

PN-ABA-329  
ICM-17067

REPORT OF  
THE U.S. PRESIDENTIAL  
AGRICULTURAL MISSION TO HONDURAS

Members

Richard O. Wheeler, Leader  
Clarence A. Boonstra  
Gerald Grant  
Norman E. Johnson  
Walter W. Minger  
J.B. Penn  
Robert C. Phelps  
Arthur L. Quinn  
Fred L. Mann, Executive Secretary

November 1982

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Preface

The Presidential Agricultural Mission to Honduras was established at the direction of President Reagan following the North-South summit talks in Cancun, Mexico, in October 1981. This is the third such mission which, at the request of a developing country, reviews its agricultural policies and the state of technology for small and medium sized farmers and then suggests ways to improve the agricultural production and marketing system.

The first phase of the Task Force's work began on October 2, 1982, and was completed with a briefing and discussion with President Suazo Cordova on October 15. At that time, certain followup activities were agreed upon and provision made for their implementation.

The following document represents the observations of the Task Force concerning the most productive direction for agricultural development in Honduras, and presents more specifically the recommendations and policy initiatives which were communicated to President Suazo. We hope that these suggestions will be of assistance to the Honduran Government and its people in tackling the enormous task of increasing agricultural production; we hope they also will be helpful to the United States in designing programs and policies to assist Honduras in that undertaking.

We are proud to have participated in this important endeavor as members of the Presidential Agricultural Mission, and are most grateful to President Suazo Cordova for his personal involvement and support. We appreciate the cooperation of Minister of Natural Resources Bonilla and the others with whom we worked in Honduras. Finally, we would like to offer our appreciation to the Embassy in Tegucigalpa and the United States Agency for International Development, who provided critical support for and greatly facilitated our work.

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Members of the Task Force

Richard O. Wheeler (Task Force Leader)

President and Chief Executive Officer of Winrock International since 1975; Dr. Wheeler has taught agricultural economics in U.S. universities and served as a consultant to the agribusiness sector.

Clarence A. Boonstra (Forestry Economics and Investment)

Investment Consultant to the Weyerhaeuser Company; Dr. Boonstra is a former U.S. Ambassador to Costa Rica and retired Foreign Service Officer.

Gerald Grant (Agricultural Research and Training)

Office of International Programs, Oklahoma State University; Dr. Grant was the first Director General of the Center for Tropical Agricultural Research (CIAT), Cali, Colombia, and his career with the Rockefeller Foundation spans service in numerous agricultural development capacities.

Norman E. Johnson (Forestry, Forest Management)

Vice-President of Weyerhaeuser Company since 1978; Dr. Johnson has held several positions with Weyerhaeuser.

Walter Minger (Agricultural Investment)

Senior Vice-President, Bank of America; Mr. Minger has had a long career in banking and finance servicing agriculture.

J.B. Penn (Agricultural Policy, Planning, and Trade)

Consultant, Economic Perspectives, Inc., McLean, Virginia; Dr. Penn formerly headed USDA's economic research agency and served as Senior Staff Economist for the President's Council of Economic Advisers.

Robert C. Phelps (Agribusiness, Livestock)

President, Consolidated Land and Livestock Company of Nevada; Mr. Phelps has had more than thirty years experience in managing agricultural, technical, financial, and manufacturing enterprises and in advising state governments and business.

Arthur L. Quinn (Agribusiness Investments)

Partner in the law firm of Gadsby and Hannah, Washington, D.C.; Mr. Quinn has extensive experience in advising on international investments and investment policy matters, especially in developing countries.

Frederick L. Mann (Executive Secretary to the Task Force)

Associate Director of the Center for International Programs and Studies and Assistant Director of International Programs in Agriculture, University of Missouri; Dr. Mann has extensive experience in agricultural development in Latin America.

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Summary

The Task Force was extremely impressed by the dedication of the new government to building a strong democracy for Honduras and for recognition that economic progress, widely shared among the populace, is a necessary foundation for that democracy. Our discussions and travels throughout the country convinced us of the great economic viability of Honduras and especially the potential for the production of agricultural and forestry products.

The Task Force travelled widely during the visit and met with numerous representatives from the public and private sectors. We spoke with campesino farmers, forestry workers, union members, business leaders, bankers, government officials, and many others. We sincerely appreciated the gracious hospitality accorded us. We especially want to thank the officials of the Honduran Government who were most cooperative throughout the course of our Mission.

We recognize the severe difficulties currently confronting the Honduran economy. The problems stem from a convergence of forces led by weak demand for the major export products of coffee, sugar, lumber, meat and, to a lesser extent, bananas. The effect of simultaneously depressed markets in these basic commodities reverberates throughout the entire Honduran economy, not only having serious impact on business and industry, but also affecting workers, and ultimately extending to the entire population.

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We applaud the demonstrated willingness of the Honduran Government to take the stern measures necessary to ameliorate present economic conditions. The policy measures adopted in the recently concluded accord with the International Monetary Fund are steps in the right direction, as are the

actions taken to exert greater fiscal control over the many government and semi-autonomous entities. While we recognize the necessity of the current measures to ensure orderly use of the country's scarce foreign exchange reserves, we encourage return to a relatively restriction-free system of international transactions as soon as possible.

The scope of our Mission did not encompass the subject of population growth. However, we believe we should comment that the crucial need to provide an adequate supply of food for the people of Honduras is compounded by a population growth rate which is one of the highest in the world. The Government should address these issues simultaneously, given their relationship to each other.

We commend the Government's commitment to its goal of bringing a larger number of families into the economic mainstream. The solution to many social problems derives from implementing sound economic policies and attaining sustained progress, but unclear definition of how social and economic objectives are to be accomplished often hampers progress in achieving either. Productivity and incomes of the participants can be increased and their standard of living improved appreciably, but only with appropriate organizational structures, technical assistance and viable markets. Thus, the production cooperatives should concentrate on becoming economically viable as a means of facilitating social development.

In several situations, farmer groups would be better served by assuming more control over their own activities and phasing out existing parastatal agencies. We believe they would be well advised to contract certain management, technical, and marketing responsibilities to private companies engaged in similar pursuits. This would perhaps be an appropriate strategy for the Bajo Aguan project where we found great potential, but problems so critical and immediate that the project is in danger of collapsing. Production deficiencies could be quickly remedied by improved management and the application of technical skills. We recommend that such assistance for this important project be obtained at once.

While we commend the leadership and integrity of the renewed ~~agrarian~~ reform effort, we think it would benefit from some clarifying ~~changes in the~~ statutory authority, and from changes in public sector structure and coordination.

A cornerstone of land reform is secure ownership of property. In order to have an effective credit system, which enables farmers to obtain capital needed to improve and expand production, there must be certainty of title and clear possession of land. The Government is to be commended for its vision in initiating the accelerated land titling program. However, we urge that additional actions be taken to eliminate the existing uncertainties concerning land use and ownership.

