about the natural resource and environmental sector in Honduras than is the case for production agriculture. Activities carried out under this component will follow the same process used to develop the Agricultural Modernization Law. The project will work with several private and public organizations. The primary objective, however, is not institution building. Project activities include technical assistance, training and limited commodity procurement. The project outputs are listed below and a detailed description of activities planned under the second subpurpose follows.

Expected outputs of the second subpurpose are:

- ▶ Environmental/Natural Resource use policy studies undertaken.
- ▶ National Environmental/Natural Resources strategy developed.
- ▶ Institutional arrangements for Environment/Natural Resources management strengthened.

While the first component implements policy changes already gained, the second component addresses existing policy gaps, especially in the area of natural resource and environmental policy. Resource policy is less well defined by economic theory and further analysis will generate clearer steps for implementation. The agriculture (including forestry) sector is the largest single user of Honduras' natural resource base. It is imperative that policies are put in place that promote more sustainable forms of exploitation. Environmental problems in Honduras are much broader than the agriculture sector. This project does not pretend to deal with the full range of environmental problems facing this country. Rather the project will focus on those environmental and natural resource issues which are most directly impacted by the agricultural sector.

Economic policy issues may appear to be removed and irrelevant to the decisions taken by users of natural resources. However, economic policies have a profound effect on resource issues. The following table adapted from the RENARM policy inventory, attempts to present the linkages between major natural resource management and economic policy issues. It is because of these strong linkages that this component is included in this amendment and the reason that UPSA is the logical focus of action.

Table 1 SUMMARY POLICY INVENTORY

	Sustainable Agriculture	Forest Production	Watershed Management	Wildlands/Biodiversity
Macro/Monetary Policies	Exchange Rate Interest Rate Money Supply	Exchange Rate Interest Rate Money Supply	Exchange Rate Interest Rate Money Supply	Exchange Rate Interest Rate Money Supply
Macro/Fiscal Policies	Land Tax Income Tax Public Expenditure Deficit External Debt	Land Tax Income Tax Public Expenditure Deficit External Debt Stumpage Fee	Land Tax Public Expenditure Deficit External Debt Water Use Fee Water Surcharge	Land Tax Public Expenditure Deficit External Debt (Swaps) Conservation Stamp Hunting Fees
Macro/Trade Policies	Export Taxes Import Tariffs/Barriers Pricing Policies Export Promotion	Export Taxes Import Tariffs/Barriers Export Controls Pulp, Paper Import Subsidies	Import Tariffs/Barriers Export Promotion Export Taxes	Export Quotas Export Taxes Export Controls (endangered species) Quality Control Nontraditional Export Promotion
Sectoral/Regulatory Policies	Land Tenure Framework INA Policies Land Bank Price Controls/Consumer Subsidies Basic Grains Policy BANADESA's Policies IHMA's Policies	Land Tenure Framework Forest Tenure Forestry Regulations Role of COHDEFOR in production/marketing Fuel-wood Policies	Land Tenure Framework Water Law Fisheries Law Mangrove Commission Coastal Concession Policies Pollution & Waste Management Plant Protection Law	Land Tenure Framework International Conventions ³ Decree (various) ⁴ Accord 001-90 ⁵ Fisheries Law
Develop/Environmental Programs	Industrial Development Law Development Agency Programs Irrigation, Roads Infrastructure	Development Agency Programs Private Sector Programs Agroforestry, Reforestation and Forest Production	Water Master Plan Planning Laws Municipal Laws Master Road Plan Irrigation Development Energy Development Environmental Education Shrimp Development Decentralization	Tourism Development Parks, Recreation Development Environmental Education

³ e.g. Convention on International Trade in Endangered Species.

⁴ There are a number of Decrees which create protected areas. There are over 50 officially declared protected areas, but only a few have management plans developed.

⁵ First official action of President Callejas which prohibits the export of wild animals, pending determination of their status

a. Natural Resource Policy Reform

PAIP assistance to define a plan for natural resource policy implementation will follow the model taken in developing the Agricultural Modernization Law. Policy analyses will build on the policy inventory recently completed as part of ROCAP's RENARM project. Policy analyses will be guided by prices and it will depend upon support to (and from) both public and private sectors. Natural resource policy will focus on four areas: a) sustainable forest management, b) watershed management, c) sustainable agriculture and, d) wildlands and biodiversity. These four areas fall primarily under the control of the SRN and are critical for agricultural sector.

PAIP will hire a senior natural resources advisor to oversee its efforts in the natural resource field. UPSA will hire counterparts with designated responsibility for natural resource policy analysis. Initially PAIP will concentrate on increasing the awareness of UPSA personnel regarding environmental issues. Short term consultants who are subject area specialists will assist UPSA personnel review the current state of the art on natural resource/environmental issues most immediately affecting Honduras. These consultants also will conduct brief surveys of Honduran natural resource/environmental problems and write scopes of work for more in-depth analyses to follow. The PAIP will coordinate closely with CONAMA, VIDA, and other interested private groups both on policy design and on implementation of reforms.

The senior natural resources/environmental advisor, working with the director of UPSA and representatives of the PVO community, will then develop a work plan. Consultants will work with UPSA technicians and PVO members to conduct in-depth analyses of the most critical agricultural sector issues affecting the Honduran environment. These analyses will collect and analyze data and present the problems in clear and understandable manner, suitable for educating policy makers and the public. Once the core analyses have been completed, UPSA and the private groups will begin the development of a national strategy.

The national strategy will evolve through a series of public discussions, awareness campaigns and information dissemination by CONAMA, VIDA and other PVOs with assistance of PAIP/UPSA. It will use the surveys developed above as the basis for discussion. The process of developing the strategy will be carefully crafted to bring about an understanding of national interests and attitudes about the selected issues. Most natural resource/environmental issues share two characteristics. They are emotional and they suffer from a lack of hard data and careful analysis. Therefore, the process of developing a strategy becomes as important as the strategy itself. It gives diverse groups the opportunity to contribute their expertise, have their issues heard and learn from others. The process also creates "owners" of the strategy and implementation is facilitated.

The process of strategy development will examine issues such as the trade-offs between economic activities and preservation, including who bears the costs and benefits of each. The public will be educated throughout the process to consider all sides of the issue, but on the basis

of hard information and data supplied by the baseline surveys. The PAIP public process consultants will plan and manage the development of the strategy, giving as much responsibility as possible to PVOs. When the strategy is finally elaborated, it will be presented to the President or other competent authority.

