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HONDURAS

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USAID/HONDURAS

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PART I INTRODUCTION:

NOTE: This submission is out-of-cycle with Honduran planning. The Government of Honduras has not yet completed, nor approved, its new Five-Year Plan (1979-1983) although it will maintain the lines of the present Five-Year Plan with some modification. The next CDSS will benefit from availability of the completed Plan and from data collected under the Urban/Regional Sector and Health Sector assessments, only now beginning.

A. Background:

The World Bank has characterized Honduras as becoming interested in development only about 1950. Its investment budget then was only $1.6 million; it was 100 times larger in 1978. Development progress in Honduras since 1950, with a resource endowment not too dissimilar from its Central American neighbors, has been the poorest of the five countries and among the poorest in the Hemisphere. Its development performance in the past half dozen years has been superior and its development prospects to the year 2000 are excellent -- if it will only face up to the issue of its rate of population growth. This could reduce, on a per capita basis, its growth, and growth with greater equity prospects, by 30 to 50%. Performance in the 1970s has improved its longer term prospects, but the 1980s will determine whether the present promise is realistic or overly optimistic.

B. Future Prospects:

The future of Honduras can best be viewed in the context of its past. In Spanish colonial times Honduras was neither an administrative nor commercial center. It was a country of miners and farmers. It lacked dynamism. The aspirations and expectations of the mass of the people were low, and, have only very recently been aroused. Much of the dynamism of recent years has been created by foreign elements. Immigrants have been notably active in business and commercial affairs. The fruit companies established

poles of development and modernization, but these had limited national effect because their orientation was toward external markets, not Honduras. Somewhat ironically, the unionizing of fruit companies' workers and the strikes in the early fifties set the basis for what is probably the most organized rural peasant movement in Latin America. Organized peasant demands have been mainly unsophisticated, emphasizing land acquisition rather than provision of governmental services. The strength of unionized leadership has created a new and select elite which may itself constitute a partial constraint on accelerating improvements in the rural sector. Agrarian reform, a product of organized rural pressures, has to some extent resulted in financial resource distortions overly-favoring agrarian reform farmers to the neglect of traditional farmers. Both groups had previously been neglected. Both require more help, provided more efficiently, than in the past. The organized rural movement, as much as any single factor, also helped substitute military for civilian rule in 1972. Thus, there is understandable reluctance on the part of the country's leadership to permitting the organized rural movement to increase its political leverage capability further. Agrarian reform in Honduras has been a political success but has had less than the expected beneficial effects -- both economic and social.

C. Consequences of Resource Scarcity:

Scarcity of resources, and less than optimal use of those available, limited development progress from 1950 to about 1970. Greatest development progress has occurred in the 1975-1978 period, coincident with good weather, excellent governmental leadership, better planning and resource allocation, improved and modernizing institutional management, favorable prices for exports, and larger and more pertinent external aid.

D. The Equity Issue:

The Honduran emphasis on growth with greater equity has stemmed as much from the political imperatives brought about by organized pressures as it has from any deep philosophical foundation. External agencies, including A.I.D., have played a positive role in fostering this orientation and supported its implementation with significant resources. Military intervention in the seventies will, in historical perspective, no doubt be regarded as a constructive and modernizing influence and a long overdue change from traditional party self-interest in controlling the Government. Honduras is but one more example of the importance of the military in Latin American politics and hence the importance for the USG to maintain viable and productive relationships with the Latin American military. With the return to constitutional government in 1980, it would not be unreasonable to assume a degree of faltering in development commitment, particularly with respect to growth with greater equity objectives. There is no guarantee that the importance of development, accompanied by the greater equity measures of the recent period, has yet been learned. This prospect has implications for how we approach the task of helping to ensure adoption of a durable Honduran basic human needs commitment.

E. Efficiency of Resource Use:

Resource use has been expanding rapidly in the past half dozen years, but efficiency and effectiveness of resource use can be considered only moderately successful. The balance between the utilization of resources and their conservation for later uses is by no means yet in appropriate balance. For example, forest resources are being squandered. Per hectare use for subsistence crops by campesinos averages $1000 in value over three years, one seventeenth of forest products lost. But for the one-

third of rural Hondurans, the process guarantees survival, albeit at the subsistence level. For lack of attention to this problem and its human aspects, Honduras is putting its future in some jeopardy. The magnitude of the problem is beginning to be understood. Nevertheless, overall, there has been genuine development progress. Hondurans are no longer blindly accepting well-intended external advice, much of which was insufficiently analytically based with the consequence of less than optimal use of scarce resources -- both national and external.

F. Realization of the Development Objective:

The basic development objective is, and will remain through several successive generations of development problems and resolutions, how to expand use of the useable resources (natural, human, financial and technological), how to use them more efficiently and effectively, and how to improve efficiency and effectiveness further through the positive interaction of resource elements toward equity objectives. Development program costs, per beneficiary, must be reduced. While aspirations and expectations of many may have been low in the past, there is now a development consciousness. Increasing appetites for capital intensive investments may ultimately conflict with attainment of both social and economic development goals. Substantial capital intensive investment will remain unrealistic until productivity is increased to a point where capital intensive investment is economic in national terms, i.e., can carry a large and unproductive labor surplus and subsidize a greatly expanded public service sector.

Perspective planning must become a real basis for goal setting and not be just another intellectual exercise. Bilateral U.S. aid is and will continue to be, quantitatively, at the margin of external resource flows, and even more so in relation to total resource availabilities. Our ability to

influence development goals and processes will, therefore, relate directly to our ability to lever resources, not our own, and this will depend on Honduran acceptance of views we may advocate. Our advocacy must be based on a sound analytical foundation, and we must employ a collaborative style which will ensure that the act of development decision-making is Honduran, and, will remain Honduran.

PART II DESCRIPTIVE ANALYSIS:

A. Analytical Description of the Poor:

1. Introduction: Most Hondurans are poor. Incomes are insufficient to meet basic food, clothing and shelter needs. Their productivity is low; their employment alternatives are limited. The poor have historically had a relatively low level of aspiration and expectation. This is changing and, indeed, has changed.

2. Poverty Benchmarks: The "nutritionally at-risk population" for both urban and rural areas of Honduras was cited in the 1978 Agricultural Sector Assessment. This population was defined as those who live at the edge of malnutrition, those for whom relatively minor changes in income, food prices, health status, family size or environmental conditions, create significant hardships or benefits. Thus, the poor are 64% of the urban and 90% of the rural population. These percentages represent those families which did not earn sufficient incomes (in 1977 prices) to purchase the minimum cost diet suggested by INCAP for Honduras, requiring family incomes of $1,500 in urban areas and $1,080 in rural areas.

An even higher percentage of families lack other basic necessities such as minimal clothing and shelter. A figure of $250 per capita is utilized as a poverty line for rural areas, $300 per capita for urban areas.

3. Rural Poverty: a. Statistics: Thus, the income of about 90% of

rural families is less than $1,080 per year. The illiteracy rate is about 51%. About 76% of rural children under five suffer from some degree of malnutrition. The infant mortality rate is estimated to be 126/1000 of live births (6.6. times the U.S. rate). Morbidity is high.

b. Characteristics: The rural population is composed of about 345,000 families. These can be considered in four major economic groups: commercial private farms (including the large multi-national plantations); agrarian reform farms; small traditional farms; and the landless labor force. These groupings are not wholly exclusive, e.g., some traditional farmers produce mostly for the market; some agrarian reform farms are organized and operated on a commercial basis. However, each group plays a distinct role in the economy; each has its own set of problems and opportunities. The categories of farms can be distinguished by farm size proxies for income levels. Thus, traditional small farms are defined as those having from one to 35 hectares; commercial farms are those with over 35 hectares. Farm families with less than one hectare of land are included in the landless labor category, since they obtain an estimated two-thirds of their income off the farm. The largest number of families are found in the traditional farmer and landless labor groups, 149,000 (43.2%) and 153,000 (44.4%) respectively, followed by agrarian reform families with 32,000 (9.3%) and commercial farmers with 11,000 (3.2%). Farm land and numbers of farms are distributed as follows: Commercial farms: 5.9% of farm units, 57.2% of farm land; Traditional farms: 76.3% of farm units, 36% of farm land; Agrarian reform farms: 0.5% of farm units (nearly 10% of all farm families), 6.0% of farm land; Landless labor sub-unit (less than one ha.): 17.3% of farms units, 0.8% of farm land.

Commercial farms produce most industrial, export-oriented items

(bananas, sugar, cotton). Production of cattle and, to a lesser extent coffee, is shared with traditional farms. Commercial farms receive the bulk of agricultural credit from private banking sources, run relatively modern enterprises and enjoy high rates of labor productivity. Average income can be assumed to be well above the minimum required for basic needs.

Traditional farms, 3 to 35 hectares, produce well over 50% of basic grains (corn, rice, sorghum and beans). 53.8% of all farms in the traditional sector fall in this category but use only about 8%, by value, of agricultural inputs, receive little credit and little or no technical assistance. Yields are low. Inadequate storage and marketing facilities contribute to serious post-harvest losses and low prices at harvest time. The remaining group of the traditional sector, i.e., farmers with 1 to 3 hectares, also use their land mostly for basic grains and other subsistence crops. They are even in a worse situation vis-a-vis inputs, credit, technical assistance, and productivity. Thus, the average per capita income of the traditional sector is $135, within a range of $83 to $260 depending on farm size. The proportion of traditional farmers falling under the poverty line of $250 per capita is estimated to be 84%.

Agrarian reform farms produce primarily basic grains. The major exceptions are reform families in the Guanchías and Isletas banana cooperatives, families in the Aguán Valley producing African oil palm and some cotton producing cooperatives in the South. Most A.I.D. agricultural assistance in recent years has been concentrated on this sub-sector. It also had been accorded highest priority by the GOH for public sector services. Thus, in a relative sense, these units do receive some technical assistance and credit. However, quality, timeliness, appropriateness, and continuity of services are deficient. Managing group farming enterprises is a complex endeavor. Complexities multiply, resulting in

low income when the managers are illiterate or semi-literate, lack management or administrative experience and have a tradition of producing for consumption rather than for profit. The mean per capita income, from all sources, is $106. Except for those groups producing cash crops noted above, the majority of agrarian reform farmers fall well below the poverty line of $250.