The absence of an established property market, including a mechanism for financing land sales, as well as the prohibition of land rental, precludes campesinos and others from becoming farmers and moving up the "agricultural ladder" (i.e., from farm laborer to renter to owner-operator). It also precludes the progressive small farmer from expanding his enterprise through rental or purchase of additional land. We encourage the Government to explore ways of removing obstacles to the creation of small and medium sized commercial farms.

A considerable amount of privately held land is presently underutilized when compared to its potential. A financial system that facilitates an active land market could allow that land to move into more efficient use consistent with government policy. Also, a tax, based on the use potential of land, or other policies that induce holders of underutilized land to sell, would improve operation of an effective land market.

We were greatly impressed with the vast natural resource base of Honduras, and recognize the constraints to maintaining and developing that resource base. For example, a large proportion of the agricultural land is subject to flooding, has drainage or erosion problems, or requires supplemental irrigation during critical growing periods. Agricultural production on these lands is high risk. The use of improved technology for greater output is not likely to occur until these deterrents are removed.

Their solution will require a joint effort of both the public and private sectors in making needed infrastructure investments. Specific attention is urgently required for the Sula Valley where much of the agriculture is located.

The extensive forest resource is extremely important to the long-run development of Honduras. But, that resource is in jeopardy, and the forest industry is in serious trouble. The forests are being rapidly depleted; immediate action is required to prevent total destruction, which looms as early as the year 2000. Today's losses are attributable far more to destructive agricultural grazing and tree harvesting practices than to production of wood for domestic use and export. This destruction can be slowed, ultimately to the point of making the forests a permanently valuable resource, by establishing better management practices.

We believe that significant changes in the nation's forest policy should be considered. As a first step, we suggest that areas whose best commercial use is forestry be immediately delineated. Within these areas, the Government management agency should be responsible for establishing and enforcing practices on public and private lands to ensure efficient utilization and long-range conservation of the forest resources. Elsewhere, the forest management agency should provide only limited assistance in support of programs whose primary objectives are livestock, agriculture, watershed production, and soil conservation. Without this delineation, the present divided and overlapping lines of responsibility among government agencies will continue to impede progress on basic problems including soil erosion, land use classification, resettlement, fire control, multiple use, and forest establishment and management.

However, the economic problems in the forestry sector will continue ~~until there is better harvesting, processing, and marketing of the products.~~ The current way of buying trees on the stump is a disincentive to caring for the forest; likewise, the harvesting and marketing procedures are disincentives to efficiency in processing and selling the products. We believe that proper incentives can be provided principally by changing the

purchase basis for logs and by allowing ~~the private sector to operate in~~ ~~lumber markets~~ abroad as well as in secondary forest products.

Present world economics and an overcapacity make investment in pulp and paper projects very risky. We believe constructing a pulp mill in Honduras is a hazardous venture unless secure markets are established before the investment is made. Moreover, before the Government constructs additional sawmills, it needs to operate existing mills more efficiently and as separate profit centers. One way to improve the efficiency and profit of government-owned sawmills would be through management contracts or joint ventures with private forest products companies.

We now turn to other aspects of agriculture.

Adequate production credit, a major problem in all developing countries, was the most frequently mentioned limitation in Honduras. While capital and credit availability are, to a large extent, determined by market conditions, we suggest there are some actions which could improve this situation.

Cattle can be mortgaged with the lender establishing a lien, thus providing collateral for loans to cattle producers, but this system does not exist for crops and should be considered. A ~~lien system for crops which~~ would permit their use as loan collateral could significantly improve the ability of crop producers to obtain timely preplanting loans. In addition, the cumbersome and little used cattle lien process can be improved to make it more responsive to producer needs.

The systems to provide credit indirectly to small and medium sized farmers, using established agroindustries as the credit conduit should be enlarged. Also, the Central Bank should enforce its guidelines relating to acceptance by bankers of guarantees made by others to support bank loans to ~~borrowers with inadequate financial strength to borrow on their own.~~

Accelerated completion of land titling will provide much needed stability and security, encouraging an increased availability of investment funds for the farm sector. At the same time, efforts to assist the banking

community in adopting appropriate policies and procedures will assure full benefit of the titling effort.

There is an urgent need to develop new agricultural businesses based on redirection of traditional crops, and production and processing of nontraditional crops. Opportunities for new agroindustries would appear to be significant. It is apparent that foreign businessmen are welcome in Honduras and ways can be found to encourage more to come and invest. But, due to competition for the same types of businesses from other countries and the unfortunate current "image" of Honduras attributable to the turmoil in Central America, it will be difficult to attract foreign capital and technology.

Nonetheless, new and expanded businesses can be generated through an active and well-coordinated campaign by the Government and private sector. In addition to emphasizing the current role of private companies in the development of the Honduran economy, this effort should stress the comparative advantages of doing business in this country. Significant advantages are a democratic and cooperative government, a sophisticated private sector, a willing and dependable labor force, excellent conditions for raising and processing a wide variety of marketable products, and proximity to the United States market.

At the same time, the Government has a key role in assisting business activity by minimizing controls, coordinating long-range planning in crop diversification, developing and maintaining badly needed infrastructure and water resources, and modernizing transportation facilities. Also, the Government and private sector should cooperate in programs for entrepreneurial and management training to foster the creation and improvement of local enterprises.

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For basic grains, a mainstay of the Honduran diet, we suggest that present policies be restructured. In particular, the grain production-marketing system needs careful analysis and formulation of a new policy designed to achieve price stability. Further, the planned investment in government-owned grain storage should be reevaluated. A policy that removes

the great uncertainty now associated with government actions can create sufficient confidence to encourage the private sector to carry out the storage function and to permit the redirection of public capital to other areas in agriculture.

We recognize the significant role of livestock in Honduran agriculture and the potential for improving production and marketing efficiency. For example, with appropriate import policies for dairy products, Honduras could soon be self-sufficient in milk.

To realize the potential of livestock, more attention should be given to providing technical assistance to the small farmer. Improving pastures and animal nutrition, more efficient utilization of crop residues, etc. would enhance livestock enterprises. Raising the quality of livestock could significantly lift the nutritional status of those in the population who now have protein deficient diets.

We urge a substantial effort to broaden the export base beyond traditional commodities. The Government should commission a comprehensive study to identify a broad range of nontraditional crops, followed by a program to encourage production of those for which particularly favorable market opportunities are determined to exist. Such a long-range study would provide the basis for more clearly setting government priorities for agricultural development, and would permit a more focused foreign assistance effort.

Problems to be confronted in diversification include market constraints, especially in the U.S. and other regional markets. We will explore with our Government many of the suggestions we have received during our visit for removing impediments to the U.S. market.