From the strategy, the GOH and private sector organizations will develop, with PAIP assistance, a work plan for analyses of selected issues. The work plan will serve to guide the development of sustainable natural resource management in Honduras. Organizations such as VIDA, foreign assistance agencies and the projects of PVOs will be guided by the action plan. Projects and activities must be consistent with the strategy to receive official sanction and support. A well defined work plan will help Honduras avoid duplication of effort and the development of programs with conflicting objectives by well-intentioned donors.

PAIP also will develop a special program of seminars and training activities for public officials on environmental trade-offs and issues. They will be exposed to the most recent literature and theories concerning the conflicts and complementarities between environment and development.

PAIP assisted policy research will analyze issues such as the divergence between social and private economic costs of resource depletion. The analyses will be policy oriented and recommend specific reforms and regulations which assign cost to economic activities that deplete or destroy the environment. Recent efforts by other Central American countries (notably Costa Rica and El Salvador) to incorporate natural resource depletion into national accounts will be reviewed, and if appropriate, implemented in Honduras. The explicit valuation of resources depleted through human activities allows the government to implement policies which assign the costs of these activities to those who benefit. In this way, policy analyses can defuse some of the emotion associated with environmental issues and replace it with knowledge.

During the process of strategy development and based on data generated from project activities, specific interventions will be developed. These are likely to include some form of incentive program for the conversion of commercial users of fuelwood to electricity, incentives for export of finished wood products coupled with disincentives for export of raw lumber, greatly expanded forms of public education on issues related to the natural resource management, increased emphasis on privatization of irrigation district management. These are only illustrative examples. The actual interventions must await and be based on further analysis.

b. Defining Institutional Relationships

The project will assist the GOH to define the institutional relationships among the various entities involved in natural resources management. The PAIP will help define and implement appropriate activities within existing public entities. The constraint section mentioned that reorganization, and concomitant confusion, is taking place in the public organizations charged with responsibility for natural resources. As the Ministry's primary planning unit, UPSA will sort out the

institutional responsibilities to enhance successful reform implementation. The PAIP will provide short term technical assistance for this purpose. It will yield clearly defined lines of authority and logical divisions of institutional responsibility between public and private sector.

The project will assist the GOH in defining the proper roles of the public sector organizations, not only in policy analysis, but also in implementation of reforms. The project will clarify the role of the private sector in this regard. This will involve analyses of the appropriate structure of public sector policy making and of policy implementation responsibilities. Entities such as COHDEFOR, originally established with a corporate structure and with a production role, now need to be restructured according to assigned new functions.

The project will assist the GOH to develop the institutional approach to greatly improve management and enforcement of natural resource management and environmental rules and regulations. While the specifics will have to await design by the project team, it is likely that an environmental regulation enforcement entity or similar mechanism may be necessary. One only has to look to El Salvador or Costa Rica to obtain a vision of what Honduras will look like in 15 years, if strong action is not taken soon.

There are already examples of private management of reserves, parks and protected areas. This needs to be further developed and expanded. The recent creation of the National Environmental Fund by the GOH is a good start on more involvement of the private PVO community in resource management.

The project will work together with VIDA and other appropriate private entities to develop policy analysis capabilities and the capacity for educating the public. The project will promote sound environmental practices through the educational system, developing an educational curriculum where appropriate.

The PAIP's assistance in implementing natural resource policy will be limited. PAIP support will be directed at establishing a solid policy basis for the development of Honduran resources. It will assist Honduran public and private entities to attract other donors willing to implement environmental projects and programs.

3. Specific Project Inputs

a. Technical Assistance

The project amendment will provide additional long-term technical assistance in economic policy analysis and design and in natural resource/environmental policy analysis and design. The project also will provide short-term technical experts in economic and natural resource/environmental analysis (such as rural financial markets, trade policy, forestry policy, resource pricing issues), institutional analyses and policy data collection and processing. Table 2 provides an estimate of

the technical assistance requirements for this amendment.

Table 2 TECHNICAL ASSISTANCE TEAM COMPOSITION

TECHNICAL ASSISTANCE TEAM (INSTITUTIONAL CONTRACT)	93/94	94/95	95/96	96/97	TOTAL
	(PERSON MONTHS)				
LONG-TERM					
SR. POLICY ECONOMIST/COP (US)	12	12	12	12	48
SR. NATURAL RESOURCES ECONOMIST (US)	12	12	12	12	48
AGRICULTURAL ECONOMIST (US)	12	24	24		60
RURAL FINANCE SPECIALIST (TCN)	12	12	12		36
ENTREPRENEURIAL STRENGTHENING COORDINATOR (TCN)	12	12	12		36
SR. TENURE SECURITY SPECIALIST (LC)	12	12	12	12	48
ECONOMETRICIAN (LC)	12	12	12	12	48
INSTITUTIONAL ECONOMIST (LC)	12	12	12	12	48
SECTORAL POLICY ECONOMIST (LC)	12	12	12	12	48
MARKETING ECONOMIST (LC)	12	12	12	12	48
ADMINISTRATIVE ASSISTANT (LC)	12	12	12	12	48
LIBRARIAN/DATA BANK SPECIALIST (LC)	12	12	12	12	48
SECRETARIES (LC)	36	36	36	36	144
DRIVERS/GUARDS/MESSENGERS (LC)	48	48	48	48	192
SUB-TOTAL LONG-TERM	228	240	240	192	900
SHORT-TERM*					
US	40	33	25	20	118
TCN	23	20	20	20	83
LOCAL	80	50	40	40	210
SUB-TOTAL SHORT-TERM	143	103	85	80	411
GRAND-TOTAL TECHNICAL ASSISTANCE	371	579	561	272	1,783

* Short-term technical assistance will be required in the areas of land titling, title registration, cadastre, specific policy analysis issues, particularly in the natural resources and in policy implementation.

The technical assistance team will consist of three long-term U.S. advisors in the first year, with a fourth member being added for the second and third years and a reduction to two in the final year. The senior policy economist will serve as Chief of Party. He/she will provide overall leadership for the team and will be the principal liaison with the USAID project manager. In addition, this person will be the main specialist in agricultural economic policy analysis and formulation. The second member of the team will be the senior natural resources economist. He/she will be responsible for leading the effort on policy reforms leading to improved resource management.