The rural labor force (landless laborers and farmers having less than 1 hectare) faces three principal constraints; lack of access to land sufficient to feed a family; low and seasonally fluctuating demand for family labor; and low absolute and relative wage labor rates. Annual per capita income is difficult to determine for this group, but has been estimated to be $63 for those living on farms with less than one hectare and $50 for the landless. The above figures for the rural labor force include: (1) plantation laborers, and (2) people employed by or owning small industries, craftsmen and other persons employed in non-farm occupations. Plantation laborers number about 10,000 and earn about $700 per year. While no reliable data is currently available as to the number or average incomes of those employed in non-farm occupations, they probably comprise between 5 and 20% of rural families (17,300 to 69,200 families) and earn somewhat more than landless laborers working on farms.

c. Land Tenure: There is a clear correlation between farm size and the proportion of privately-owned land -- the larger the farm the greater the percentage of total farm land owned. Farmers using less than 1 hectare own only 25% of the land they farm (hence landless labor classification); farmers with between 20 and 35 hectares own 98%. In the commercial farm sub-sector (35 hectares and up) 99% of the land is owner-operated. The most important regional variation is that farms (within

the 0-35 hectare range) in the North, South and Olancho regions are significantly larger on the average than farms in the West, West-Central and East-Central regions. Farmers in the first three regions are relatively better-off and are more market-oriented.

d. Ethnicity, religion: The poor do not differ to any great extent because of ethnicity or religion. There is a concentration of blacks and indians in coastal areas. Approximately 10,000 Mosquito indians live in abject poverty in extreme northeastern Honduras. They are physically isolated from the rest of the country and so receive few governmental services. There appears to be little active discrimination against any particular groups although one senses latent discrimination against blacks outside the coastal areas.

e. Role of Women: Annex M of the Agriculture Sector Assessment for Honduras contains a description of the role of women in the agricultural sector. Women contribute significantly to the various economic and income producing activities of the family. They are involved in the marketing of most products and in the production of several important crops including coffee, tobacco, cotton and garden crops as well as the production and handling of poultry, milk, cheese and eggs. They are preferred employees of fresh produce, vegetable, tobacco, and banana processing and packing operations. Women are excluded from two of the three professional agricultural training institutions in Honduras.

4. Urban Poverty: a. Statistics: In 1975, an estimated 36.6% of all Hondurans lived in urban areas (over 2,000 population). By the year 2,000, 55% of the population is projected to be urban. The median family income for Tegucigalpa is estimated at $2,160 per year; for San Pedro Sula $1,960 and for other cities (5000 population and over) $1,600. A recent

study of the marginal neighborhoods of Tegucigalpa showed that the median family income is approximately $700 per year. The illiteracy rate is estimated at 19%. The nutritional status of urban dwellers is somewhat better than that of rural dwellers. Over 80% of children under five years of age living in poor neighborhoods suffer from some degree of malnutrition, but the infant mortality rate of 86/1000 live births is lower than in rural areas.

b. Characteristics: Of the 180,000 urban families, 54% reside in the two major cities of Tegucigalpa and San Pedro Sula. It is estimated that families below the median income level average 1.5 wage earners. The overall open unemployment is officially estimated at 8%. However, surveys in the capital city suggest that a more accurate figure ranges between 10 and 21%, with the figure for income groups below the median exceeding 21%. Various housing studies show that over 60% of all families in Tegucigalpa and San Pedro Sula occupy one, two, or three room units, and many of these are built of scrap lumber, tin or tar paper, in groups of 8 or 10 units on small compounds of 150 to 200 M^2 and having 40 to 60 residents. Open space in such compounds allows only for access to units built at the rear and for a shared water tap or well, a single toilet or latrine, and bath or washing area. The buildings themselves have dirt floors, cloth, paper, or stick interior partitions, are structurally unsound, unsanitary and inadequate by any minimally-acceptable standards. The formal housing sector is unable to cope with the needs of the poor. For those hoping to own land for their shelter, there is often little chance of obtaining a legal title as the land is frequently part of an illegal subdivision without the required urbanization permission. This phenomenon, plus squatting and renting, constitute the tenure pattern for the urban poor.

5. Participation: The poor, and their representatives, participate to perhaps a surprising extent in development-related, decision-making processes at both local and national levels. While uneven with respect to geographic areas and types of activities, participation has been actively encouraged by GOH policies and actions to date. The participation of the poor has been more evident in rural Honduras. The outcomes of national issues, such as agrarian reform, have been substantially influenced by peasant pressure groups. Furthermore, local participation in community betterment committees is widespread. The nature of participation of the poor in urban areas of Honduras is not well understood. Organization is weaker. Community association and cooperatives are, however, widespread.

B. Why are Poor People Poor?

1. Long-term Performance of the Economy: The basic causes of poverty in Honduras can be found in both the structure and historically poor performance of the economy. (See Section C.) In addition, topography is rugged, restricting transport and communication. The quality of the thin soil cover in other than the valley areas is poor. From 1960 to 1965 real GDP growth averaged 5.4% annually. In the second half of the decade, average annual rates declined to 4.2%. The annual average growth rate for GDP fell to 3.5% during the first six years of the 1970s, Hurricane Fifí being a contributing factor. Real growth in 1977 improved to 7.7% and to an estimated 6.1% in 1978. Long-term poor performance of the economy results in low per capita income. In 1976 per capita GDP was $380. In 1977, Haiti's GDP per capita (1976 dollars) of $188 was the lowest in the Western Hemisphere; followed by Honduras' $451[1/] and Bolivia's $485.

1/ Based on CONSUPLANE 1977 population estimate of 3.3 million.

2. Development Constraints (Macro view): a. Resources: Honduras has significant natural resources, most particularly, under-exploited land and forests, and potentially, water for more power and irrigation, but steep gradients and thin soil limit efficient utilization. These resources in the main are not being efficiently used: land is not used optimally, an appropriate balance between utilization and conservation has not been determined, and, substantially more power and water (including both flood control and irrigation) is beyond national capacity to finance.

- -- A development policy orientation and development-oriented leadership, supported by competent planners, are relatively new.
- -- Trained human resources are scarce and the institutions to produce needed skills are few and underdeveloped.
- -- Public institutional structures and management, and, delivery systems are weak.
- -- Essential basic infrastructure is lacking.
- -- The financial and fiscal base of the economy is small.
- -- Technologies appropriate to needs and the level of development are only now beginning to be developed.
- -- The national private sector, outside of multinationals engaged in large-scale, plantation agriculture, has only relatively recently shown signs of dynamism.

Nevertheless, progress in development has been significant since the military's ouster of the civilian government in 1972, and particularly during the 1975-78 period.

b. Attention to Agricultural Development: The economy is predominantly agricultural, the sector accounting for about one-third of GDP, 75% of the value of exports, and 16% of current public revenues. About two thirds of the economically active population depend on agriculture for

their employment and income. Only recently has the GOH assigned high priority to agricultural development. The poor performance of the agricultural sector since 1960 has been a drag on the economy as a whole, but contributed to highly favorable growth rates in 1977 and 1978.

c. Economic Policies: GOH monetary and fiscal policies have tended to skew factor prices so as to make labor relatively more expensive than capital investment. Only now is labor-intensive, small industry beginning to be given serious attention. The exemption of import duties on machinery and equipment, a slightly overvalued exchange rate, and an interest rate ceiling of 11% tend to lower the cost of capital below its opportunity cost. Minimum wage, labor and social security laws tend to raise the cost of labor above its opportunity cost. The extent of the effect which such factor prices have on employment has not been specifically analyzed.

3. Development Constraints (Micro view): There are a number of interrelated reasons which contribute to explaining the poverty of target sub-groups.

a. Rural Traditional Farm Households: The following summary of constraints, is based on survey data and case studies during the 1978 Agriculture Sector Assessment process. These are summarized by farm size as follows: very small farms (0.6 to 3 hectares); small farms (3-5 hectares); medium-small farms (5-20 hectares); and larger small farms (20 to 35 hectares).

Very Small Farms: The principal constraints are access to land and capital, compounded by the nature of land tenure on these farms where only a quarter of the land is privately-owned. There is an excess of labor, some of which is used off the farm. The returns to labor are

less than half that for larger peasant farms. Nevertheless, net profitability of family labor even on the smallest farms is $2.25 per day, which is twice as much as the average rate for wage labor. Productivity, measured as return to labor, is low, but as a return to capital, is very high. The bulk of production (more than 80%) is in basic grains, good subsistence crops but very poor producers of cash primarily because of their low market prices. A very low proportion of crop production from these farms is marketed, because it is mainly consumed.

Small Farms: These farms share some of the constraints of the smallest farms and some larger farms, thus forming an intermediate category. The amount of land is less of a constraint than for smallest farms. Tenure is barely a constraint. Access to credit for working capital is serious, as is indebtedness. These farms borrow on the average at a rate of 15% of gross worth, and the ratio of default to borrowing is 8%, which is the highest for all peasant farms. The level of indebtedness is probably caused primarily by reliance on basic grains as a production crop and as the source of cash income. Family labor is sufficient to meet the farm's needs and off-farm labor accounts for one-third of family income, rather than two-thirds as on the smallest farms. While wage labor is employed at times of peak demand, this does not represent a real constraint since the cost of wage labor is much lower than its productivity. Returns to labor are also less than half that on larger farms. This, again, is a function of the labor intensiveness of the production process and the relatively small role that improved technology plays vis-a-vis the larger farms. Marketing mechanisms and the price structure of basic grains are a constraint to these farms. Volume of potential marketing as a percentage of total farm production, is not as much a constraint

on these and larger farms as it is on the smallest farms.

Medium-Small and Medium-Large Peasant Farms: The availability of land is not a constraint. On the contrary, the constraint is a lack of resources, both capital and labor, to farm the land optimally. A sizeable proportion of land on these farms is unutilized as a consequence. Labor availability is a serious constraint to this category of farms at peak times. The ratio of family labor to hectare cultivated is 2.5:1 on the smallest farms but only 0.6:1 on the medium-large farms. Lack of access to credit is a constraint, though not as serious as on smaller farms. About one quarter of these farms obtain credit in sufficient amounts to provide working capital for production purposes. However, indebtedness is a serious problem on medium-small farms and not on medium-larger farms. This again is related to the lower productivity of the former where the return to labor is only two-thirds of that on the latter. Dependence on basic grains is reduced as a constraint at this level. Basic grains account for only half of the total value of crop production, and the marketing of farm production includes other annual and permanent crops.

b. Rural Landless Laborers: The major constraint on increasing family income is, besides lack of access to land and capital, the lack of remunerative employment opportunities. Laborers cannot find full-time work since demand for farm laborers is seasonal. Non-agricultural opportunities are few. When work can be found, wages are very low. There are no reliable statistics on rural unemployment or underemployment.

c. Urban Laborers and Small-Scale Entrepreneurs: The major constraint to increasing family income is also the lack of employment opportunities, with unemployment estimated to be between 10 and 21% for the labor force above the median income level, and, above 21% for that below the

median. Again, many of the jobs that are available, even if full-time, do not pay enough to cover basic food needs. Limited information on small-scale entrepreneurs indicates that the major factors limiting expansion are a lack of assured markets, a shortage of working capital and problems with the supply of inputs, plus a reluctance to take risks.