~~A critical constraint to the future growth and development of Honduran~~ agriculture is the structure and organization of the public agricultural sector. No single authority now has the responsibility for designing a coordinated agricultural development strategy or implementing an effective program for this important sector of the economy. While, in the past,

several attempts have been made to do this, none has succeeded. This dilemma has been studied repeatedly by several organizations. One such study now is underway in collaboration with USAID. We would suggest that the results of the present study, and those conducted over the past few years, be reviewed and evaluated. Then, careful consideration should be given to modifying the present structure to facilitate planning and coordination, and more effective execution of agricultural policy. This would include redesigning the semiautonomous agencies and vesting more responsibility and authority in a strengthened Ministry of Natural Resources. Given the importance of the sector to the economy, it would also be appropriate to include the Minister of Natural Resources in the Economic Cabinet.

This concludes our summary of the general policy issues we believe are of major importance. We now turn to perhaps the most important issue of all, human resources.

No amount of planning, policy formulation or investment is effective if well-trained, highly skilled, and motivated people are not available. Many countries have confronted the problem of obtaining and retaining highly skilled personnel that Honduras now faces. There is a serious lack of essential, trained personnel in all phases of agriculture, and especially in public sector institutions. While there are some, to be sure, there simply is no depth in any institution.

Development of human resources requires a strong educational program. We believe there are major weaknesses in the country's higher education system. It is imperative that agricultural education be coordinated closely with research and extension at all levels of administration. Immediate steps should be taken to provide adequate funding for agricultural education, research, and extension.

Political and other diversions from effective study can so distract serious students as to condemn them to mediocrity and prevent them from reaching their achievement potential. It is essential that students obtain rigorous technical training in the agricultural sciences. The post-secondary educational system does not now offer this opportunity. It must do so, and

that requires a fundamental change in its philosophy and structure. The existing deficiencies must be corrected if sufficient numbers of well-trained people are to become available.

We wish to repeat our gratitude to President Suazo and all of the people in the Government and private sector who gave us so much time and were so helpful.

### Introduction

Honduras is a small independent Central American republic. It is bounded by the Caribbean on the North, Nicaragua on the South, El Salvador on the Southwest, and Guatemala on the Northwest. It occupies an area of 112,100 square kilometers (11.2 million hectares), roughly comparable in size to the State of Ohio.

The population is 4.1 million and growing 3.5 percent annually, one of the fastest growth rates in the world. Fully one-half of the population today is under 15 years of age. Over three-fifths of the population reside in rural areas, but migration to cities is relatively rapid. There are nine cities with a population of over 20,000.

Overall literacy is estimated at 60 percent and is much higher in urban than rural areas. The average educational attainment is under two years of formal schooling. Of 1,000 first grade entrants, 100 will complete the 6th grade, 35 will complete high school, and only one will obtain a university degree.

Over one-half of all Hondurans have no access to health services beyond folk medicine. Mortality statistics indicate that lack of environmental sanitation is the single most serious health problem. Malnutrition is also a serious problem, with protein and vitamin A deficiencies prevalent. Over 80 percent of rural children and 60 percent of urban children under age six are malnourished.

Honduras is a heavily forested, mountainous country. Over two-thirds of the area is covered with trees, but only one-third has timber with commercial value. The Honduran economy is small; the Gross Domestic Product (GDP) in 1981 was \$2.7 billion, \$659 per capita. The agricultural sector is the largest of the economy, accounting for 30 percent of GDP, 60 percent of employment, and two-thirds of export earnings. The economy is largely based on primary product exports--bananas, coffee, sugar, and lumber. Exports constitute nearly one-third of total demand, and imports about one-third of supply. With this degree of openness, international trade and

external forces have a major impact on national economic growth and employment, as well as on stability and prices.

Current Economic and Social Climate

Honduras is a nation striving for democracy and peace. Although it is the least developed nation in Central America, and the poorest in the hemisphere except for Haiti, it has managed to avoid many of the social tensions that have beset its neighbors. It has made demonstrable progress toward establishing a more equitable society, stronger democratic institutions, and a free press.

The major recent development in Honduran politics was the inauguration on January 27, 1982, of Dr. Robert Suazo Cordova following the nation's first democratic elections in 18 years. This was the result of a two and one-half year process in which both civilians and the military worked to build the political attitudes and institutions that made a democratic outcome possible. The orderly installation of the Suazo government has renewed business confidence; President Suazo's popularity and his government's forthrightness and honesty have further minimized resentment of the austerity program that had to be imposed.

Recent events in the region now threaten Honduras' security and well-being and raise the specter of broader conflict in Central America. Although the political tensions in the region threaten to spill over into Honduras, a crucial element in avoiding the emergence of destabilizing political unrest is tangible economic progress, broadly shared among the populace. However, during the last two years, the economic situation has deteriorated sharply, largely due to external factors.

As a result of erosion in confidence associated with the political instability across the region, private investment has declined. Export earnings have contracted due to deterioration in the terms of trade and a weakening in demand for primary product exports. Consequently, the rate of real economic growth has declined markedly from an average of 7.5 percent annually during 1975-1979, to 2.5 percent in 1980 and to less than 0.5 percent in 1981. Accounting for the inflow of refugees and population growth, real per capita GDP has declined for the last two years, with evident consequences for employment and the quality of life.

At the same time, the balance of payments has come under pressure because of lower export earnings, high interest rates abroad, and the curtailment of foreign lines of credit. Even though imports were down in 1981, they still exceeded exports by \$300 million. The result was that net international reserves fell from \$116 million in 1979 to \$8 million in 1981.

Public finance has emerged as one of the principal economic problems. In 1981, the fiscal deficit reached \$206 million, 8.5 percent of the GDP. Consequences of the deficit were: an inability to comply with the IMF Extended Fund Facility arrangement; a transfer of funds from the capital account to current expenditures, causing a sharp decline in public sector investment; the diversion of available credit expansion money to finance the deficit contributed to crowding out the private sector in competition for scarce financial resources; and the growth in Central Bank holdings of Central Government debt has weakened the country's monetary base and threatened the stability of the Lempira (which has been exchanged at two to the dollar since 1931).

The Suazo administration is endeavoring to put the budget back in balance by raising new revenue, slowing the growth of current expenditures, and increasing bond sales in the domestic market. In late 1981, the Constituent Assembly enacted an increase in the sales tax rate from three to five percent, imposed income tax surcharges of ten percent and 15 percent for upper brackets of the corporate and personal income tax schedules, and eliminated certain income tax exemptions. In July 1982, the Assembly established selective consumption duties and a temporary import surcharge, and raised substantially the penalties for underpayment or delay of income and sales taxes. In August 1982, the Government also implemented an administrative reform of the sales tax.

Other steps have been taken to improve the performance of public sector entities. Significant cost-cutting measures were implemented to improve the

financial performance of several of the semiautonomous institutions. <sup>1/</sup> In addition, the Government has strengthened the oversight functions of the superintendency of decentralized agencies to increase control over foreign indebtedness of the public sector. The Government also plans to revise existing legislation concerning public sector borrowing.