The two senior economists will be assisted by one agricultural economist specializing in marketing and trade. He/she will assist in the smooth functioning of the price band system and in the development of weights and standards and eventually in the establishment of a bonded warehouse receipts program. In addition, the market economist will assist UPSA in the development of a sustainable market information system. In the second year, an additional agricultural economist will be added to the team specializing in land markets. This individual will be responsible for analyzing the constraints to an efficiently functioning land market.

The team will also have a rural finance specialist who will be a third country national (TCN). This person will be responsible for working with UPSA in the implementation of both the *cajas rurales* and the land financing mechanism. This expert will coordinate closely with the overall policy changes being brought about by the financial sector reform work of the public sector component of the PAIP. The entrepreneurial strengthening advisor, also a TCN, will work closely with UPSA and INA in the transformation of the agrarian reform cooperatives.

The team will also have five local professionals working with the expatriate specialists. These will consist of the econometrician, institutional economist, marketing economist, senior land tenure security and sector policy economist, positions which currently exist in the project. In addition the contractor will employ a local administrative assistant, librarian and data bank specialist, secretaries, drivers and guards.

The project will also utilize over 411 person months of short-term technical assistance. It is anticipated that most of the short-term assistance will be in the areas of land titling, title registration, cadastre, land and commodity marketing and natural resource management. A significant amount of short-term technical assistance will be employed in the various data collection efforts discussed in the project description.

The exact composition and timing of the delivery of both short-term and long-term technical assistance will be dictated by the progress being made by the GOH in the implementation of the Law. If implementation moves rapidly, then the delivery of assistance would need to be moved up as well and conversely, if progress is slow, delivery will be delayed.

b. Training

While most of the long and short term technical assistance will provide on the job training to project counterparts, the project will provide for specialized short term training for UPSA personnel as well as members of participating private groups. These are envisaged to be formal short courses such as those offered by Harvard and Stanford Universities as well as some regional seminars. The project budget for formal training courses and observation trips is \$250,000.

c. Commodities

The project has already provided adequate computer and vehicle support to UPSA and does not anticipate any additional requirements. Five vehicles will be purchased for the logistical support of the TA team. There will also be a need to provide limited computer support to the private sector groups once they begin to undertake policy analysis. Limited additional computer support to the public sector will be required for expeditious processing of the new policy data to be collected. The project budget for commodities is \$ 400,000.

ANNEX E COST ESTIMATES AND FINANCIAL PLAN

A. FINANCIAL PLAN

The total estimated cost of activities financed under this Amendment is \$ 23.0 million. AID will contribute \$10.0 million in grant funds and the GOH will contribute the local currency equivalent of \$13.0 million. AID's contribution represents 43 percent of total project amendment costs and the GOH's represents 57 percent of the total project amendment costs. It is anticipated that \$3.0 million will be obligated in FY 92, \$2.5 million in FY 93, \$2.5 million in FY 94 and the balance of \$2.0 million to be obligated in FY95. The GOH counterpart will be made available from PL 480 Title III generations and will be managed in accordance with procedures under that program.

AID funds will finance both expatriate and local long-term and short-term technical assistance, commodities, training, project management and audits as follows:

- Thirteen person years of US long-term technical assistance, consisting of three professionals in agricultural policy analysis to continue to support the agriculture policy design and implementation process of the GOH, and one natural resources economist to support the new emphasis in this area;
- Two Third Country Nationals (TCNs) for three years in the area of rural finance and entrepreneurial development;
- Twenty person years of long-term local technical assistance to support GOH's agricultural policy analysis and implementation;
- Thirty-six person years of long-term personnel for managerial and logistical support;
- Four hundred eleven person months of short-term technical assistance to assist in agriculture and natural resources policy analyses and implementation programs of the GOH (118 US, 83 TCN and 210 LC);
- Short-term training of 100 participants in the US, Honduras and third countries programs;
- Commodities and logistical support consisting of electronic equipment, engineering supplies, vehicle spare parts and other office supplies for INA, CADASTRE and the National Geographic Institution (IGN), and additional office supplies, computer equipment and vehicles for the TA team;

- Services of a PASA Project Manager, a FSNPSC Project Liaison Officer for the four years of the project extension and partial funding for Project Financial Analyst;
- An audit and evaluation system.

The financial tables are presented below for dollar and local currency costs over the four year life of the project amendment. Table 1 presents a summary of AID project costs by inputs by year; Table 2 presents counterpart contributions by year, and Table 3 provides a breakdown of costs by component and project activity. Table 4 is an illustrative projection of TA expenditures by fiscal year. Table 5 provides GOH counterpart requirements by fiscal year. Table 6 presents a breakdown of commodities costs. Table 7 illustrates the proposed obligation and expenditure schedule by fiscal year.

Table 1 SUMMARY AID'S PROJECT COSTS BY INPUT BY YEAR

	Year 1	Year 2	Year 3	Year 4	TOTAL
TECHNICAL ASSISTANCE	\$2,241	\$2,276	\$2,131	\$1,302	\$7,950
LONG-TERM	\$1,246	\$1,486	\$1,486	\$732	\$4,970
SHORT-TERM	\$995	\$790	\$645	\$570	\$3,000
TRAINING	\$75	\$75	\$50	\$50	\$250
COMMODITIES	\$200	\$200	\$0	\$0	\$400
PROJECT MANAGEMENT	\$250	\$250	\$250	\$250	\$1,000
AUDITS/EVALUATIONS	\$0	\$200	\$0	\$200	\$400
TOTAL	\$ 2,766	\$3,001	\$2,431	\$1,802	\$10,000

Table 2 GOH COUNTERPART CONTRIBUTIONS BY YEAR
(Local Currency in 000 US Dollar Equivalent)

	Year 1	Year 2	Year 3	Year 4	TOTAL
UPSA	\$210	\$210	\$210	\$210	\$840
INA	\$3,700	\$1,700	\$1,700	\$1,700	\$8,800
DGEC	\$1,700	\$400	\$400	\$400	\$2,900
IHMA	\$50	\$50	\$50	\$50	\$200
OTHER	\$65	\$65	\$65	\$65	\$260
TOTAL	\$5,725	\$2,425	\$2,425	\$2,425	\$13,000

Table 3 SUMMARY PROJECT AMENDMENT BUDGET BY COMPONENT
(000 US Dollars)