C. Development Progress:

1. Macro-Economic Trends: a. Economic Background: Because of inefficient use of land and forest resources, combined with resource constraints cited above, Honduras' annual rate of economic growth mainly decreased from 1960 to 1976. This poor performance contributed to low annual per capita income. In 1976 it was 759 Lempiras ($380) using a Gross Domestic Product concept and 616 Lempiras ($308) using a net national income concept, both at current prices. The economy, however, has shown an upswing reflecting, in addition to good weather and favorable prices for major export commodities (coffee, forest products, meat), increasingly competent leadership, better financial and fiscal management, better planning and clearer goal conception.

b. Principal Factors Affecting GDP Growth: (1) Performance of the Agriculture Sector: Between 1970 and 1976, average agricultural production growth was only 1.5% per year; per capita agricultural production decreased at an average annual rate of 1.7% per year. Hurricane Fifí in 1974, with no net growth recorded, was a factor in the poor agricultural performance during this period. It caused a sharp decline in banana production and a general slowdown of the economy in both 1974 and 1975. With the recovery of banana production and the increase in coffee prices in 1976, sector growth in 1976 over 1975 was 7.2%. With the Government's emphasis on the sector, plus good weather, the increase in 1977 over 1976 was 7.4%.

(2) Performance of Exports: The overall growth of GDP is sensitive to changes in agricultural export earnings, and, thus vulnerable to both the weather and the prices in foreign markets. When good weather and high export prices have led to an increase of 15% and higher in agricultural export earnings, increases in GDP generally have been over 6%. Increases in these export earnings of 5% or less have coincided with GDP increases of 6% or less.

c. Public Finances: Honduras has consistently followed conservative fiscal and monetary policies. This, combined with an economy with modest demands for consumer goods and one lacking in dynamism, has resulted in one of the lowest inflation rates in the Western Hemisphere. An increased emphasis on revenue collections over the past ten years as well as the expansion of public enterprises has accounted for an increase in public sector revenues from 181 million Lempiras in 1967 to 546 million in 1976. A new tax reform was enacted in 1975 that is intended to increase revenue more. In fact, tax revenues increased by 25% in 1976 and tax revenues rose to 12.8% of GDP as compared with 11.8% in 1975. Public savings have been buoyant. The rapidly increased public investment program during the period of the 1974-78 Development Plan has increased public indebtedness and the debt service burden. In 1977, debt service payments by the Public Sector were scheduled to be about 6% of export earnings. In 1976 interest payments made by the Central Government for domestic debt totaled about 2.5% of current expenditures and amortization about another 8.5%.

d. The Balance of Payments: (1) Long-Term Composition of Exports: The BP position of Honduras has been largely determined by the exports of a few major commodities (bananas, coffee, lumber and beef). Bananas have been traditionally the main export product although their share has been

declining over the years from 75% of total exports in 1950 to 26% in 1976. The share of coffee, lumber, beef, and other products has been steadily increasing over the long term. The value of coffee exceeded bananas for the first time in 1977. This increased diversification of exports has made the economy somewhat less vulnerable to the vagaries of weather and specific export market prices.

(2) 1970-1976 Period: The value of merchandise exports increased at a somewhat higher rate than the value of merchandise imports from 1970 to 1976. However, since imports started from a higher base in 1970, the absolute merchandise deficit increased from $20 million to $23.5 million. The rapid rise in the value of imports from $244 million in 1973 to $427 million in 1976 reflected the sharp increase in petroleum prices, world-wide inflation and the doubling of capital goods imports resulting from both reconstruction programs following Hurricane Fifí and the increased public investment program. Adding in non-factor services, net factor income and net transfers results in a current account deficit increasing from $61 million in 1970 to $109 million in 1976. From 1971 on, the annual surplus in the capital account more than offset the current account deficit resulting in reserves steadily increasing from $9 million in 1970 to $72 million in 1976. The 1976 reserves were the equivalent of two months merchandise imports, which had risen to the equivalent of about two and one-half months by the end of 1977.

(3) 1977-1978 Period: In 1977, the value of merchandise exports was 28.6% higher than that of 1976. The value of merchandise imports on the other hand, increased 27.2% in the same period. The current account deficit rose 20%. Nevertheless, due to a 28% increase in the capital account surplus, there was a positive change of $39.4 million in the monetary

reserves. By September 1978, reserves amounted to $156.5 million.

2. Socio-Economic Trends: a. Land Tenure: An exact comparison of the agricultural censuses of 1965-66 and 1974 cannot be made. Each census used slightly different farm size categories, but the percentage of farms falling into (almost) the same farm size categories is about the same for both censuses. The number of farms (having over 1 ha.) increased by 25% over the period. The next census will show beneficial changes because of agrarian reform activities since 1974.

b. Income: The per capita GDP figures given above do not tell the whole story in relation to the disposable incomes of families, especially rural families. An income survey completed in 1967-68 showed that 80% of all families had incomes of less than $1,000 and 45% had incomes of less than $250. In rural areas, 94% of all families had incomes of less than $1,000 and 61% had incomes of less than $250. A comparison of the results of the 1967-68 survey with figures for 1978 will be possible by mid-1979 when an ongoing, follow-up survey (financed by A.I.D.) will be completed.

c. Nutrition: The low income levels of the Honduran population have been the primary cause of malnutrition. A nutrition evaluation survey conducted in 1966 with INCAP participation estimated that more than 70% of children five years of age or under suffered some degree of protein/caloric malnutrition. The breakdown of the total for rural areas was: first degree malnutrition (Gómez classification) 45.4%; second degree 28.7%, and third degree 2.4%. Honduras, at that time showed the worst malnutrition rates in Central America. A comparison of this data with new data for 1978 will also be possible upon the completion of the 1979 follow-up survey. INCAP now informally characterizes Honduras among Central American countries as having the best national nutrition program after Costa Rica.

d. Health: Reliable health statistics were generated by a national demographic survey carried out in 1971-72. The infant mortality rate was estimated to be 117 per thousand of live births -- 86/1000 in urban areas and 126/1000 in rural areas. Life expectancy was estimated at 52 years. Morbidity is high and for too many Hondurans illness is a nearly constant companion, especially in rural areas. The principal causes of death and morbidity are environmentally related and largely preventable.

e. Education: The educational level of the Honduran population remains low -- illiteracy rates were 40% for the nation as a whole in 1975-76; 19% for the urban population and 51% for the rural population. The overall illiteracy rate has dropped approximately 13% since 1961. The coverage of primary education has remained the same (76%) in percentage terms over the 1970-1978 period.

f. Housing: The 1961 census showed that about 50% of the population lived in over-crowded housing, only 12% of houses had piped-in water, and only 20% of houses had their own toilets. The situation in respect to water and toilets improved somewhat by the time of the 1974 census -- to 15% and 25%, respectively.

g. Population Growth: Honduras has one of the highest rates of population growth (estimated to have been 3.2% per year during 1970-75.) One estimate projects a rate as high as 3.6% per year over the 1976-80 period. Current estimates on the present rate range from 2.8 to 3.4%. The population was estimated to have been 1,401,000 in 1950; 1,943,000 in 1960 and 3,313,000 in 1978. The age structure of the population has been getting increasingly younger, with nearly 50% under age 15 in 1978.

3. Human Rights: Honduras has been ruled by three successive military administrations since 1972. The legislature has been suspended but there

are a series of councils, most established under Government auspices, which help provide the Government a consensus of views. The Government's record on freedom of the press, religion, immigration and others is good. The Government is committed to 1980 elections and a return to constitutional government. There are no political prisoners.

D. Host Country Development Plan and Budget:

1. Development Aspirations and Expectations: Since 1972, but particularly since 1975, the Government of Honduras has demonstrated an increased commitment and will to accelerate development, allocating necessary resources more rationally, including increasing markedly its efforts to reach more of the disadvantaged, particularly the rural poor. A major impetus was provided by the reform-minded military officers who had assumed power. They have placed qualified technocrats in key ministerial positions, are amenable to modern methods of planning, and wish to improve the civilian administrative structure. The Military Junta which took over in August 1978 has stated its intention to continue the policies of the predecessor administration. Concurrent factors were intense political pressures for major agrarian reform from organizations representing the rural poor and a decision among the leadership that the country's natural resources should be utilized in the national interest. Thus aspirations and expectations for development progress, long dormant, have been aroused. When a constitutional government is returned, it would be difficult for it not to continue the general developmental lines of recent years.

2. Summary of Objectives of National Development Plan 1974-78: The 1974-78 GOH Development Plan provided a framework for a more activist role for the public sector in development and set forth nine global objectives. The current Government has announced its plan to continue the general lines

of strategy of the 1974-78 Plan for the 1979-83 Plan. Principal among the objectives of the 1979-83 Plan are: "Rational use of natural resources; improvement in the distribution of income; increased levels of employment; reduction in social services deficiencies, with emphasis in the rural areas; attention to food and nutrition problems, especially among the infant population; and, increased educational programs."

3. Public Investment Program 1974-78: Public investment until recent years had been small ($10 million in 1960, $47 million in 1970) and the bulk of public fixed investment expenditures had been allocated to infrastructure, i.e., transport and power. A smaller share had been allocated to the social and productive sectors. This has changed since 1973. As a result of significant changes in the Government's development policy, the magnitude of public investment was greatly increased and productive investments in forestry and agriculture have been undertaken by the public sector, thereby shifting the composition of public investment more toward the productive and social sectors. The overall magnitude of annual public investment more than doubled (from $66 million to $157 million) over the 1974-78 period. The basic investment strategy being followed by the GOH is:

- Increased public sector participation in the nation's development through an expanded public investment program, and through the creation of specialized public agencies.
- Continued construction of basic infrastructure to integrate various regions of the country and, in particular, to provide for the development of the Olancho and Aguán Valley areas.
- Exploitation of the nation's forestry resources.
- Increased public participation in development of the industrial

sector by means of the public financing corporation, CONADI, created in 1976.

- Continuation of agrarian reform and other social programs to distribute more equitably benefits of development.