The combination of all these measures is expected to result in 1982 central government revenue growth of twelve percent, nearly one percent of GDP. At the same time, the Government has limited current expenditure growth this year to two percent, about one-half the rate of increase last year. Despite these measures, the overall deficit of the Central Government will increase again in 1982 because of a large expansion in net lending to cover interest payments on certain guaranteed debt of the private and public sectors to foreign commercial banks.

Honduras' exchange system traditionally has been free of restrictions on payments and transfers for current international transactions. In November 1980, Honduras introduced regulations for exchange approval and export surrender designed to restrain capital outflows. These regulations were intensified in September 1981 and May 1982 with the introduction of prior registration requirements for exports and the extension of surrender requirements to all exchange receipts. Furthermore, in September 1982, the

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<sup>1/</sup> There are some thirty public sector agencies, called semiautonomous or decentralized agencies, which operate outside the Central Government and off the national budget. These include, for example, the National Electric Authority (ENEE), the National Port Enterprise (ENP), the Telecommunications Enterprise (HONDUTEL), the Coffee Institute (IHCAFE), the Forestry Development Corporation (COHDEFOR), the Banana Corporation (COHBANA), the Development Corporation (CONADI), and others. Even though off-budget, any deficits of these organizations must be covered by the Central Government. In addition, several of these organizations, especially CONADI, can guarantee private and public sector debt in the name of the Government. The supervision and control of this have been lax in the past. As a result of the recent economic downturn, the loan defaults increased, requiring government guarantees which added to the deficit. The Suazo Government has attempted to identify all such guarantees and to more precisely anticipate the required outlays. Also, the lending and investment activities of CONADI were suspended in early 1982, pending the completion of a detailed study of its operations.

authorities established a priority scheme for approval of foreign exchange requests (to restrain demand for non-essential imports) which has given rise to payments arrears on current international transactions of an estimated \$30 million. The Government is attempting to quickly reduce these arrears. In addition, it has stated that it does not intend to intensify these restrictions nor to impose any new ones, and views these as temporary measures only.

The new Government regards as the cornerstone of its economic policy the IMF standby agreement concluded in September 1982. That agreement centers on eliminating the Central Government deficit and putting the State enterprises on a self-sufficient basis by 1983, objectives to which many of the recent actions noted above are directed.

Other measures being planned for 1983 are intended to improve the savings performance of the public sector. These include a reform of the customs tariff which is expected to yield additional revenues during 1983 of as much as two percent of the GDP.

Despite efforts to improve public finances, a further loss of net official reserves is unavoidable in 1982. Monetary policy is therefore aimed at limiting the overall balance of payments deficit to \$97 million, and then to achieving equilibrium during 1983.

Since late last year, several public entities have encountered problems in meeting their external debt service obligations because of high interest rates and the movement by foreign banks to reduce their exposure in Central America. The Government is now in the process of negotiating a rescheduling of the foreign commercial debt of several public institutions and of the private sector with government guarantee. As a result, external debt relief of ~~\$54 million in 1982 and \$44 million in 1983 is expected.~~ In addition, the Government intends to minimize external borrowing at commercial terms by the public sector to prevent a deterioration in the term structure of the external debt and to moderate the debt service burden. The authorities also intend to severely limit the granting of guarantees on private sector external and internal indebtedness.

While the austerity measures are somewhat unpopular, especially for a new government to undertake, the Task Force views the fiscal measures undertaken and those being contemplated as essential to a sound economic recovery. It urges that every effort be made to keep the IMF agreement in good standing. Since foreign trade is a key component of the national economy, and since the exchange control measures taken to stem the outflow of capital also work to choke off capital inflows, the Task Force further urges that international exchange be returned to a restriction-free status as soon as is practicable.

### Current Agriculture and Food Situation

Honduras has a wide range of climatic conditions that permits production of most warm and cool climate crops. It produces most staple food crops, except for wheat, which is produced only in very small quantities. Virtually all types of fruits and vegetables can be grown. Major export crops include bananas, coffee, sugar, tobacco, and cotton. Livestock and forestry production are also important in Honduras, and beef and lumber are major export items.

Some 750,000 hectares of land are dedicated to annual and permanent crops and another one million hectares are used for grazing. Available information suggests that only about 20 percent of the land suitable for crop production is used for that purpose. Much of the unused agricultural land is located in the largely unsettled areas of the East and Northeast.

About one-half the land in crops is in basic grains, mostly corn produced by small farmers. Although Honduras regularly exported basic grains in the past, production now barely equals consumption in most years. Oil crops, fruits, vegetables, and export crops occupy the remainder of the cropland used.

Agricultural production in Honduras generally is high-risk, with considerable rainfall variation that results in periodic floods, droughts and storm (hurricane) damage. Little investment has been made in drainage, flood control, irrigation, soil and water conservation practices and land forming to reduce risks of climate variability. As a result, sustained profitability of crop agriculture is precarious at best.

Wheat is the only major imported foodstuff consumed in Honduras, although significant amounts of edible oils and fats, and non-fat dry milk are also imported. Except for these items, Honduras essentially is self-sufficient in food production. Although malnutrition caused from diet deficiencies in both calories and proteins is prevalent, it essentially is a function of poverty, rather than an inherent inability of the agricultural base to adequately feed the population.

Honduras has the agricultural resource base and the production potential not only to be self-sufficient in foodstuff production (except for wheat), but to become a major exporter of nontraditional fresh and processed foods such as fruits and vegetables, as well as of livestock products such as pork and dairy. Potential external markets exist for many of these products. In addition, some traditional export products have potential for expansion as market conditions permit. This apparently is true for tobacco, and possibly for cotton and beef, as well as for forestry products.

The remainder of this report discusses specific policy, institutional development, and investment issues that must be resolved to achieve the great agricultural potential that exists in Honduras, and sets forth the Task Force's specific recommendations.

### Trade and Investment

The Honduran economy has long had a major international trade component with exports and imports each constituting about one-third of supply and demand. Traditional markets have been the United States, Central America, and the Caribbean. This has changed in recent years with growing political tensions in the region and the disarray of the Central American Common Market (CACM). At the same time, Honduran trade has increased appreciably in European markets. In 1981, 45 percent of exports were to the United States, while those to CACM countries were only about eight percent of the total. Imports from the United States were 32 percent of total imports; from CACM countries about ten percent.

Honduras ran a negative trade balance during most of the 1970s. In 1972, the deficit was a relatively small \$19.1 million, but following Hurricane Fifi, it rose sharply to \$136.5 million in 1974. It has since continued at high levels, reaching \$340 million in 1980, but declining to \$300 million in 1981. Overall, the deficit grew at an average annual rate of 16 percent from 1970 through 1981. With the trade deficit and net capital inflows of only \$236 million, net international currency reserves fell to under \$10 million in 1981.

While Honduras has long had relatively uncontrolled international transactions, the deteriorating trade situation prompted the imposition of controls and additional levies on exports in an attempt to curb the payments deficit, to better manage existing foreign exchange, and to generate additional public sector revenues.