	AID	GOH*	TOTAL
COMPONENT I	\$5,900	\$12,300	\$18,200
LAND TITLE/TRANSFER	\$2,400	\$8,900	\$11,300
MARKETING & TRADE	\$1,500	\$400	\$1,900
RURAL FINANCE	\$1,200	\$100	\$1,300
INSTITUTIONAL DEVELOPMENT & STATISTICS	\$800	\$2,900	\$3,700
COMPONENT II	\$4,100	\$700	\$4,800
NATURAL RESOURCES POLICY	\$2,050	\$500	\$2,550
DEFINING INSTITUTIONAL RELATIONSHIPS	\$2,050	\$200	\$2,250
GRAND TOTAL	\$10,000	\$13,000	\$23,000

* Local Currency Dollar Equivalent

Table 4 ESTIMATED COST OF TECHNICAL ASSISTANCE

TECHNICAL ASSISTANCE TEAM (INSTITUTIONAL CONTRACT)	Year 1	Year 2	Year 3	Year 4	TOTAL
	(THOUSANDS OF DOLLARS)				
LONG-TERM					
SR. POLICY ECONOMIST/COP (US)	238	238	238	238	952
SR. NATURAL RESOURCES ECONOMIST (US)	238	238	238	238	952
AGRICULTURAL ECONOMIST (US)	238	478	478	0	1,194
RURAL FINANCE SPECIALIST (TCN)	138	138	138		414
ENTREPRENEURIAL STRENGTHENING COORDINATOR (TCN)	138	138	138		414
SR. TENURE SECURITY SPECIALIST (LC)	37	37	37	37	148
ECONOMETRICIAN (LC)	33	33	33	33	132
INSTITUTIONAL ECONOMIST (LC)	37	37	37	37	148
SECTORAL POLICY ECONOMIST (LC)	35	35	35	35	140
MARKETING ECONOMIST (LC)	37	37	37	37	148
ADMINISTRATIVE ASSISTANT (LC)	25	25	25	25	100
LIBRARIAN/DATA BANK SPECIALIST (LC)	15	15	15	15	60
SECRETARIES (LC)	30	30	30	30	120
DRIVERS/GUARDS/MESSENGERS (LC)	7	7	7	7	28
SUB-TOTAL LONG-TERM	1,246	1,486	1,486	732	4,950
SHORT-TERM					
US	600	495	375	300	1,770
TCN	195	170	170	170	705
LOCAL	200	125	100	100	525
SUB-TOTAL SHORT-TERM	995	790	645	570	3,000
GRAND-TOTAL TECHNICAL ASSISTANCE	2,241	2,276	2,131	1,302	7,950

Table 5 DETAILED GOH COUNTERPART FUNDS REQUIREMENTS
(000 U.S.\$ Equivalent)

	Year 1	Year 2	Year 3	Year 4	TOTAL
UPSA					
Technical Personnel	80	80	80	80	320
Short-term Contracts	70	70	70	70	280
Logistical Support	60	60	60	60	240
TOTAL	210	210	210	210	840
INA					
Reconversion Activity					
Technical Personnel	350	350	350	350	1,400
Logistical Support	200	200	200	200	800
Training Contracts	250	250	250	250	1,000
Titling Activity					
Field Work Contracts	550	550	550	550	2,200
Technical Personnel	250	250	250	250	1,000
Logistical support	100	100	100	100	400
Titling Revolving Fund (Incl. Cadastre)	2,000	0	0	0	2,000
TOTAL	3,700	1,700	1,700	1,700	8,800
DGEC					
Agricultural Census	1,300	0	0	0	1,300
Agricultural Surveys	280	280	280	280	1,120
Household Surveys	120	120	120	120	480
TOTAL	1,700	400	400	400	2,900
IHMA					
Technical Personnel	40	40	40	40	160
Logistical Support	10	10	10	10	40
TOTAL	50	50	50	50	200
OTHER					
COHDEFOR	30	30	30	30	120
National Registries	25	25	25	25	100
MNR	10	10	10	10	40
TOTAL	65	65	65	65	260
TOTAL	5,725	2,425	2,425	2,425	13,000

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Table 6 ESTIMATED COMMODITIES REQUIREMENTS
(000 of US\$)

DESCRIPTION	Quantity	Estimated Cost	TOTAL COST
PC Computers and printer w/Software	15	6,000	90,000
PC Computer, plotter and engineering software	2	20,000	40,000
Fax Machines	10	700	7,000
Engineering Supplies (lot)	2	15,000	30,000
Spare Parts for AID previously donated vehicles	34	1,500	51,000
Global positioner, inertial	1	30,000	30,000
Parts for Orth. photomap		7,000	7,000
Office Equipment		20,000	20,000
Vehicles & Spares	5	25,000	125,000
TOTAL			400,000

Table 7 ESTIMATED OBLIGATIONS AND EXPENDITURES
BY FISCAL YEAR
(000 US Dollars)

FISCAL YEAR	OBLIGATION	EXPENDITURE	PROJECTED FY BALANCE
1992	\$ 3,000	\$ 0	\$ 3,000
1993	\$ 2,500	\$ 2,800	\$ 2,700
1994	\$ 2,500	\$ 3,000	\$ 2,200
1995	\$ 2,000	\$ 2,400	\$ 1,800
1996	\$ 0	\$ 1,800	\$ 0
TOTAL	\$ 10,000	\$ 10,000	

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B. METHODS OF FINANCING AND DISBURSEMENT

Most AID-financed inputs will be expended through a direct institutional contract. The contractor shall be responsible for the provision of long and short-term technical assistance, training and observational tours, and for the procurement of project financed commodities. Separate contracts will be executed for project management and related commodities. In addition, AID will contract directly for periodic evaluations and project audits. The methods of financing and disbursement for the AID dollar component are detailed in Table 8.

Table 8 METHODS OF IMPLEMENTATION AND FINANCING

Input/Method of Implementation	Method of Payment	Estimated Amount
Technical Assistance Institutional Contract	Direct Payment	\$ 8,000,000
Training Institutional Contract	Direct Payment	\$ 200,000
Commodities Institutional Contract	Direct Payment	\$ 400,000
Project Management PASA-PSC	Direct Payment	\$ 1,000,000
Evaluation and Audit Direct Contract	Direct Payment	\$ 400,000

C. AUDIT

The project has budgeted \$100,000 to contract for independent non-federal audits of project activities. The project is scheduled for a non-federal audit in 1993. A subsequent non-federal audit will be undertaken in 1996. The audit section of the Regional Inspector General's Office will supervise these audits, and may make its own periodic audits of the use of project funds. In addition to these audits, because this project will be executed under a Handbook 3 Bilateral Grant Agreement with the Government of Honduras, the Controller General of the Republic may also audit the project.