4. The 1979-83 Investment Program: a. Objectives: On the eve of the 1979-83 plan, in spite of past effort, Honduras is still among the world's least-developed nations. The Government's objective for 1979-83 is to increase the overall growth rate, but also to direct a larger share of the benefits to the lower income groups of the population.

b. Size and Composition of Public Investment: The levels of public investment in current prices were estimated to be L. 183 million in 1976, L. 232 million in 1977 and L. 314 million in 1978. It is expected to average close to 400 million Lempiras annually over the 1979-83 period. The increase in the share of public investment for infrastructure is solely due to the El Cajón hydroelectric project. Otherwise transportation and communications are expected to decline through the 1979-1983 period in absolute as well as in relative terms. The productive sectors increase their share while the social sectors' share decreases. Agricultural investments are projected to double from 1978 to 1982, from L. 19 to L. 38 million. Forestry investments reach levels of L. 68 million in 1979, L. 58 million in 1980, and L. 41 million in 1981, reflecting the construction of sawmills and related forestry development. Tourism investments rise to levels of L. 20 and L. 17 million in the final two years. In the social sectors, investment in health and education decline in absolute terms during the period from levels of L. 15 and L. 17 million, respectively, to L. 10 and L. 12 million, respectively, but the declines reflect planned completion of major programs of facilities construction early in the new Plan period. Water

and sewerage investments remain at a level of about L. 20 million annually, urban-development expenditures decline slightly, and housing expenditures may increase, but remain at a fairly low level.

c. Major Programs: The sector allocations do not tell the full story of the significant changes implicit in the figures. The next five-year plan will establish the Aguán Valley-Olancho region as a new growth pole, destined to have the highest growth rate in the country. Some $700 million are programmed for the region, for agricultural and forestry development, the first stage of related industrial development, and supporting infrastructure. Within the Valley, a $50 million agrarian reform settlement program, supported by the IDB, is establishing about 7000 farm families on farm enterprises producing African palm and citrus. At present Honduras is a net importer of edible oils and consumption is expanding rapidly as economic conditions are improving. This is the first agrarian reform project with a fully integrated farm-to-market program. The planned El Cajón hydroelectric project (about $500 million) is the largest project ever undertaken by Honduras. It is expected to meet new power needs of Honduras to the end of the century. The reorganization of the Banco Nacional de Fomento with improved procedures should enable that institution to manage a larger credit program more effectively. An agricultural Marketing Institute has been established and an expansion of grain storage facilities is programmed to help ensure an effective price stabilization program for basic grains. This will directly benefit the many small farmers who produce an estimated 75% of the basic grains. Three recently-established public institutions will play increasingly important roles: COHDEFOR, charged with managing the nation's forest resources and establishing major forest

products industries; CONADI, charged with stimulating industrial development through preparation of pre-investment studies and co-participation in the financing of private projects; and COHBANA, charged with developing banana production and finding markets for agrarian reform and traditional farmers. The COHDEFOR program totals L. 400 million; the CONADI program L. 172 million; and,the COHBANA program L. 53 million. A fourth institution, the Honduran Coffee Institute, will manage a greatly expanded program to stimulate coffee production with its budget of L. 65 million. Tourism may represent an important new source of foreign exchange earnings. Present programs include a $2 million improvement program for the village of Copán and the present archeological site plus $7 million for an improved access road to the site. The Copán archeological site, the Bay Islands and the Caribbean coast offer good tourism prospects. Should Honduras capture only 15% of tourists projected to visit Guatemala in 1985, this would add an estimated $30 million of income.

5. Honduras' Development Prospects: a. Growth Rate: The development program for the 1979-83 period is ambitious with respect to past efforts, and will require a substantial effort to mobilize internal resources, as well as greatly expanded foreign assistance. With all this, the anticipated results as measured by increased real per capita GDP are modest, 1.4-1.5% annually for the 1980-83 period reflecting mainly a lag between infrastructure investment and production from industries benefiting.

b. Distribution of Income and Services: The 1979-83 Plan period reflects the dilemma of a country with what is, effectively, a small resource base, insufficient essential infrastructure, the signs of an incipient dynamism in the economy which needs nurturing, and an interest in achieving early equity objectives combined with a respectable rate of economic progress. As

a practical matter equity objectives can be met only by an institutional structure and delivery system not yet in place. The effect of the development program for 1979-83 on the poor will depend on how rapidly the Government can gear up to that task. There will be progress but the rate of achievement will depend on overcoming constraints cited earlier. The policy of the Government can be expected to give priority to redistribution programs coincident with improvement of its servicing capacities. Health and education strategies continue to emphasize outreach into rural areas. Agrarian reform programs, including both the transfer of land and agricultural development efforts directed toward beneficiaries, will continue and the Government will make new efforts to reach traditional farmers. The Government now estimates the addition of 6,000 new agrarian reform families per year during 1979-83.

c. Balance of Payments: Balance of payments projections of the World Bank show at least manageable trends over the 1977-82 period. The current account deficit is projected to increase from $131 million in 1977 to $205 million in 1982, largely as a result of the expanded public investment programs. External financing is assumed to cover 65% of the public investment expenditures. It is expected that loans will be offered on concessional terms. Thus, the projected level of public investment can be supported at the same time as net foreign exchange reserves can be maintained at a level exceeding two months imports, and the debt service ratio can be held to 13.4% of exports by 1985. (The debt service ratio is projected to rise from 6.6% in 1977 to about 9.4% by 1981).

d. Public Finances: Public savings are expected to more than double from 1976 to 1981 as a result of new tax measures in 1975 and anticipated increased efforts starting in 1979, and, with increased resources from

public autonomous institutions and enterprises. The projected budget deficits for the 1978-81 period are modest, totaling L. 40.5 million, only 2.4% of the projected L. 1,686 million in public capital expenditures. Financial viability of the investment program (including the large El Cajón hydroelectric project) depends heavily on mobilization of domestic savings and on the ability of the Government to raise substantial external financing on concessional terms. While this will put strains on the economy and create some temporary adjustments in the development effort, the alternative of delays is less pleasant to contemplate.

E. Absorptive Capacity:

A number of development constraints were cited above (see Section II.B. 2.a.). These effectively limit the amount and type of aid provided. Constraints are not constant but differ over time. Thus, the execution of programs and projects to reach the poor majority -- a goal which inevitably requires application of more resources -- sets parameters on how much aid and how fast it can be effectively and efficiently used. International agencies have observed that they would provide more aid if absorptive capacity were greater. Most external aiding institutions prefer having discrete and identifiable projects. They also impose added administrative requirements. These constitute a further constraint and reduce absorptive capacity somewhat. Transfer of external resources always brings, to some degree, a claim on national resources. Development always requires application of additional resources (natural, human, financial, technological). In this sense Honduras is a resource scarce country, and, the key to its development is how to increase the availability of resources for specified priority ends, and, how to utilize those resources effectively and efficiently, actions which normally can be better understood

by careful analytical examination of alternative policies and actions, costs and benefits, trade offs, costs and consequences, bearing in mind that some actions in combination, as opposed to individual and separate actions, enhance possibilities for achievement of goals.

F. Other Donors:

External development assistance is significant and growing in importance -- increased amounts, increase in number of donors. The unexpended balance of active loans as of the end of 1977 was approximately $347 million. Planned grant commitments totaled almost $22 million in 1977. The IDB and IBRD, which provide about two-thirds of all external resources, are concentrating on basic infrastructure, e.g., roads, ports and power, as well as major agricultural investments in the Aguán Valley and a forestry industry development program in the Olancho region. The UNDP, OAS, and many bilateral donors, e.g., the Canadian, British, German, Japanese and Swiss Governments, are active and provide both capital and technical assistance. The international donors meet monthly to ensure information exchange and coordination.

PART III MISSION'S PROGRAM STRATEGY:

A. Introduction:

1. Definition: We use the term Strategy in this CDSS as it is traditionally defined: "The art of...; management of ...; art of so moving or disposing... as to impose /or exercise influence/ upon..." the other party regarding "the place and time and conditions... prefered by oneself." If, for example there will be a substantially greater concern and more action to meet basic needs of Hondurans in the future, it will not be because of a 100% coincidence of views independently arrived at.

2. Objectives: The process of development is the application, but also conservation, of resources: natural, human, financial, technological. How this is done is a consequence of the strategy or strategies determined, and, advocated and accepted. Our overall Agency objective of "growth with equity" is unrealizable. Growth with greater equity is possible and in allocating bilateral aid we must reach judgments as to what is acceptable in a given country at a given point in time. Development is, of course, political and cultural, as well as economic and social, and development of any strategy must take all factors into account. Some factors, e.g., a country's leadership, constitute a part of the development environment and are outside our purview to influence. Obviously, success of external aid programs depends first on an accurate assessment of the development environment and how these factors can be more productively employed to achieve stated goals.

3. AID Assistance Strategy: In focusing on the very poor, A.I.D. has selected the most difficult of development targets, and at a time when bilateral financial resources are slimmest. Reaching the very poor requires unprecedented host government commitment; new development policies; changes in allocation of resources, in some cases with an accompanying slowing of growth rates; larger, more costly and more extensive governmental structures and delivery systems, i.e., an expanded public service sector; an improved and relevant technological capacity that can be delivered at low per capita beneficiary cost; a much larger skilled human resource base to provide the new range of services; and lastly beneficiary receptivity, i.e., capacity to comprehend and employ the affordable technology provided in response to beneficiary needs. It is patently obvious that A.I.D. is not a free agent to reach "its" target group in sovereign nations (although some guidance

seems to overlook this essential reality). Even if it were possible, A.I.D. has neither the financial resources, nor probably the intellectual resources, to get the job done. A.I.D. must, therefore, use its resources to lever other resources -- mainly national, particularly but not exclusively financial, to affect significantly the process of development. In this respect, except in countries at the most elementary stage of development, other donor financial resources, while not as much at the margin as bilateral USG funds, are nevertheless small in relation to total resources available, or those which can be mobilized. USG bilateral financial resources, relatively scarce now, unlike former years when larger sums were available, have less leverage potential. In addition, a "collaborative" style is a necessity as well as desirable. Most countries, Honduras included, have a capacity for at least minimally-adequate effectiveness and efficiency to identify, plan and implement their development programs.