#### The Task Force Recommends:

- o An aggressive, coordinated public-private sector effort be undertaken to identify potential export markets and that development of these markets be quickly undertaken. This is especially relevant for nontraditional export commodities. There must be a well-organized, concerted effort to gain and develop new markets.

- o A similar public-private sector effort be organized to attract new joint venture capital to Honduras. This effort should counter the unfortunate current "image" that Honduras suffers because of turmoil elsewhere in Central America. With worldwide competition for investment capital, Honduras must actively compete for it, and we believe that it has the ability to do so.
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### The Forestry Resource

About two-thirds (7.4 million hectares) of Honduras' land area is covered by pine and tropical deciduous forests. About one-half remains as reasonably good or high quality forests; the balance is degraded to varying degrees by previous logging, farming, grazing, fire, and erosion. Pine lumber is the principal product, coming from growth of these species on some three million hectares. Mixed tropical hardwoods cover 4.4 million hectares, but only a few selected species are being harvested.

The forest resources are shrinking rapidly, more from the pressures of the fast-growing population than from harvesting trees for lumber. Migrant agriculture remains common throughout Honduras. When there is new access to forestland, such as logging roads, people move in to clear land on which crops are grown until replaced by grazing. Annual burning to improve pasture prevents natural forest regeneration. Slopes are typically very steep, resulting in quick and destructive erosion. Logging practices and utilization of wood in sawmills are wasteful. Areas larger than necessary are logged to produce present volumes of wood.

Reforestation is not significantly replacing losses. The prevailing pine species regenerate well naturally, but because of widely practiced annual burning, areas once logged are left mainly with unused smaller trees. Planting on steep slopes is costly and, because of burning practices, is highly risky as an investment. Overall, degradation and destruction of the forest and forestlands are accelerating at rates which, if continued, largely will deplete the natural forest as a commercial resource by the year 2000.

Finding means to maintain the forest resource goes far beyond the application of good management principles. Utilization of the forest in Honduras is inextricably associated with all other aspects of land use. Frequently, even the simplest measures for better forest management conflict with the immediate needs of poor people using the land for subsistence crops and livestock. Their way of life is traditionally established. They need food today and not income from trees in the future.

Repeated studies in Honduras make it clear that the forest, in much of the present pine area, is the most advantageous permanent use of land. These studies show that if the remaining pine forests were to be used primarily for lumber and wood, if there were greater efficiency in logging and sawmilling, and if burning were curbed sufficiently to permit natural regeneration, Honduras could produce wood indefinitely at present or greater levels.

The many documents and studies describing the forest situation suggest two broad problem areas as most evident. The first is a basic conflict between the immediate needs of the campesinos and the longer-range need to maintain the forest resource and the continuing productivity of the existing forest. Resolution of this conflict involves social and political issues, better opportunities in alternative employment, education, and above all, time.

The second problem area relates to institutional arrangements for land and forest management, logging and sawmill practices, and marketing of lumber abroad. Immediate improvement in these areas is needed and is possible. This also would help in addressing larger social and political problems.

The Task Force's recommendations relate primarily to the second problem area. Means for modifying practices and restructuring institutions are not discussed in detail, as these are beyond the scope and capabilities of the Task Force. Obviously, if the recommendations are to be implemented, changes would be needed in existing laws establishing and defining authorities and responsibilities of the Honduran Forestry Development Corporation (COHDEFOR), the Agrarian Reform Institute (INA), and the Ministry of Natural Resources (MNR).

#### Forest Management

COHDEFOR was established as a semiautonomous agency in January 1974, and all trees were "nationalized" with COHDEFOR in charge of their management, use, and marketing. This includes forest regulation, research, investment, and education. COHDEFOR, both a forest service and a commercial enterprise, is funded by revenues it realizes from sale of timber and from processing and

marketing activities. These revenues support widely varied noncommercial and commercial activities, subject to certain requirements for making contributions to the national treasury.

In forest management, there is one important and, in some respects, crippling exception to COHDEFOR's sweeping powers. The Agrarian Reform Institute shares with COHDEFOR the responsibility for delineating what is forestland and what is agricultural land. Establishing better forest management is extraordinarily difficult when it is unclear whether the end objective is agriculture, or whether it is forest. Farmers are far more numerous than forest users, the population is growing, and many of the areas within COHDEFOR's forest management area clearly are destined for agricultural use. COHDEFOR cannot limit itself, however, to forest management on areas clearly delineated for this purpose without joint action with INA. Such delineations made thus far relate mostly to localized and specific plots, not to establishing commercial forest areas.

Under COHDEFOR the country has been divided into eight forest districts; in each, programs are established for silviculture, reforestation, watershed management, and "social" forestry. These programs can and do overlap or conflict with those of INA; also, within these districts, wildlife management, and park and reserve planning are functions of the Ministry of Natural Resources, further complicating matters.

In the industrial and marketing area, COHDEFOR has a production department to control wood production, a commercial department to market forest products, and a finance department to assist primary and secondary industries. Through the latter, COHDEFOR has acquired a considerable portfolio of investments in wood processing industries. Most are nominally public-private joint ventures but, in fact, are controlled by COHDEFOR and operate as public sector businesses. These are discussed, and recommendations proposed, at pp. 25 - 30.

The present approach to forest management has serious defects. The area to be managed for forest is not defined; in fact, it is the entire country. Authority to establish commercial or managed forest areas is divided and ambiguous. As a self-financing agency, COHDEFOR's needs for revenue tend to

concentrate its management effort on activities in industry and marketing. It is not surprising that COHDEFOR, in its nine years of existence, has accomplished much in transferring forest product industries and trade from the private sector to the public sector, but very little in better forest management.

The Task Force Recommends:

- o Promptly delineating areas whose best use is commercial forest, and within those areas placing authority and responsibility with the Government forest management agency to establish and enforce practices on public and private lands necessary to encourage efficient and long range use of the forest resource.
- o In areas delineated as noncommercial forest, placing authority and responsibility for government programs relating to land use directly with the appropriate agencies, primarily INA and MNR.
- o Promoting agricultural and livestock practices compatible with good forest management within delineated commercial forest areas, under forest agency land use plans, but with assistance from INA and MNR.
- o Establishing sustained yield programs and restricted access in commercial forest areas clearly unsuitable for agriculture and livestock.
- o Emphasizing in forest management the selection and testing of superior conifers and hardwoods so as to be prepared for operational planting in the near future.
- o Emphasizing limited and regulated harvesting of the hardwood resource conserving some large areas, if possible.
- o Improving the ability to utilize fire as a tool to promote pine management rather than to destroy it.

- o Funding of the above activities by the National Government, without direct ties to revenues derived from public sector forest product businesses.