PAIP PP AMENDMENT

October 7, 1992

ANNEX F IMPLEMENTATION AND PROCUREMENT PLAN

A. IMPLEMENTING AGENCIES

1. GOH Implementing Unit

The principal GOH implementing agency will be the Agricultural Sector Planning Unit or UPSA within the Secretariat for Natural Resources. UPSA is the technical secretariat of the Agricultural Development Council (CODA), the official policy-making body of the agricultural sector. This council is comprised of the directors of all public sector agricultural entities. UPSA's major responsibilities are: 1) to coordinate the formulation and implementation of agricultural sector policy reform; and 2) the development of the public sector agricultural budget.

Under the project, UPSA will coordinate the provision of technical assistance and training by an institutional contractor to other public and private entities involved in the implementation of reforms related to the Agricultural Modernization Law. Also, with the assistance of an institutional contractor, it will conduct policy studies in the area of environmental and natural resources management and coordinate the development of a national strategy and a legal framework to address environmental/natural resources problems. Finally, it will lead efforts to clarify responsibilities of various Honduran public and private organizations in the management of natural resources.

2. Other Participating Organizations

a. The National Agrarian Institute (INA)

INA is the GOH entity charged with distributing both agrarian reform and national lands and with implementing various rural development activities in the campesino sector. With the passage of the Agricultural Modernization Law, INA will need to expand its titling operations. Not only will it be required to issue formal title to agrarian reform beneficiaries, either on a corporate, individual or collective basis, but it will also be responsible for educating agrarian reform beneficiaries regarding the various titling options that are available to them and the exact steps that are required for titling. Also, due to less restrictive requirements on size and length of occupancy, INA will need to accelerate and expand its titling process for national and ejidal lands.

Under this project INA will receive technical assistance and training from the institutional contractor to assist it in streamlining its titling process and in divesting itself of many of its social programs. It will also receive assistance in carrying out its public education efforts on the implications of the recent policy changes and the various options for titling that are available.

b. The National Cadastre Office (DEC)

The National Cadastre Office within the Secretariat for Planning Coordination and Budget (SECPLAN) is responsible for the implementation of a national multi-purpose cadastral survey. This survey provides information on present and potential land uses, land value, ownership, natural resources, etc.

Through the USAID - funded Land Titling Project, the DEC completed the delineation and mapping of national lands in eight of Honduras eighteen departments. The continuation of this activity in the remaining ten departments is an important prerequisite to INA's land titling efforts. This phase of the project will provide technical assistance to the DEC to help it privatize its operations. Under such an arrangement, the DEC would contract out its surveying responsibilities and focus its efforts on supervision and quality control of surveying operations and on the processing of information.

c. The National Property Registry

The National Property Registry, which is part of the judicial branch of the GOH, is responsible for registering, and thus legalizing, all land titles. It is subdivided into twenty-five independent legal jurisdictions. The project will provide technical assistance to the judicial branch to modernize these registries and create linkages between the National Cadastre's data bank and the registry of property transfer for verification of property status and ownership.

d. General Directorate for Statistics and Census (DGEC)

The DGEC, within SECPLAN, is responsible for carrying out surveys and censuses. The DGEC has expertise in survey and census design, data collection and data management. The various data collection efforts it carries out are important to the development and implementation of policy reforms in the agricultural sector. For this reason, the DGEC will work closely with UPSA to define the sector's information needs in greater detail. The project will provide technical assistance to the DGEC to design and carry out a national agricultural census, semi-annual rural household surveys and other specialized data collection efforts.

e. The National Environmental Commission (CONAMA)

As mentioned earlier, CONAMA, a new commission attached to the Presidency, is responsible for coordinating environmental efforts and as acting as a clearinghouse for various government environmental activities. It has limited professional staff and no operational authority. The project will seek to clarify CONAMA's role with respect to other GOH and private organizations involved in the management of natural resources.

f. Private Sector Organizations

Two private sector agricultural organizations received technical support under the initial phase of this project--CONACAPA, which represents the campesino sector on policy issue and CONPAA which represents large private producers and agribusinesses. Both these agencies will continue to represent the private agricultural sector before CODA and serve as a sounding board for proposed reforms. They will also serve as vehicles for provision of technical assistance and training to project beneficiaries and the clearinghouse for education and communication activities.

Fundación VIDA, an umbrella group for Honduras's environmental NGOs, will work closely with UPSA on policy formulation activities in the area of natural resources management. Its exact role in the project will be clarified once institutional relationships in this area are better defined. VIDA is the organization designated by the GOH to manage the National Environmental Trust Fund and will receive additional support from AID under a project planned for FY93.

3. USAID Project Monitoring Responsibilities

USAID's Office of Agriculture and Rural Development will continue to be responsible for monitoring the implementation of this project component. A project officer contracted through a PASA with USDA will administer the project with the assistance of a FN PSC Project Liaison Officer. Implementation of project activities will be the responsibility of an institutional contractor (IC). The chief of the IC's technical assistance team will report to the project committee and work on a day-to-day basis with the head of UPSA's policy analysis unit and the USAID project officer and project liaison officer.

4. The Project Committee

The project committee, composed of the Minister of Natural Resources, or his designee and representatives of UPSA, the IC and USAID will continue to guide the implementation of the project. This committee is responsible for:

- ▶ identifying policy analysis and implementation needs;
- ▶ developing yearly workplans to address these needs;
- ▶ presenting policy and institutional reform recommendations to the executive and legislative branches;
- ▶ monitoring the progress of policy analysis and implementation activities.

B. IMPLEMENTATION ARRANGEMENTS

AID will sign a bilateral project agreement with the GOH to obligate the dollar portion of this

activity. This agreement will also specify the amount of counterpart funds to be contributed by the GOH.

C. PROCUREMENT PLAN

The authorized source/origin for procurement under the project amendment is the United States. Procurement will follow the rules and guidelines of the relevant AID Handbooks, including Handbook 1B, Procurement Policies; Handbook 13, Grants; Handbook 12, Use of Federal Agencies; Handbook 10, Training; and Handbook 14, AID Acquisition Regulations and the Federal Acquisition Regulation as applicable. Local procurement will be carried out in accordance with the procedures of Handbook 1B. In addition, the project will comply with the Agency's Gray Amendment rules and procedures.