No longer can external donors unilaterally determine and decide. The external inputs -- financial, intellectual and technological -- have the possibility of sensitizing, affecting policy emphasis, altering resource allocations, strengthening and improving management and technological processes and structures. If our limited funds have diminished leverage effectiveness, the substitute has to be our intellectual and technological resources, applied primarily through joint engagement in an analytical process, employment of <u>high level and competent</u> advisory assistance, followed by our participation in implementation. Thus, a logical strategy, and one we have tried to apply in Honduras, is to engage in an in-depth sectoral analytical process, collaborative in execution, but always posing and reserving issues for Honduran decision. There is no denying, however, unpopular it may be to state it, that the provision of

resources -- financial, intellectual, technological -- is intervening in the affairs of other countries, i.e., benefiting or distorting the development process depending on one's viewpoint. In selecting a basic human needs approach as the fundamental foundation of our bilateral aid program, our U.S. objectives and goals are radical and run counter to strong, historical trends in most developing countries, including Honduras.

The concentration of Mission energies is focused on what seem to be central pervasive development problem issues in key sectors. A sectoral approach is followed as the most practicable way of encouraging a shift from past Honduran "crisis management" and Honduran and Mission micro-oriented project activity.

One of the severest deficiencies in Honduran development planning and execution is management capacity, organization and processes. Thus, the Mission is providing high-level advice which already appears to have had a beneficial effect in contributing to Honduran decisions in agricultural sector organization. Management advice is a substantive area of greatest LDC need, and, coincidentally is the weakest and most limited of A.I.D. capabilities. A second area of severest deficiency is appropriate technology in all areas -- both hardware and software. Per capita beneficiary costs of most people-oriented programs are too high and the Mission is planning, with expert external assistance -- both regional and extra-regional -- pilot efforts to increase employment and quality of life options for the very poor, particularly rural. Our current conclusions about Honduran development prospects (see I. Introduction) are favorable and hopeful. There are reasonable prospects that basic human needs objectives will be included as an integral, component part of Honduran objectives, and that institutional structures can, over time, be strengthened

to a point where programs t o w a r d that objective will continue even if the commitment of future Honduran administrations may falter in some respects. It has also been our experience that possibilities for country development accomplishment change from time to time. The time to move aggressively and positively in Honduras is now. Aid flows from all donor sources, as well as those of A.I.D., should approach Honduran absorptive capacity to use aid effectively and efficiently. These are not large amounts.

There currently is a development momentum. Honduras' 1978 per capita economic growth was exceeded in Latin America only by Paraguay and Perú. This testifies, among other things, to its small economic base. The value of fixed capital investment, on a per capita basis, is only $850. Honduras per capita population growth (variously estimated between 2.8% to 3.4%) may have been exceeded by no Latin American country in 1978. Political constraints preclude direct bilateral USG engagement in family planning. Nevertheless, external private sector assistance has increased significantly in the past two years, as has the availability of family planning services. The United Nations is initiating a fairly substantial and significant program in this field.

Given the limited USG bilateral financial resource availabilities for Honduras, there needs to be the greatest flexibility as to how these resources are used. Meeting basic human needs goals requires a substantial increase in application of financial and human resources and improvement of institutional capability. This can be best facilitated by bilateral aid resources, being used flexibly to expand that base as rapidly as it is feasible to do so. The new and larger base must be considered a "Honduran" base, and, not an "A.I.D. project add-on." It is important for A.I.D. resources to lose their "projectized" identity as soon as possible, even

allowing for the desirability of the trail being visible to the ultimate beneficiaries. In this connection, there has been in the past a tendency in this Mission and in the region to hold on to preaudit-type functions too long. It will be this Mission's policy to shift responsibility for management of A.I.D funds to the Government of Honduras as rapidly as it is prudent to do so.

The foregoing approach has consequences for Mission staffing and functions: less program and fund management and more monitoring of Honduran program and fund uses; reduction in Mission components providing traditional technical assistance and expansion of Mission analytical capacity; more attention to Honduran policy and resource allocations; more management and technological advisory services. Explicitly, the Mission will give special emphasis to planning and analysis, development management, delivery systems and human resource development. The approach will be sectoral and appropriate technology will be emphasized. The Mission will try to meet Honduran needs with flexibility in our methodology. This Mission will encourage, to the extent feasible and where appropriate, greater private sector involvement in the development effort.

B. Agriculture Sector Strategy:

1. Background: Whether Honduras has a viable economy -- indeed whether it has viability as a nation in the year 2000 -- depends primarily on what happens in the agricultural sector and how Honduras employs its natural and human resources. Thus, the Mission has given first priority to rural development, primarily agricultural development, but now also including rural-based small industry. The Mission's development strategy has a rural focus, is mainly on rural poor and is largely coincident with the policy emphases of the Government of Honduras. The Mission's agriculture sector strategy has evolved over a period of several years and began to take on its present form and emphasis only in March-May 1977. Thus, the present CDSS examination catches strategy development and execution somewhat in mid-stream.

Development in this sector depends primarily on how all resources (natural, human, financial, technological) are employed. Presently existing institutions provide the primary means through which resources will be used. The efficiency and effectiveness of these institutions are directly affected by the quality of national and sectoral leadership, the governing policies -- including philosophical orientation -- of the leaders, the soundness of planning and plans, the quantity of financial resources to be employed, and the availability of relevant, low-cost technologies, particularly for the benefit of the poorest Hondurans. As noted earlier, Honduras began only recently to give the agriculture sector more appropriate and high priority. In this respect national leadership, by and large, has been excellent. Of particular importance, the Minister of Natural Resources has provided essential leadership continuity, heading the Ministry for more than four years. There is reasonable expectation of his continuing until

after the 1980 elections.

Honduran policy orientation has favored agrarian reform and land redistribution, and, only more recently has embraced the larger mass of the rural poor. Commitment in the best of circumstances, here as elsewhere, normally runs well ahead of performance. Performance depends heavily on institutional capability. While allocations of financial resources for the sector have been expanding over the past several years, their utilization would have been more rapid had the absorptive capacity of sectoral institutions been greater.

The institutional structure of the sector is of fairly recent origin. The Ministry of Natural Resources (MNR), which now includes mining, was created only in 1972, absorbing functions of older ministries. In the late 1950's the Honduras/U.S. Agricultural Servicio was incorporated into the Ministry. A multi-sector lending institution, the National Development Bank (BNF) was created in 1950. Many of the functions for which it was created -- including grains price stabilization, subsidized urban food stores and industrial lending -- no longer can be encompassed efficiently in a single institution where primary orientation should be agricultural lending. Both responsiveness to agricultural sector needs, as well as sound management, require reorganization -- particularly operational decentralization, organizational simplification, and the spinning off of functions unrelated to its primary role. With certain encouragement and some prospective financial support from the Mission, the grain stabilization and incentive pricing was spun off in 1978. The National Agrarian Institute (INA) was created in 1961 to administer a previous agrarian reform program. It was resurrected in 1972 from a nearly defunct status to administer Honduras' current, active agrarian reform. Until 1977 it ran a course almost independent of govern-

mental direction and intrasectoral coordination and its ties with the organized rural peasant movement were unusually close and strong.

There are lesser, but nonetheless important, organizations: COHDEFOR (forestry) which potentially may wield more economic power than either the BNF or the INA; COHBANA, created in 1975, to encourage marketable banana production by small growers and to assist in marketing, including stimulation of new markets. Other smaller organizations, e.g., the Coffee Institute and DIFOCOOP, perform specific functions for narrower clienteles.

While there has been increased attention to the agricultural sector, the spawning of separate agencies, which in itself makes sense, has nevertheless resulted in competition for resources. Each had developed its own institutional structure without regard to intrasectoral requirements and efficiencies. Each had pressures to meet their unique, but often overlapping and conflicting, mandates. Each was highly centralized and their field operations were not organized along any parallel lines, making execution of governmental policy and coordination difficult. An incipient move to decentralize operations of the major institutions began about three years ago but has had major impetus only in the last year and one half. Planning in sector institutions, particularly in INA and BNF, has been narrow and unusually weak. The quantity of qualified management, as well as technical, staff in all institutions is limited. While able to carry out specific projects, they are often quite incapable of responding to the needs of greatly expanding programs.

Execution of programs in support of basic human needs objectives requires establishment of much stronger, larger and consequently more costly institutional structures and delivery systems. There has to be substantial improvement in inter-agency coordination and cooperation as well as in

intra-agency efficiencies. This invariably requires more articulate -- and consistent -- policy expression, combined with greater operational decentralization, demanding in turn, quantitative and qualitative improvements in human resources which have heretofore been inadequate to the task and are still in need of qualitative improvement, specialization and diversification.

2. Mission Strategy: The strategy employed from the mid-seventies by the international agencies, including A.I.D., was to move in resources rapidly -- as it turned out, more rapidly than Honduras could efficiently absorb them because policy making and operations were split and fractured to the point where they failed to be mutually supportive and slowed the pace of achievement of development goals. Under these conditions, areas of obvious need were dealt with directly, by projects. In their eagerness to assist, international financing agencies with their projectized methodology, placed mounting claims on scarce Honduran resources. At the same time efforts were undertaken to improve the analytical basis for decision-making. A.I.D. projects, resulting from a stepped-up program, pretty much fixed on the main Honduran priorities and contributed to the establishment of those priorities. There was not, however, optimal collaboration at the project development stage for a number of reasons.

The USAID's 1974 Sector Assessment was a first rough cut at analysis -- and under the circumstances it was quite satisfactory. The first Agriculture Sector Program identified as high priorities building an agricultural planning capability and, among other things, improving credit flow -- but none of the credit funds in the loan moved for three years. Following mainly a project approach there were relationships -- sometimes tenous --

between various A.I.D. projects and activities, i.e. a horizontal relationship. There was not, however, a fully-integrated vertical relationship with Honduran policies, priorities and programs for a very simple reason. These were by no means clear or fixed even though the general policy posture had been well-identified in the 1974-1978 Plan. Absence of a balanced approach to planning in the sector resulted in a heavy concentration of resources on agrarian reform whose beneficiaries encompassed only a small percentage of the rural poor. While concentration of resources sometimes maximizes achievement possibilities, the process perpetuated the historical neglect of the mass of Honduran rural poor.

The IBRD/IDB/AID Tripartite Commission was well-suited to the time and circumstance in Honduras. In March 1977 the Commission meeting represented a milestone. No longer were the external financing agencies the dominant force in agricultural sector determinations. Hondurans were clearly in charge and control of policy development, although the sector, institutionally still lacked coordinated focus. The overriding issue at the meeting was how to increase Honduran absorptive capacity. The Mission, with the strong and open encouragement of the Minister, informally agreed with IBRD and IDB representatives that A.I.D. would concentrate on using A.I.D. funds flexibly to deal with this issue. At this time two other dominant issues were emerging, one political, and one technical and institutional. The first concerned INA and whether it would become more responsive to governmental policy and coordination. The second pertained to whether agricultural credit could be expanded and be directed more toward the disadvantaged rural poor. Common to both issues, and the sector as a whole, was the need for a rationalization of sector organization and processes. The sector coordinating committee, the COCO, had fallen into disuse. A new ministerial level Agricul-

tural Policy Commission was established early in 1977, the trigger being the Agrarian Reform issue, and has shown some signs of providing new policy cohesion in the sector.