### Timber Harvesting

COHDEFOR is the exclusive seller of cutting rights (stumpage) on all timber, whether from public or private land. It sets the price to be paid by the logger, currently \$6 per cubic meter for pine. From timber on private lands, it is committed to return a portion of the proceeds (about one-third) to the owner. For pricing purposes, logs removed from the forests are scaled at the forest loading site, or at a check point on the access road.

This system is, in itself, poor forest management. Under free market conditions, the existing relationship of stumpage price to end product prices would indicate a real stumpage value of at least four to five times the present amount. Keeping stumpage prices low assures that users of forestland and forest resources will regard trees as being worth very little. There is little or no incentive to care for them; in fact, there is more incentive to destroy them if the annual returns from cropping and grazing, meager as they may be, are of some value compared to almost no value from trees.

Further incentive to wasteful use is provided by the arrangements for scaling logs. The logger does not pay for all usable timber, but only for that which is removed. This is an incentive to take out only the best, leaving behind poor trees, short-length logs, and those with minor defects. Often logs reaching the sawmill are less than 70 percent of the usable timber in the area logged; sometimes they are under 50 percent.

There are reasons, of course, for these practices. Sale of standing timber on a cruise-scale basis requires skilled foresters and greater expenses. High-grading and leaving wood behind lowers the loggers' costs per cubic meter placed at the sawmill. Honduran forest slopes tend to be exceedingly steep and difficult to cruise and log. A higher stumpage price means that less of the end product value accrues to the processor and marketer, and more to the landholder. COHDEFOR itself appears to have a

preference for maximizing its margins at the export market level, which it accomplishes by keeping prices for stumpage low and paying as little as possible for rough and finished lumber.

Good forest management cannot be achieved unless these practices are changed. Along with migratory agriculture, grazing, fire, and erosion, the present system contributes directly to degradation and destruction of Honduras' forests. Economic incentives are just as important, often more so, than the promotion of good silviculture practices.

The Task Force Recommends:

- o Selling stumpage within commercially delineated forest areas on the basis of cruise of standing timber volume.
- o Establishing stumpage prices on the basis of residual value at the sawmill after conversion and marketing costs, with appropriate differentials according to tree quality and location.
- o Permitting holders of standing timber in noncommercial areas to sell stumpage directly to sawmills, subject, however, to prior permits for such sales from the agency responsible for land use in the area.
- o Establishing and enforcing regulations fostering regeneration of forests in commercially delineated areas; assisting agencies in noncommercial areas to regenerate forests where appropriate to "social" forestry and multiple farm and forest use.

Sawmills

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Private sector sawmills, once a thriving Honduran industry, are disappearing rapidly, while sawmill capacity in the public sector is rapidly increasing. The private sector decline is in part due to weak lumber markets, outmoded equipment, and exhaustion of local raw material. More important, however, is the marketing system established in 1974, which

greatly restricts private enterprise, and has steadily shifted the industry into the public sector.

COHDEFOR is both the supply source for timber and the only exporter of lumber. It sells stumpage cheap and likewise buys lumber cheap. It seeks to maximize its receipts from assembly, reprocessing, storing, and exporting lumber, using its monopoly to extract margins of 50 to 100 percent. The domestic market, in which private industry is permitted to sell directly, is small. Most production, therefore, goes to COHDEFOR.

Public sector mills, financed and controlled by COHDEFOR, but operated as separate entities, are in the same squeeze. Private sawmills go out of business; public sector sawmills become increasingly dependent on new public financing. One solution is for COHDEFOR to set prices enabling efficient sawmill operators to make a profit; however, as presently established, COHDEFOR needs the large revenues to support its wide-ranging activities and large bureaucracy. Inevitably, COHDEFOR leans toward advancing its own interests rather than those of sawmill operators.

From the forest management viewpoint, the present system also promotes a lower total return from wood. Manufacturers of secondary products, which can be sold directly abroad, are encouraged by low internal lumber prices to use for secondary products a higher quality wood than may be required. The best paying markets for Honduran lumber abroad are to be found in high-quality specialty areas for which COHDEFOR, as a public enterprise, is not well structured to develop.

Honduran entrepreneurs, excluded from lumber marketing, are innovative and enterprising in manufacturing secondary products such as furniture, solid paneling, moldings, broom handles, and dowels. Their diversification of the industry is proceeding well and must be encouraged by methods other than steering quality wood into lower uses, as the current system tends to do.

At present, all sawmills, private and public, are in serious financial trouble. The remaining private mills are not likely, under the present system, to risk much new investment in maintaining or modernizing equipment.

Only public funds will keep the two large public sector mills in condition to operate. A third public sector mill, the modern and complex plant of CORFINO, has a capacity equal to almost one-third of the entire present industry; it is scheduled to begin production in early 1983. Construction of a fourth public sector mill is being studied. COHDEFOR itself, with equity investments in these sawmills, plus its need for funding all its other responsibilities, is in bad financial condition.

The system, as it is now, encourages the wasteful use of wood, moving what is left of the private sawmill industry to the public sector, and supporting public sector sawmills with government financing. It should also be noted, however, that before 1974 sawmills were small, poorly equipped, exploitive, wasteful, and inefficient. Small privileged groups controlled exports and often moved the profits abroad. Logging practices were even more wasteful than now, and the Government received little revenue from the exploitation of the nation's most important natural resource.

COHDEFOR can be credited with changing the situation, but not greatly improving it. Building on past experience, there now exists an urgent need to combine public forest management with the initiative and efficiency of private industry.

The Task Force Recommends:

- o Terminating the Government monopoly on export sales.
- o Establishing suitable export taxes on lumber sold abroad as the means for obtaining public participation in revenues from the natural resource.
- ~~o Relying on private exporters to develop markets for lumber and secondary products, with the assistance of government in negotiating trade arrangements.~~
- o Assuring that existing government-owned sawmills are profitable before other government-owned plants are built. If marketing and

stumpage rules are changed, it may be possible to interest a private company in a joint venture with the Government to run the sawmills. Another alternative is a management contract.

- o Acquiring experienced and highly skilled management for the government-owned sawmills, and establishing each plant as an independent business.
- o Encouraging more efficient sawing to needed dimensions; promoting utilization of wastes for secondary products and for energy.

### Pulp and Paper

Planning for a pulp mill is well advanced and is already having an impact on forest management. The newly constructed government sawmill, CORFINO (designed to produce chips for the pulp mills), is not optimally located for efficient lumber production. Also, a second dual-chip mill (La Union) is under consideration. If a pulp mill is not constructed, the chips may have little value and indeed may be difficult to market. Also, the mills will not be working with the best equipment or location for producing only lumber.

The pulp project faces an uncertain future. It was conceived some years ago as a means to achieve more efficient use of timber and to supply Kraft pulp and/or linerboard for containers in Honduras and within the Central American Common Market (CACM). World fiber supplies and markets have changed drastically since the project was planned. Surplus capacity now exists worldwide, with prospects for bitter price competition throughout the 1980s. Construction and machinery costs have risen sharply and are still rising. Because of high capital costs and substantial economies of size, enterprises larger than those feasible in Honduras tend to set the prices in world markets. Continuing destruction of forests in Honduras changes the wood supply outlook each year. The CACM, once viewed as a protected market for Honduran pulp, is now badly disrupted.