1. Technical Services, Training and Observational Tours

As stated above, AID will execute a direct contract for technical services. The contract shall be a level of effort type, cost reimbursement contract. Procurement will begin shortly after the signing of the Project Grant Agreement, including refinement of the scope of work and advertising in the Commerce Business Daily. In addition to providing direct technical assistance, the contractor shall also coordinate and manage training and observational tours. As noted below, the contractor also shall procure some of the commodities anticipated in the project.

USAID will expect the contractor to utilize Honduran personnel, where appropriate. The contractor will be permitted to subcontract with local firms or individuals. USAID will encourage the technical assistance contractor to increase its use of local personnel over time in order to complete the transfer of skills and knowledge during the life of the project.

2. Commodities

The contractor will procure a limited number of commodities under the Institutional Contract. USAID will directly procure computer equipment. Project-financed equipment will include computer hardware and software, facsimile machines, engineering equipment and materials, and vehicles for the contractor's use.

3. Project Management and Administration

AID will amend the current PASA agreement for project management to extend the services through the life of the project and carry out a direct competitive contracting process to procure the services of a FSNPSC Project Liaison Officer. The project will also partially fund the services of a USPSC Financial Analyst.

4. Evaluation and Audit

AID will contract directly with institutions or individuals for requisite audits and evaluations during the life of the project.

5. Buy America

The project has been designed in accordance with the Agency's Buy America guidance, State 410442 (December 6, 1990). U.S. procurement is required whenever practicable. Local procurement for the project is planned only for those goods or services for which the Buy America guidance provides a specific exemption, i.e., those for which project objectives will be directly served by utilizing local procurement, and for which substantial cost savings will result from using local procurement.

None of the currently planned local procurement requires a waiver under the Buy America guidance. If, however, during implementation of the project, a transaction is proposed that requires a waiver, such waiver will be obtained before proceeding with the transaction.

Table 1 presents the procurement plan in chart format and indicates the Buy America implications of each class of transactions of commodities, services, or training financed by the project. All transactions will require U.S. source, origin, and nationality except for the following, which are permissible under the cited sections of the Buy America guidance:

- The project liaison officer will be a personal services contractor with HC nationality. The estimated LOP cost of the position is \$200,000. Section 9 of the Buy America guidance provides that the guidance does not apply to professional services contracts under \$250,000.
- The project authorizes a total of \$250,000 for training and observational tours. Section 19 of the Buy America guidance provides that the source policy on participant training set forth in Handbook 10 remains unchanged by the Buy America guidance. Handbook 10 authorizes third country training under appropriate circumstances. An estimated \$100,000 of the total amount planned for training and observational tours will be used for third country training.
- The project authorizes \$100,000 for audits to be obtained through an IQC with a U.S. firm or a direct contract with a HC audit firm using open competition. At the time of contracting, every preference will be given to the use of a U.S. firm. The IQCs are under the direction of the RIG, however, and it is highly likely that the only locally appropriate and cost-effective IQCs will be with local firms. Section 9 of the Buy America guidance provides that the guidance does not apply to professional services contracts under \$250,000.

Table 1 Procurement Plan

Commodity Service	Description	Estimated Cost	Source	Origin	Type of Procurement	First Delivery Date (months)	Lead Time (months)	Purchase Agent	Waiver Approval Required	Buy America Implications
Technical Assistance	Institutional Contractor	\$ 8,050	OOO	OOO	Competitive	8.0	8.0	USAID/H	None	None
Commodities	AID Direct Contract	300	OOO	OOO	Competitive	Various	Various	USAID/H	None	None
Training	Short Courses	200	OOO/941	OOO/941	N/A	Various	Various	IC	None	HB 10 Rules
Observation Tours	Various	50	OOO/941	OOO/941	N/A	Various	Various	IC	None	HB 10 Rules
Project Management Project Manager Liasion Officer Financial Analyst	PASA Amendment	700	OOO	OOO	PASA	12.0	12.0	USAID/H	None	None Note ⁷
	PSC	200	HC	HC	Competitive	6.0	6.0	USAID/H	None	
	PSC	100	OOO	OOO	Competitive	12.0	12.0	USAID/H	None	
Evaluation Audit	IQC Contract	300	OOO	OOO	Competitive	Various	Various	AID/W	None	None Note ⁷
	AID Direct Contract	100	OOO/HC	OOO/HC	Competitive	Various	Various	USAID/H	None	
Total		\$ 10,000								
Total U.S.		\$9,600								
Total Non U.S.		400								

⁷ Professional services procured locally valued less than \$ 250,000 exempt from Buy America provisions

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D. IMPLEMENTATION SCHEDULE

The following implementation schedule indicates targeted dates for the project's first year actions:

<u>ACTION</u>	<u>DATE</u>	<u>ACTION BODY</u>
1. <u>Project Documentation</u>		
Project Authorization	07/92	USAID/GOH
Grant Agreement Signed	08/92	USAID/GOH
Initial Conditions Met	09/92	GOH
2. <u>Contracting Actions</u>		
a. PIO/T for IC Signed	08/92	USAID/GOH
b. Proposals Reviewed	11/92	USAID
d. Contract Executed	01/93	USAID
e. Contractor in Place	03/93	USAID/GOH
f. Commodity Procurement Initiated	03/93	USAID/GOH

ANNEX G MONITORING AND EVALUATION PLAN

A. USERS OF INFORMATION

The major users of the information will be the Agricultural Policy Unit (UPSA) within the Ministry of Natural Resources (SRN) and USAID.

B. INSTITUTIONAL LOCUS

The institutional locus of data collection and analysis is UPSA. It will have the responsibility for collecting all data and undertaking any special studies on progress towards achievement of particular project objectives.

C. PROJECT GOAL PURPOSE AND OUTPUT QUESTIONS, INDICATORS AND DATA COLLECTION METHODOLOGY.

1. Project Goal

The goal of the project is to promote sustained economic growth and stability. Measurement of achievement of this goal will be undertaken as part of USAID's monitoring of its Action Plan objectives.

2. Project Purpose

The project has two subpurposes: 1) to implement policies and administrative reforms aimed at increasing agricultural production, investment and exports (with emphasis on implementing the Agricultural Modernization Law) and 2) to formulate and implement policies and administrative reforms that promote more efficient management and sustainable use of selected natural resources.