The time (March-May 1977) was appropriate to refine the Mission's intuitive strategy. The Government requested stepped-up assistance in two areas; having in mind the three, earlier-cited problems which to some extent were interrelated: increasing the sector's absorptive capacity, integrating INA into the sector in full partnership, and reorganizing and focussing the structure of agricultural credit. The Government requested high level, analytically-oriented technical and management assistance. This has been provided over the past two years. There have been material improvements in sectoral organization and coordination, in the analytical basis for decision-making (see Agriculture Sector Assessment, Introduction, for a description of the process) and greatly increased ministerial involvement in sectoral policy decision. The Government also requested analytical assistance.

Though the collaborative analytical policy approach is well underway and despite the considerable domestic and foreign resources flowing to agriculture, sector policy-making, planning and management still requires improvement. Organization and structure have been simplified and there is more focus. Intrasectoral coordination has been improved -- more so in planning than execution. Productive, low-cost technologies appropriate to rural needs are at an elementary stage, but there has been interest, stimulated during the visit of Congressman Long and subsequently through assistance from the ITDG. This now has its own Honduran momentum. Delivery systems for information, services and inputs currently reach about 20% of farmers. Trained manpower is in short supply, particularly at more advanced levels and in specialized areas. This calls for increased training abroad,

but particularly for expanding an indigenous capacity. Technology is improving but is far from being at an optimal level. Agricultural infrastructure is limited.

Mission Approach: At this point in time there are several subsectoral areas where the inhibiting obstacles are extensive and must be overcome if overall progress in the sector is to be assured, and if the sector is to contribute to national growth and the well being of the population, especially the rural poor:

-- Human resources for institutional structure and delivery systems must be developed in quantitative and qualitative terms.

Positive change at all levels depends on people. Without trained people in sufficient numbers the GOH cannot marshall a program to benefit the rural poor. An important component of this Mission's sector program during the CDSS time-frame will be human resources development in the form of training overseas for senior managers and specialized professionals, training overseas and within Honduras for mid-level technical professionals, increased training for women working in the sector, and assistance to strengthen in-country training. By the end of the CDSS time-frame we expect that the number and breadth of specialized professional Hondurans will have been expanded to the point where the current reliance on foreign specialists can be greatly reduced. Competence at the operational level in all sector institutions will be stronger, especially in the Ministry of Natural Resources where the process is already underway. More women will be employed in technical and professional work. Increasing numbers of farmers will be receiving training, but these programs will still be at a fundamentally rudimentary stage.

-- The Honduran capacity in the area of policy, planning, and analysis should continue to be improved in order to allocate resources more effectively and efficiently and give emphasis to carrying out a national basic human needs strategy.

This Mission's premise is that its resources can most effectively be used to build, in sector institutions, the analytical tools and resources, material, intellectual, and organizational, to create the foregoing condition. Continuing help will be given to the MNR and assistance to other sectoral institutions will be stepped up. Some of these resources are already in the pipeline but significant new resources will be added. By the mid-1980's central analytical and planning functions should be solid and competent in the Ministry of Natural Resources and in the CPA Secretariat. Capabilities will have been improved at regional levels and in other sector institutions centrally, but at a much less refined stage than in the MNR.

-- Rural families generally must have easier access to reliable technical information, appropriate production inputs, land, capital, and markets.

The Mission's premise is that this condition has not, and will not readily be brought about by a traditional, narrow project approach. A sectoral perspective is required to assure that: (a) program subelements are interdependent and are improved in concert; and (b) the rural poor share widely in the benefit and programs are not skewed to benefit mainly the relatively well-to-do groups. The assumption is that the private sector should meet the needs of the large commercial farmers, particularly for credit. In light of this premise the Mission will apply its resources toward the development of sectoral delivery systems aimed at the poor. With regard

to delivery systems there are corollary premises: (a) that delivery systems must be low-cost if the Government is to reach potential beneficiaries; (b) that because of the low-cost imperative, systems must be made to function with the lowest level of technical and material support consistent with intended results. The Mission will support marketing system improvement, including the grains price stabilization and incentives program of IHMA; the testing and development of new regionalized delivery systems for services, inputs, and credit; and, improved and expanded credit outreach and administration. By the end of the time-frame the Marketing Institute should have developed an acceptable level of competence in basic grains price stabilization operations guided by sound economic incentives considerations. If it indeed does reach that stage, this will be significant for the majority of small farmers who account for over three-fourths of Honduras' basic grains production. The BNF should be able to expand lending substantially beyond its current small farmer clientele. It should have graduated its larger and more successful borrowers to the commercial banks. A new form or forms of regional service operations will have been established, hopefully utilizing the structure of rural peasant organizations.

-- Increased use of labor in small-medium farms is an "intermediate technology." Investment on farms must be made more labor-intensive, and, off-farm employment must have a sound economic and technical basis for expansion.

The rural population is expanding and, though Agrarian Reform has high priority, it has not met, nor is it likely to meet, its initial quantitative goals. Population pressure is promoting the expansion of agriculture on the steep slopes that constitute the watershed and threaten the destruction of the principal renewable natural resources of Honduras -- the soil and the forests. Labor intensivity on and off farms can be influenced

by various means, some of which originate in the policy formulation process and can be implemented through e.g., taxes, importation laws, and labor laws. Improved delivery systems and marginal support for accelerated agrarian reform will also help to achieve the desired condition.

A direct means of creating technical and economic bases for off-farm employment (and for promoting greater labor intensivity on farms) is the development of light-capital technologies for secondary industries serving agriculture and directly by providing tools, machines, physical structures and methods which make use of local materials and labor, increasing the value of labor as a proportion of production. The Mission is beginning to be involved in research and design of light-capital technologies and related complementary agronomic research in response to Honduran interest in this area. The GOH and the Mission are developing a small industry development advisory service with a light-capital orientation and are anticipating the need for credit for small rural industries. With continued assistance the Mission expects to have considerable positive impact by the end of the CDSS time-frame. In view of its experimental and pioneering character, and thus high risk, grant financing will be principally employed.

-- Community and farm basic infrastructure, e.g., trails, roads, terraces, retention dams, storage facilities, irrigation systems, will facilitate use of land resources, distribution of inputs and technology and access to markets and social services.

The Mission is supporting, and will continue to support, pilot programs to determine the feasibility of low-cost infrastructure designs and subsequent pilot construction programs to encourage the Government to lower its sights toward an affordable infrastructure. This essential economic social overhead capital investment, sorely missing in rural Honduras, can

make efficient use of labor-intensive methods. Significant areas in several regions may be affected by our resources but more importantly by those of the GOH and the international lending agencies.

-- Rational use of forest resources and environmental protection.

A draft national land use and environmental protection policy has been developed to suggest specific institutional coordination mechanisms and direct action plans aimed at realization of this condition. The primary external financing agencies are and will be CIDA and, probably, the IDB. The Mission will support GOH policy development efforts in this critical area and is working on a special aspect of the problem, i.e., water utilization and conservation. The period of this CDSS will see only a beginning, a setting of national policy and institutional frameworks and the initiation of some priority programs.

Our Mission conclusion is that, insofar as Honduras is concerned, this sectoral strategy affords better possibility for achievement of basic human needs objectives than any other strategy which has been suggested. In this small, relatively uncomplex country, a "sector" is bite-size and manageable. This is preferred to a subsectoral approach which would tend to deal with component pieces and thereby inhibit sectoral commitment and progress. The Mission is convinced that, at least in Honduras, this approach is preferable to a project orientation which tends to be horizon narrowing rather than horizon broadening.

There is one exception: the light-capital technology project, which is more intersectoral than subsectoral, and is best handled as a unit. It is a rural development program, embracing both agricultural and small industry characteristics, and will benefit particularly poorest farmers and rural labor.

The overall Mission strategy is aimed at overcoming the principal constraints to social progress, emphasizing the meeting of basic human needs and presumes that development is a process of successive phases, each with its own generation and pattern of constraints. The strategy is intended to be pragmatic and flexible within an orderly analytical frame-work. It will require modification and adjustment as successive analyses indicate new and better ways of overcoming successive constraints, and, as development environment circumstances change. Specifically, technical assistance, training and development budget support will be provided principally through loan and grant financing, with some Title III resources to support change in more specialized institutions.

C. Health Sector Strategy:

1. Background: The MOH has adopted an approach which integrates the delivery of nutrition, health and population services through a community-oriented and paramedical health services system. An effort is being made to reduce the prevalence of illness, especially illnesses associated with poverty such as gastrointestinal problems and malnutrition, particularly in mothers and young children. The objective is to provide basic health services, primarily preventive measures, to 80 to 90% of the population, principally through the utilization of a pyramid organization, a regionalized system of community volunteers, health posts and clinics and hospitals supported at a still higher level by central hospitals. The philosophy is that to assure adequate medical services, individuals with greater skills should be employed at successively higher levels to make most efficient use of scarce human resources. Thus, the community level has responsibility for least complex, and most frequent, curative and preventive problems.

More complex problems are to be referred up through various levels of the system. With IDB financing, the system's physical infrastructure, approximately 500 rural health posts, eight emergency and one teaching hospital, is being constructed. Separate, vertical programs address vector disease control.

The new system is promising but not yet functioning well. There are insufficient funds for equipment and supplies and to meet recurring costs. Systems of planning, administration, supervision, continuing education and patient referral are noticeably weak. Many programs being carried out through the system have not been effectively adapted to assure desired results. Certain services, which should be delivered through the system, are minimal, especially in nutrition, family planning, and environmental sanitation. Logistics are unreliable. Quantitative data and analysis that would permit a goal choice in terms of reduced mortality and morbidity, improved nutrition and lower fertility indices are lacking. In the absence of such an analytical base, MOH officials have not been able to assess alternative interventions to ensure the most effective allocation of limited financial resources. Although family planning services for women are available when requested in some health facilities, there is no central policy direction in this respect and the extent to which services are available, as a practical matter, depends on the priority each facility attaches to providing them and on their own ability to obtain commodities and provide related medical advice. The MOH has had extensive and high quality, advice and assistance from PAHO. The continuing problems illustrate, however, the lack of sufficient analytical attention and unusually weak management and administration, although efforts to decentralize operations are commendable. However, decentralization of operational control, in the absence of a suitable

policy framework, has less than optimal consequences.