Clearly, establishment of a pulp plant in Honduras must be viewed today as an exceedingly high risk venture. The public capital inputs would be great, the raw material supply a possible problem, and the markets highly speculative. Moreover, a maximum output of solid wood and of secondary products is not only a higher value use of wood than pulp, but provides more employment for Honduran people.

The Task Force Recommends:

- o Annually updating the feasibility studies on a pulp mill, whether chemical or mechanical, employing an independent consultant having no direct ties to the project.
- o Assuring stable long-term markets for pulp before proceeding with the project.
- o Promptly investigating possible alternative uses, including energy production, for pine chips soon to be produced by CORFINO.

Human Resources

Public and private efforts to improve, maintain, and utilize the forests efficiently are almost overwhelmed by the existing negative attitudes of people who migrate into forest areas. Campesinos living in poverty regard the forest as having little or no value relating to their needs. From their point of view, public or private action limiting migratory agriculture, grazing, and annual burning is hostile to their interests.

Progress toward better forest management will be limited until these attitudes change. Structuring incentives to care for the forest would help, ~~as would a more efficient forest product industry providing more jobs.~~ Better education and dissemination of information regarding forests would also help.

A highly positive accomplishment of COHDEFOR has been to establish a forestry school to educate forestry professionals and to create a capable forest management professional group.

The Task Force Recommends:

- o Strengthening ESNACIFOR, the forestry school established and supported by COHDEFOR, as the principal educational institution in Honduras for forestry and applied forestry research.
  
- o Intensively studying the means for increasing campesino understanding and participation in proper use of forest resources.

### Crop Diversification and Agroindustry

Crop agriculture in Honduras is commonly delineated between traditional and nontraditional crops. Traditional crops are those which have long been the mainstay of Honduran food production and commercial agriculture: the basic grains (corn, red beans, sorghum, and rice), bananas, coffee, sugar, tobacco, and cotton. Nontraditional crops are those whose production is more recent and relatively much smaller. These include citrus crops, pineapple, vegetables (melons, cucumbers, onions, peppers, etc.), cassava, and African oil palm.

In addition to production for domestic consumption, traditional crops, along with lumber and meat, have been the major export commodities and source of foreign exchange. Agricultural products account for two-thirds of total foreign exchange earnings from exports. About 80 percent of this total is derived from traditional crops and 20 percent from the nontraditional crops.

The inherent limitation of such a narrow economic base is amply illustrated by current conditions. General deterioration in the world economy, oversupply in the sugar and coffee markets, and other factors beyond Honduran control, have combined to significantly reduce export earnings.

The price of bananas has declined, although not as much as for other commodities, and Honduras faces increasing competition from other, perhaps more efficient, supplying countries. World coffee supplies are overabundant and the quota assigned Honduras under the International Coffee Organization is much less than annual production, causing a large accumulation of stocks to store and finance. At the same time, the overabundance of sugar in the world free market has driven prices to levels far below cost of production of even the most efficient producers in the world. The imposition of quotas by the United States, traditionally the sole market for Honduran sugar, has limited exports to this premium price market to about one-fourth of Honduras' available export supply. This has occurred at a time when the Honduran sugar supply is the highest in history, the result of four recently constructed plants reaching full capacity. In addition, the world recession has caused low prices and stagnant demand for wood products and for meat.

The combined result, together with the political situation in the region which discourages capital inflow and encourages capital flight, has been the seriously deteriorating balance of trade and balance of payments positions. Export earnings in 1981 were down almost four percent and are expected to be down even more in 1982. This situation, of course, reverberates quickly through the small economy, reducing employment and incomes, and having far-reaching effects, such as the reduction of credit available for agriculture.

The risks inherent in dependency upon a few primary products suggest a diversification of the economic base for both greater stability and increasing export earnings. There is substantial potential for doing this, as evidenced by developments, although still small, with nontraditional crops. There now is considerable activity in production of vegetables, citrus, pineapple, and palm oil for the export market, although numerous problems beset the sector. Further development and growth for these products will require a concerted effort by the public and private sectors working in harmony.

The crippling problems presently encountered are numerous, including such things as lack of basic research and development, lack of efficient transportation to export markets, the absence of government interagency coordination, distorted incentives, financing difficulties, non-price trade barriers in export markets, shortage of investment capital, and the lack of an organized association in the private sector to effectively deal with the Government in overcoming problems encountered. The potential, however, is great enough to encourage actions to be initiated to overcome these problems.

The Task Force Recommends:

- o The Government seek a comprehensive study to identify a broad range of nontraditional crops to determine those which can be produced efficiently in Honduras and for which the long-run economic prospects are particularly favorable. This should be followed by a program to encourage and facilitate market development of those products for which favorable market opportunities are determined to exist. Such a

long range study would provide the basis for more clearly setting priorities for agricultural development, and would permit a more focused foreign assistance effort.

- o The public sector agency structure be modified to provide a focal point for private sector contact, as well as for coordination of government development efforts for these products.
- o The Government commission a study, with private sector participation, of transportation problems (availability, schedules, rates, modes, etc.) which now severely constrain market development.
- o A concerted effort be made, through joint private-public sector cooperation, to generate new and expanded businesses by encouraging private investment in Honduras.

### Basic Grains Policy

The basic food crops in Honduras are corn, beans, rice, and sorghum (designated as "basic grains"). Corn, beans, and sorghum are grown primarily by small farmers, while rice is produced by larger, commercial farmers. Although production varies greatly from year-to-year, it is only just sufficient to meet consumption needs in most years.

Corn is grown by more farmers and uses more land (about 400 thousand hectares) than any other cultivated crop. In recent years, production has declined and it has been necessary to import corn, sometimes in relatively large quantities. Beans (primarily red) are the second most important food in the diet. While Honduras was a net exporter for many years, production (on about 75,000 hectares) is now barely sufficient to meet domestic needs. Sorghum is used for both human and animal consumption. Grown on about 70,000 hectares, Honduras has, in the past, exported some small quantities, but not in recent years. Rice is relatively less important as a foodstuff in Honduras than in other Latin American countries. Grown on about 15,000 hectares, production since 1978 has been insufficient to meet domestic demand and small amounts are imported.

These crops are subject to the pricing policies of the Honduran Institute for Agricultural Marketing (IHMA), one of the semiautonomous public sector agencies. IHMA is charged by law with ensuring the country has an adequate supply of basic food and feed grains. It also is responsible for operating a price support program. Through guaranteed minimum prices to producers, control of export licenses, and intervention in the market (buying and selling domestically and in international markets when necessary), IHMA attempts to stabilize prices and the supply of basic grains.