- Purpose Level Questions: 1) What has been the outcome/impact of implementing policy changes brought about by the Agricultural Modernization Law? 2) What progress has been made in formulating policies to improve natural resources management?

- Indicators: Indicators for measuring success in implementing policies aimed at increasing agricultural production, investment and exports include:

- progress in achieving benchmark of issuing and registering 10,000 land titles to small farmers annually
- an increased number (and total value) of land sales compared to 1991.

- a yearly reduction in the number of land invasions, with a target of no land invasions by 1996.
- the establishment of price band systems for three (3) agricultural commodities.
- the divestiture of all GOH grain handling facilities.
- the establishment of four (4) sound farmer-owned, local financial institutions, or cajas rurales.

Indicators of success in formulating policies and administrative reforms that promote more efficient management and sustainable use of selected natural resources are:

- the passage of agricultural water use and environmental framework legislation.
- the development of implementing regulations for agricultural water use and environmental.

- Data Collection Methodology: This information will be collected every six months by the institutional contractor and UPSA staff and presented to AID in the form of a semi-annual report on policy reform activities. UPSA and the contractor will work closely with private sector organizations to collect this information. Baseline data already exists for some indicators; revised rural household and agricultural surveys will collect additional baseline information. Data on land titles and land sales will be gender disaggregated.

3. Project Outputs

A table showing project outputs, output-level questions and indicators is provided below. All data will be collected by UPSA, with the assistance of the Institutional Contractor, collated and submitted to AID in a semi-annual report.

Information Plan for Project Outputs

<u>Output</u>	<u>Output Level Question</u>	<u>Indicator</u>
1) Improved Mechanism for Land Titling	Is there a rapid mechanism for issuing/registering titles to small farmers? Will this mechanism achieve the benchmarks of 10,000 titles to farmers annually?	Revised procedures and organization for INA, National Property Registry and Cadastre.
2) An improved agricultural land market	Is there a mechanism in place that finances the sale and purchase of land for small farmers? How effective is this mechanism?	A functioning land bank established. Number of sales/purchases financed.
3) Mechanism that improves rural financial markets	Has a mechanism been developed for providing financing to agrarian reform beneficiaries and small farmers? What has its impact been on beneficiaries?	A law and implementing regulations for establishment of cajas rurales published in the GOH Gazette.
4) Improved Collection and Distribution of Agricultural Data	Has data collection in the agricultural sector improved? Is it being distributed? On a timely basis? Are the data reliable? Are decision makers and farmers using the data?	Completion and distribution of results of National Agricultural Census and semi-annual rural household survey. Evaluation of quality of ag. census and rural household survey data. Collection and distribution of other agricultural data on a routine basis.
5) Environmental/ Natural Resources Studies	What kinds of studies have been undertaken? Have these studies been used to formulate policy changes?	Numbers and kinds of studies undertaken. Assessment of quality and use of studies.

- | | | |
|---|---|---|
| 6) National Environmental/
Natural Resources
Strategy Developed | Does this National Strategy
provide a basis for
developing policy and
legislative changes in the area
of environment and natural
resources management? | Assessment of quality and
use of strategy. |
| 7) Institutional
arrangements for policy
environmental for
policy analysis and
implementation clarified | What progress has been made
towards clarifying
responsibilities of various
GOH agencies in the area of
environment and natural
resources? | Issuance of regulations
decrees to clarify institutional
arrangements for
environmental/natural
resources management. |

D. FEEDBACK

The project's Institutional contractor will assist UPSA to develop a plan that assures that data is collected, analyzed and provided in a timely and useful format to the SRN and USAID.

E. BUDGET

Data collection activities will be supported by approximately \$250,000 in project funds and the local currency equivalent of \$2,900,000 in counterpart funds. Evaluation activities will require \$300,000 in project funds. Additional support from the GOH will be provided through UPSA and the information generated under the data collection efforts of the project.

F. EVALUATION SCHEDULE

A mid term and final evaluations will be conducted by evaluation specialists contracted by AID. The timing and objectives of such evaluations are discussed below:

1. Mid-term

Timing: 9/94

Objectives:

- identify solutions to major project implementation problems.

- review actual vs. planned progress towards achievement of project purposes and outputs.

- reassess relevance of project purpose and outputs and validity of assumptions.
- identify means to improve efficiency and lower cost of project.
- document reasons for success and failure and recommend mid-course corrections.

2. Final

Timing: 9/96

Objectives:

- summarize project objectives and background.
- assess progress in meeting project objectives (goal, purpose, outputs).
- review whether mid-term recommendations were implemented.
- determine overall impact in terms of improved policy environment in the areas of agriculture and natural resources management.
- draw conclusions and lessons learned and make recommendations for follow-on activities.

ANNEX H

ECONOMIC ANALYSIS

A. ECONOMIC CONSIDERATIONS

The main focus of the amendment for the agricultural component of the PAIP is on improving the agricultural policy-making and implementation process in Honduras. This will be achieved through the provision of technical assistance, training and some equipment to the host country counterparts. The intermediate target of the project component is to implement a series of policy decisions adopted by the GOH through the Agriculture Modernization Law, and to continue to improve the policy decisions in the areas of trade, rural finance, technology generation and transfer, land use and access and natural resources management.

Economic evaluation of the amendment follows the same logic as the original agricultural amendment. Estimation of costs is straightforward. Total expenditures during the four year LOP are estimated at \$23.0 million, which include a dollar expenditure component of \$10.0 million. Again, estimation of project benefits must of necessity be somewhat speculative. It is virtually impossible to pinpoint the GDP or foreign exchange impact of a series of interrelated policy changes which have complex long-term effects on economic growth rate. However it is possible to apply different estimates regarding final project impact on sectoral growth rates, as a means of assessing the profitability of project amendment activities under different assumptions regarding the impact of those activities on the policy reform process.

The current estimate of agriculture GDP for 1991 is L3,262.0 million (\$582.5 million at a rate of \$1:5.6). If we again adopt the extremely conservative assumption that a significant improvement in agricultural policies would increase the value of agricultural production by a scant 2% over its 1991 level, and that this increase would occur in the two years following project completion, the project component's internal rate of return at market prices would be 80.6%. A reduction in the increase in output level to 1% would still generate a rate of return of 14.5%. (See Table 1). Thus, the project component appears to generate a highly favorable rate of return under extremely conservative assumptions regarding its impact on agricultural production. The Agricultural Sector is inherently a tradable sector with products that generate or save foreign earnings; therefore project benefits can be quantified completely in Dollars.