2. Mission Strategy: The Mission stragegy assumes that poor health, lack of successful family planning measures, and malnutrition are among the most significant impediments to development, particularly among the rural poor. The Mission strategy emphasizes three elements: (a) helping to improve the analytical basis of decision-making; (b) helping to improve management and administration; and (c) helping the MOH to bring the mainly rural, community-based, integrated health services to a higher level of efficiency. These services have a preventive emphasis and provide Hondurans, who now lack access to services opportunity for improved health. By the end of the CDSS period the Mission hopes to have been instrumental in helping to bring about marked improvement in these areas.

Efforts in other sectors to assist the poor will not be fully effective without substantial concurrent achievements in health, including population measures. The analytical process,in collaboration with the MOH, has begun, but there are no definitive conclusions yet. The analytical process will identify and quantify health problems and constraints to their solution and at the same time will strengthen the capacity of the MOH to analyze, plan and implement a sector program in which the cost effectiveness of alternative programs will be considered. Solutions must be low-cost, efficient, and, above all Honduran, favoring, whenever possible, the preventive rather than the curative. The analytical process will identify a series of priority interventions to be supported in the sector program. The approach being followed generally, cited earlier, and explicitly being employed in the agricultural sector, will be used.

Population increase threatens development benefits. Because this is probably the principal impediment to both development and growth with greater

equity goals, it does not necessarily follow that there must be an explicit and direct U.S. bilateral engagement. In any event there are political constraints against this which must be respected. External aid and assistance has substantially increased through direct private organization channels and by the initiation of a significant UNDP program. The Mission will respond to Governmental requests in areas related to population, and, if the time comes, to requests for direct bilateral assistance. Broad, direct engagement by the USAID cannot be anticipated during the CDSS time frame.

The interaction of poor environmental sanitation and low levels of food consumption creates the second critical health problem, again particularly for rural people. Our strategy, in addition to supporting food production programs in the agricultural sector, will be to support improved Honduran planning in nutrition and activities to increase food availability at reasonable cost. There are pilot programs being tested under both nutrition and education loans. Concurrently with an expanded effort to provide potable water and sanitary waste disposal, the Mission anticipates a significant expansion in the use of Title II food resources both Food-For-Work and Maternal/Child feeding programs. The Government is attaching increased priority to maternal and child health programs. The Government is developing a national feeding policy and objectives which would go a long way toward rationalizing the current collection of miscellaneous donor feeding programs, including a possibly expanded school feeding program. The Mission is considering possible use of P.L. 480, Title II, Section 206 food (sales) resources to be used to improve Honduran capacity to plan, administer and supply supplemental feeding programs.

D. Education Sector Strategy Statement:

1. Background: The two most serious educational problems are the lack

of (1) in-country capacity to produce qualified management and technical personnel in sectoral areas, particularly agriculture, to staff institutions and delivery systems, and (2) basic education among the vast majority of the population, especially rural. Re the former, see the Mission's agricultural strategy. Regarding the latter, the adult literacy rate (excluding functional illiteracy) in Honduras is 60%; in the rural areas it is only 49%. Thus, 84% of all illiterates are found in the rural areas. These figures only suggest the inadequacy of basic education and the lack of relevance to rural life. The adult population, not served by the education system, constitutes a serious impediment to development efforts, particularly in rural areas. The ability to comprehend, accept and adopt new technologies is limited. This problem is being attacked on a piece-meal basis, primarily, through non-formal education efforts conducted by various Honduran agencies with some support from external agencies such as UNESCO, UNICEF and the USAID. However, only 5% of the population is reached through these efforts.

Furthermore, there is no coherent, sector-wide educational policy nor strategy for addressing educational requirements of the country. Major constraints to improved Honduran education at all levels include: (a) severe lack of policy orientation at the executive level; (b) weak education planning, administration, management and control; (c) curricula which is less than relevant; (d) insufficient numbers and inequitable distribution of adequately trained teaching and management staff; (e) insufficient material and financial resources. While education at secondary and university levels also needs improvement, our focus and the Mission strategy (other than efforts to meet trained human resource objectives in agriculture and possibly other areas) has been directed at

basic education, i.e., principally primary and out-of-school adult education -- the lack of which inhibits the large majority of the poor from any significant direct participation in development.

2. Mission Strategy: The Mission approach assumes that activities in much of the education sector will continue to be politically valatile, thereby circumscribing the Mission's educational activities. Nevertheless, there will be opportunities for a constructive A.I.D. role. There has never been a comprehensive analytical assessment of the sector as a whole, as there has been in agriculture. The GOH and donor agencies have tended to focus on obvious needs in specific areas and produce discrete projects addressing those needs. External donors have given attention to vocational education -- agricultural and industrial, rural education -- particularly primary, secondary and to a lesser extent higher, involving teacher training and curricula development. The various interventions are neither integrated nor do they support an optimal strategy.

While there is no Honduran strategy, the Government has established educational goals in very general terms: to reduce illiteracy and unemployment to increase human productivity, and, to increase the efficiency of education. Rural areas are emphasized and the central/satellite school is identified as the principal tool. A piece-meal approach is no longer satisfactory, a management and systems approach may be. The Mission strategy will be to employ an analytical process to identify systems which would enable the MOE to formulate policy and priorities, and, to develop and implement programs in a more ordered way, thererby improving management of the entire educational system. This represents a shift away from management improvement only in discrete projects. Our support will be contingent upon a MOE commitment to improve

its planning and management of education and to increase the resources allocated to basic education, both formal and non-formal. The Mission concludes that little benefit to A.I.D.'s target group will occur unless and until comprehensive improvements are made in the educational system. Therefore, the Mission plans to help provide the MOE with the means to achieve its goals, i.e., a corps of professionals with the skills, systems and tools to permit improved restructuring and managing of educational systems. The initial planned sector program will focus on development of human and institutional capacities within the formal education system and, if appropriate, in the non-formal system within that managed by the Ministry of Education. By the end of the CDSS time-frame the Mission would expect that the following minimal conditions would exist:

- -- a functioning analytical and planning capacity within the MOE capable of assessing and recommending improvements leading to increased internal and external efficiency of education;
- -- quantitative and qualitative increases in human resources in policy, planning and management, both centrally and in the regions;
- -- a functioning management information system;
- -- increased GOH resources allocated to basic education;
- -- continuing review and improvement in primary curricula.

If this can be substantially accomplished it will be only a beginning, but will provide a basis for continued improvements in these areas and others, and, a basis for further A.I.D. and other donor contributions to the sector as a whole with greater assurances that additional resources can be employed effectively and efficiently with resultant impact on the disadvantaged majority.

E. Sector Strategy Statement - Urban/Regional

The Mission will follow a similar analytical process to that of the agricultural sector, noting particularly changing patterns of migration and absorptive potential in particular urban centers.

1. Background: Honduras is entering a period of rapid urbanization, marked by concentrated growth in a few areas. By the year 2000 the urban population will approach 55-60%, a change from the present 36%. Topography, inaccessibility and restricted economic opportunity have caused the pace of rural/urban migration to be the lowest in Central America. New transportation infrastructure will, however, bring rapid changes in migration in the 1980s, for which Honduras is not prepared. The presence of agricultural frontier growth areas will affect patterns of urban growth in ways not yet determined. The predominant direction of rapid migration appears to be toward areas of good development potential and away from areas of old settlement, high density and low agricultural production. Urban areas presently have little ability to absorb more people. Urban unemployment rates are persistently higher than rural rates. Honduras has little time left to define policies and implement urban and regional development programs before urbanization becomes unmanageable.

In 1974 there were 24 cities with populations of 5,000 or more. Thirteen were in excess of 10,000, six were over 20,000 and two had more than 40,000 (Tegucigalpa: 271,000 and San Pedro Sula: 148,000). The most rapid urban growth is in the North, in and around San Pedro Sula. Despite low rural/urban migration rates for the country generally, an IDB study suggests that San Pedro Sula will become the fastest growing city in Central America. There are also fast growing centers in all major areas except the western departments, indicating suitability for a regional de-

velopment focus in several locations. Increased rates of migration and urban growth have created Government interest both in more rational regional planning and in greater local development planning and assistance. CONSUPLANE has over a three-year period been developing background information to support expansion of local and regional development planning. A separate section of the draft National Development Plan for 1979-1983 provides formal recognition and outlines resource requirements for this new emphasis.

2. Mission Strategy: The Mission perceives urban development within a regional, primarily rural development framework,but, secondarily, including the two major urban centers of Tegucigalpa Central District and San Pedro Sula. Mission strategy is predicated further on the need to encourage and support urban investments and service programs which focus effectively on the needs of the urban poor wherever they may be located.

A.I.D. may have a unique opportunity to help the Planning Council and Ministry of Interior develop the necessary data foundation for better decision-making, and to help create a better policy framework for examining problems and alternative courses of action. Once the Government has made the decisions necessary to establish the Honduran Urban/Regional policy focus, A.I.D. should assist in designing a sector program to deal with the principal inhibiting obstacles to improved Urban/Regional development. An Urban/Regional program will finance planning staff, studies, technical assistance to Urban/Regional centers as well as urban infrastructure which would in part include adequate standard shelter affordable by the poor.

Toward the end of the CDSS time-frame we would expect planning capabilities, human resources, legal/administrative structures, and delivery service mechanisms to have been built to a point where a second sector

program would be appropriate, concentrating more on and providing proportionately greater resources for delivery of services, while contributing to further strengthening of institutional capabilities and further human resources preparation. The formulation of a detailed strategy and program components and balance must await results of the assessment.

In general, the objectives along with possible approaches to their attainment are:

a. To encourage population movement toward areas of greater development potential with diversified economic and social environments: (1) a technical assistance program to support regional/urban planning, providing inter-alia a framework for an effort complementary to regional, agriculture sector planning and programming; (2) assistance in the development of rural service centers or market towns in expanding agricultural areas; (3) a program to assist in stimulating the decentralization of rural-oriented industry away from the Sula Valley and the Tegucigalpa Central District toward regional and sub-regional growth centers; and, (4) a technical assistance and training program to expand the ability of the smaller cities to accommodate their growth and to implement the urban development plans now being prepared.

b. To support urban investment and service programs which provide an effective response to the needs of the urban poor: (1) a program to develop employment opportunities responsive to the problems and aspirations of the poor, such as light-capital technology; (2) programs which provide assistance to the shelter sector with two basic objectives: (i) to increase the supply of shelter affordable by the poor on a self-sustaining basis, and (ii) to support informal shelter sector activities; and, (3) assistance in developing mechanisms to plan and coordinate the delivery to the urban

poor of services such as health, nutrition and education in conjunction with the employment and shelter programs outlined above.