The economic analysis of the original agricultural amendment contained one caveat. The project activity described as a lobbying effort could result in an extremely high risk because the policy advice provided through the activity could fall on deaf ears and produce nothing but a flow of unutilized reports. Nevertheless, previous project efforts have resulted in significant policy reform improvements through passage of the Agriculture Modernization Law and other policy decision instruments.

Thus while the growth impact needed to justify the undertaking of the new project component

is marginal, a possibility still exists that the activity will fail to yield a positive flow of net benefits if policy makers ignore project advice. This illustrates the significant degree to which the profitability of this type of project investment is dependent upon factors beyond the direct control of project planners and implementers, and underscores the need to carefully monitor GOH commitment to policy reform process (gained through the project strategy of collaborative and consensus building policy analysis work) as project obligations and disbursements are made.

Table 1 NET BENEFITS FLOW AND ECONOMIC INTERNAL RATE OF RETURN
(000 Dollars; \$1:5.6)

CONCEPT	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	YEAR 6	TOTAL
COSTS							
USAID	\$2,766	\$3,001	\$2,431	\$1,802	\$0	\$0	\$10,000
GOH	\$5,725	\$2,425	\$2,425	\$2,425	\$0	\$0	\$13,000
TOTAL	\$8,491	\$5,426	\$4,856	\$4,227	\$0	\$0	\$23,000
BENEFITS							
1% Growth		\$5,825	\$5,825	\$5,825	\$5,825	\$5,825	\$29,125
2% Growth		\$11,650	\$11,650	\$11,650	\$11,650	\$11,650	\$58,250
NET BENEFITS (COSTS)							
1% Growth	(\$8,491)	\$399	\$969	\$1,598	\$5,825	\$5,825	\$6,125
2% Growth	(\$8,491)	\$6,224	\$6,794	\$7,423	\$11,650	\$11,650	\$35,250
EIRR (1%)	0.145343						
EIRR (2%)	0.805993						

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ANNEX A

LOGICAL FRAMEWORK

	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>A.1 OVERALL PROJECT GOAL</p> <p>To promote sustained economic growth and stability</p>	<p>A.2 Measures of Goal Achievement</p> <p>a. Higher real sector GDP growth rates</p> <p>b. Lower fiscal deficits as percent of GDP</p> <p>c. Lower current account deficit in balance of payments as a percentage of GDP</p>	<p>A.3</p> <p>Central Bank reports</p> <p>National accounts</p>	<p>A.4</p> <p>GOH Maintains stable economic policy environment</p> <p>Favorable private investment climate prevails</p>
<p>B.1 OVERALL PROJECT PURPOSE</p> <p>To improve the capacity of Honduran private and public sector entities to formulate and implement economic policies and administration</p>	<p>B.2 End of Project Status</p> <p>See overall logframe for Project 522-0325</p>	<p>B.3</p>	<p>B.4</p>

	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
C.1 OUTPUTS	C.2 Output Indicators	C.3	C.4
a. Improved mechanism for land titling.	a. Revised procedures and organization developed for INA, the National Property Registry and Cadastre. Proper implementation of revised procedures.	Project monitoring Routine project reports Project evaluations	TA is contracted and mobilized on a timely basis
b. An improved agricultural land market.	b. A functioning land transfer mechanism (land bank) established.	The GOH Official Gazette	
c. Mechanism that reduces/eliminates GOH intervention in agricultural commodity marketing.	c. Elimination of price controls and IHMA's market transactions at administered prices, and substitute with development of a market information system and grain weights and standards.	Poll on public awareness of environmental issues to be conducted in 1992 to establish baseline and again in 93,94,95.	
d. Mechanism that improves rural financial markets.	d. Legal and regulatory framework established for farmer owned rural financial institutions (<i>cajas rurales</i>)		
e. Improved collection and distribution of agricultural data.	e. Completion of the national agricultural census and semi-annual rural household surveys. Distribution of results.		
f. Environmental/Natural Resource management policy studies undertaken	f. Increased public awareness of environmental issues.		
	g. Completed policy studies.		

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	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
Outputs (continued)			
g. National Environmental/Natural Resources strategy developed.	h. Completed National Honduran Environmental Strategy Document		
h. Improved institutional arrangements for the effective management of natural resources/environment.	i. Issuance of decree defining the institutional arrangements for management of natural resources/environment		
D.1 INPUTS	D.2	D.3	D.4
	AID GOH Total	Project records	Funds are available
TECHNICAL ASSISTANCE	\$ 7,950		
TRAINING	\$ 250		
COMMODITIES	\$ 400		
PROJECT MANAGEMENT	\$ 1,000		
AUDITS/EVALUATIONS	\$ 400		
AGRICULTURAL STATISTICS			
LAND TITLING/TRANSFER			
GOH TECHNICAL SUPPORT			
		GOH Budgets	
TOTAL	\$10,000 \$13,000 \$ 23,000		

ANNEX B

GOH REQUEST FOR ASSISTANCE

	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>SUBPURPOSE II: To develop policies and administrative reforms that promote more efficient management and sustainable use of selected natural resources.</p>	<ul style="list-style-type: none"> a. Improved agricultural Water Use Law approved. b. Implementing regulations for Water Use Law approved. c. Improved Environmental Legislation approved. d. Implementing regulations for the Environmental Legislation approved. 	<p>The GOH Official Gazette</p> <p>Copies of laws, decrees, regulations and policy determinations.</p>	<p>Continued private sector participation</p>

58.

	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>SUBPURPOSE I: To implement policies aimed at increasing agricultural investment, production and exports (with emphasis on implementing the Agricultural Modernization Law)</p>	<ul style="list-style-type: none"> a. Issuance and registration of 10,000 titles annually. b. Number of registered land sales increases by 20 percent by 1996 from 1991. c. Number of land invasions reduced from 40 in 1990 to zero in 1996. d. Establishment of functioning price band mechanism for three agricultural commodities. e. Divestiture of all GOH owned grain handling facilities. f. Establishment and functioning of four farmer owned financial institutions (<i>cajas rurales</i>). 	<ul style="list-style-type: none"> Project monitoring Project data bank Consultant reports Economic reports 	<p>Continued commitment of the GOH</p>

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