It would be difficult to overemphasize the importance of stimulating growth of small-scale, labor-intensive enterprises in major urban centers and particularly in rural market towns to increase greatly non-agricultural employment opportunities which would serve and complement the growth of a technologically-improved agriculture sector. Migration to the larger urban centers can be slowed only if there is flow of resources, reverse to the normal pattern, from large urban centers to urban/regional rural centers. The increase in capital producing capacity of the latter should lead to a greater retention of new capital in the rural areas, based in considerable measure on rural-based small industry with a low capital/labor ratio.

HIGs will be employed in the shelter components of the program. Highly concessional loan or grant financing should be used where the beneficiaries are the poorest of the poor. P.L. 480, Title II foods should be employed in expanded Food-for-Work community betterment activities.

PART IV ASSISTANCE PLANNING LEVEL

A. PROPOSED ASSISTANCE PLANNING LEVELS*
($ 000)

	FISCAL YEARS					
	1981	1982	1983	1984	1985	TOTAL
Agriculture						
Ag Research	106	---	---	---	---	106
Rural Technologies	7,150	---	---	6,000	---	13,150
Water Resources/Environmental Conservation	3,000	---	---	---	---	3,000
Ag Sector III, IV	---	20,000	---	20,000	---	40,000
PD & S	250	150	200	150	150	900
Sub-Total	10,506	20,150	200	20,150	150	57,156
Health/PN						
Health Sector II	---	---	10,000	---	---	10,000
PD & S	100	200	150	100	100	650
Sub-Total	100	200	10,150	100	100	10,650
Education						
Ed Sector I, II	---	10,000	---	---	10,000	20,000
PD & S	200	150	100	200	150	800
Sub-Total	200	10,150	100	200	10,150	20,800
SD						
SDA	50	50	50	50	50	250
Urban Sector I, II	17,000	---	---	---	20,000	37,000
PD & S	150	100	100	250	200	800
Sub-Total	17,200	150	150	300	20,250	38,050
TOTAL PROGRAM	28,006	30,650	10,600	26,750	30,650	126,656
PL 480 I/III	2,000	2,000	2,000	2,000	2,000	10,000
PL 480 II	5,101	5,600	5,900	6,200	6,200	29,001
HIG	---	10,000	10,000	---	---	20,000

* Excludes OPGs

BEST AVAILABLE

B. Indicative Planning Allocation

The Mission considers the Indicative Planning Allocation (IPA) for FY 1985 ($29 million) -- as an order of magnitude -- to be acceptable. It should be noted that progressive increases from year to year are neither necessary nor desirable.

C. Magnitude and Composition of Funding

The magnitude of funding proposed over the planning period is based on several important assumptions: (1) the use of sector programs, each with an average life of three/four years and normally allowing for about a year of overlap in implementation and obligation between successive loans; (2) improved efficiency of USAID/H and GOH implementation procedures; (3) expanding absorptive capacity of the Honduran Government to use increased amounts of external aid from all financing agencies: and (4) a continued emphasis on growth with greater equity in GOH programs.

Overall levels are principally determined by the Mission's estimate of magnitudes of funding necessary to provide added encouragement to the Government in the sectors where A.I.D. has interest. Aid will be directed to helpping the Government overcome constraints to more efficient and effective resource allocation to contribute toward achievement of Basic Human Needs objectives. Composition of sector programs, with consequent levels, will be determined, of course, on the basis of continuing analytical effort and of individual program design.

The PL 480, Title III program will be continued. Over the planning period, Honduras is expected to face a sharply increasing debt burden as a result of its ambitious public investment program. PL 480, Title III can help to moderate slightly balance of payments problems, but its principal utility is to provide an additional flexible tool for encouraging changes

in agricultural policy and programs. The GOH, with A.I.D. assistance, has undertaken an analytical process to better define its overall nutrition strategy and within that strategy, the role of funding programs in general and Title II programs specifically. The provision of Title II commodities is based on the recognition that the deficit of qualified human resources for development is a serious and pervasive problem affecting all sectors and that malnutrition is a major, root cause of the deficit. The levels of Title II assistance proposed represent a moderately optimistic estimate of: (a) the importance to be attached by Hondurans to improved nutrition; (b) the extent to which Title II foods are needed; (c) the degree to which the Title II program is being integrated within the total development effort; and (d) the success of the GOH to mobilize its own resources to expand coverage among vulnerable groups. To the extent there are positive developments with respect to (a) through (d), the Mission may employ Title II, Section 206 resources to support Honduran initiatives.

Assistance to the shelter sector will concentrate on two objectives: (a) to increase the supply of shelter affordable by the poor, on an ongoing and self-sustaining basis, and (b) to support the informal shelter sector activities. HIG resources will be utilized, where feasible, to finance such assistance.

Finally, we recommend that the grant and loan mix should be reconsidered. Honduras, given its stage of development and need for aid at close to its absorptive capacity over the next decade, plus its repayment potential until the end of the century, should receive most of its U.S. bilateral aid on a grant basis. Clearly, grant aid should be employed to encourage engagement in experimental activities where results are in certain respects problematical, e.g. in light capital technology, so as to have more of the risk falling on AID.

D. PROPOSED WORKFORCE REQUIREMENTS
(on board 9/30)

	1978	1979	1980	1981 - 1985
Office of the Director 1/				
USDH	5	5	6	6
FNDH	6	6	6	6
PSC	-	-	-	-
Office of Program and Capital Resources				
USDH	7	8	8	8
FNDH	5	5	5	5
PSC	4	3	3	3
Office of Development Engineering				
USDH	2	2	3	3
FNDH	2	2	2	2
PSC	3	2	2	2
Food and Agriculture Dev. Office				
USDH	3	5	6	6
FNDH	4	3	3	3
PSC	3	4	4	4
PASA	-	2	2	2
Human Resources Dev. Office 2/				
USDH	5	6	7	7
FNDH	4	4	4	4
PSC	6	4	4	5
Office of the Controller				
USDH	3	3	3	3
FNDH	9	10	10	10
PSC	1	2	2	2
Management Office				
USDH	1	1	1	1
FNDH	1	3	3	3
PSC	-	-	-	-
Miscellaneous 3/				
PSC	4	1	1	1
Totals 4/	78	81	85	85
USDH	26	30	34	34
FNDH	31	33	33	33
PSC	21	16	16	17
PASA	-	2	2	2

1/ includes C&R staff, Senior Advisor.
2/ includes Education, Health, Nutrition and Urban Development.
3/ driver, mechanics, etc.
4/ Excludes IDIs - End FY 78 - 3; FY 79 - 2; FY 80 - 1; FY 81 - 85 - 1; and excludes 1 USDH detailed to JAO.

HONDURAS

Poverty Indicators Summary

- Infant Mortality Rate (1973)	117/1000
- Population Growth Rate (1977 est.)	3.5%
- Literacy Rate (1978 est.)	60%
- Urban	81%
- Rural	49%
- Nutrition (Poorest 50% of Population - 1970)	
- Caloric Intake as Percentage of Recommended	68%
- Protein Intake as Percentage of Recommended	61%

Primary School Enrollment

Year	Population 7-13 years old	No. of students at beginning of year	Percentage
1970	500,005	381,685	76.3
1975	602,294	460,744	76.5
1978	673,598	513,069	76.2

URBAN-RURAL INCOME DISTRIBUTION, BY BROAD INCOME LEVELS
(In Percentages)

Income Bracket	Urban		Rural	
	Families Relative %	Income Relative %	Families Relative %	Income Relative %
Low Income Bracket	45.7	14.5	93.7	68.8
Under $250	5.9	0.6	60.6	26.4
From $250 to $1000	39.8	13.9	33.1	42.4
Medium Income Bracket	44.0	46.1	6.2	29.8
High Income Bracket	10.3	39.4	0.1	1.4

SOURCE: 1968 INCAP Survey.

LAND DISTRIBUTION BY FARM GROUP SIZES AND LANDLESS LABOR - 1974

Group/Farm Size Has.	No. of Farms	% of Total	Area	% of Total	No. of Families	% of Total
Landless Labor	0	0	0	0	119,433	34.5
Less than 1 ha.	33,774	17.3	21,534	0.8	33,774	9.8
From 1 to 35 has.	149,104	76.3	955,862	36.0	149,104	43.1
Agrarian Reform Groups	907	0.5	158,392	6.0	32,165	9.3
35 has. and up	11,512	5.9	1,519,308	57.2	11,512	3.3
Total	195,297	100.0	2,655,096	100.0	345,988	100.0

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(on board 9/30)

	1978	1979	1980	1981 - 1985
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FNDH	6	6	6	6
PSC	-	-	-	-
Office of Program and Capital Resources				
USDH	7	8	8	8
FNDH	5	5	5	5
PSC	4	3	3	3
Office of Development Engineering				
USDH	2	2	3	3
FNDH	2	2	2	2
PSC	3	2	2	2
Food and Agriculture Dev. Office				
USDH	3	5	6	6
FNDH	4	3	3	3
PSC	3	4	4	4
PASA	-	2	2	2
Human Resources Dev. Office 2/				
USDH	5	6	7	7
FNDH	4	4	4	4
PSC	6	4	4	5
Office of the Controller				
USDH	3	3	3	3
FNDH	9	10	10	10
PSC	1	2	2	2
Management Office				
USDH	1	1	1	1
FNDH	1	3	3	3
PSC	-	-	-	-
Miscellaneous 3/				
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SOURCE: 1968 INCAP Survey.

LAND DISTRIBUTION BY FARM GROUP SIZES AND LANDLESS LABOR - 1974

Group/Farm Size Has.	No. of Farms	% of Total	Area	% of Total	No. of Families	% of Total
Landless Labor	0	0	0	0	119,433	34.5
Less than 1 ha.	33,774	17.3	21,534	0.8	33,774	9.8
From 1 to 35 has.	149,104	76.3	955,862	36.0	149,104	43.1
Agrarian Reform Groups	907	0.5	158,392	6.0	32,165	9.3
35 has. and up	11,512	5.9	1,519,308	57.2	11,512	3.3
Total	195,297	100.0	2,655,096	100.0	345,988	100.0