Before the planting season, IHMA announces the price at which it will purchase grains at harvest time. The purchases are linked to IHMA storage at 19 locations in producing areas. The storage capacity presently is sufficient for 30 to 40 percent of the grains that move in commercial markets (about one-half the annual production is consumed on the farms where grown). Some of the grains purchased through the price stabilization program are made

available around the country to low income consumers through state-owned stores (BANASUPRO), often at subsidized prices. (In 1981, the food subsidy amounted to \$1.25 million.)

The success of IHMA in ensuring price stability and adequate supplies is mixed. It has lost credibility with farmers because of its failure to meet its price guarantee. For example, IHMA established the 1981/82 price guarantee much higher than supply-demand conditions appeared to warrant (\$5.18/bushel for corn; \$27.50/cwt for beans; and \$13.30/cwt for rice). Farmers responded to the high prices, and harvest-time deliveries soon filled the available storage. IHMA ceased purchases, forcing many farmers, feeling betrayed by the Government, to sell at much lower prices. IHMA's purchase cost, plus storage and handling costs, are well above regional and world market prices, causing it political difficulties, as well as the losses incurred in selling below cost.

There is very little private grain storage in the country. Investment in storage is considered too risky because of the uncertainty created by the timing of IHMA's movements into international markets. Potential investors fear that the rise in prices from harvest-time to before the next harvest necessary to recoup storage costs would be dampened frequently enough by IHMA imports to preclude a satisfactory return on the investment.

The uncertainty created by IHMA also affects credit availability to farmers. Banks are reluctant to provide operating funds because of the price uncertainty in the market. The lack of operating credit is a major limitation to increased production of grains. The Government is virtually the only source; about 90 percent of government-provided credit is to grain producers.

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The Task Force Recommends:

- o The present grains policy be fundamentally restructured. The objective should be to provide stability in the grains sector, and the food distribution objectives now a part of the program should be disentangled and carried out separately. The basic structure of a

new grains policy might include a minimum guaranteed price, at well below the world market (to encourage Honduran producers to become more internationally competitive), perhaps approximating cash or out-of-pocket production costs of the average producer. If other recommendations were enacted, such as the crop lien system, this would encourage bankers to make operating loans to producers, providing enough credit for producing the crop.

At the same time, a much higher price could be established which in times of short supply would be the price at which IHMA would go into the world market to purchase supplies. The domestic price in most years would fluctuate within this price band. Having this established price would remove much of the uncertainty about IHMA's intentions, and create an environment more conducive to private investments in storage. In fact, it would be unnecessary for IHMA to continue constructing storage facilities; the lower minimum price could certainly be guaranteed with much smaller purchases, quantities for which existing storage is already adequate. In fact, at some point in the near future, it would perhaps be feasible for IHMA to divest itself of the present storage, selling it to the private sector.

### The Livestock Sector

Livestock represents about 25 percent of the total value of Honduran agricultural production. Beef is the predominant livestock enterprise, accounting for three-fifths of total meat production. Pork production has been relatively stable over the past several years, continuing to be produced primarily by traditional methods. Poultry production has been increasing, with most of the growth from large, relatively modern production units.

Beef is a traditional export commodity; nearly one-half of the annual production is exported. All other livestock production is consumed domestically. The only livestock product import of consequence is non-fat dry milk, which has been increasing.

There is substantial potential for improving livestock product off-take through increased reproduction and growth rates, and other production efficiency measures. However, aggregate statistics are believed to be misleading. This results from averaging a relatively efficient segment of larger commercial producers with smaller producers using traditional practices. The problems for commercial producers already using improved technical practices are primarily market constraints. Periodically depressed world prices and a single market outlet (the United States) are major problems.

Livestock products play an important role in human nutrition in Honduras, not only for the urban but the rural population as well. The low production rates suggest that a large proportion of the feed energy is going for maintenance of the livestock herd, leaving too little available for domestic consumption and export.

There are nutritional, disease, and germ-plasm constraints to achieving the production potential of the livestock sector. Of these, inadequate nutrient intake from grazed forages, particularly during the dry season, is the principal constraint to attaining higher productivity. The severity of this constraint varies with the distribution and amount of rainfall and is accentuated in the low-fertility soil areas.

In infertile soil areas, unique problems of beef cattle production arise from the low nutritive value of grazed forages, which is principally a consequence of low soil fertility. The most serious consequences are calving percentages of 40 to 50 percent and slow growth rates resulting in the marketing of animals at four to five years of age. In the short term, the remedy lies in improved herd and pasture management practices, combined with mineral supplementation to offset inadequacies in nutrient intake during critical phases of the production cycle.

In fertile soil areas, increased competition for land use, expanded market possibilities, and greater production potential call for more intensive production systems and practices. Particular attention should be given to selection of pasture species that are not only nutritious and high-yielding, but also can withstand grazing on a continuing basis and be competitive with weeds. The greater frequency of milking cows in beef cattle herds in fertile soil areas and the higher incidence of disease and parasitism associated with increased concentrations of cattle also require improved managerial and preventive medicine programs.

A number of practices based on existing or easily produced local feedstuffs (as crop residues in the case of small mixed farms) appear to have potential for efficiently improving animal nutrition, and thereby removing a critical obstacle to effectively attacking other production constraints such as animal health and improved genetic stock.

Improved livestock production efficiency, especially among smaller producers who generally have a mixed crop-livestock operation, must be approached within a total farming systems context. Changes that focus only on the livestock component are unlikely to be adopted by small farmers, and, if they are, may do more harm than good to the total income and food supply of the small farm family. This is an inherent danger of the modular approach to livestock production improvement now being used by the CATIE/MNR research program. Small farmers generally are not able or willing to accept the risks involved in adopting an extensive package of changes in their livestock operation. A package of changes also often requires significant investment for which borrowed capital will be needed.

A more incremental approach, which first introduces practices not requiring credit, and which takes advantage of available resources already on the farm (e.g., family labor, crop residues, supplemental plantings, and controlled grazing), can introduce the farmer to low-risk changes that do not dislocate his general farm operation, but which improve his income and family consumption. This will prepare him for higher risk, credit-using changes at a later stage of his farm development, or will allow him to make the investments from his own capital formation.

A potential and generally neglected opportunity for improved human nutrition and economic activity from animal agriculture for small farmers involves small ruminants (sheep and goats). Many times, these smaller animals fit quite well as a component of the small farm system. These species can convert several sources of plant energy, not directly utilizable by humans, into meat, milk, and cheese products. Hair sheep, for example, are well adapted to higher rainfall areas and goats can be a productive alternative in areas having a long dry season.

For improved animal production programs to have the desired income impacts on small farmers (and employment multiplier impacts in the case of larger production operations), improved systems of marketing and finance must be put in place. Some innovative alternatives that involve joint private and public action should be considered. Marketing and financing systems that vertically integrate producers into the overall marketing, processing, and consumption system appear to have potential.

For example, a system that provides small farmers with brood sows for producing feeder pigs which then are made available to a relatively large scale, technically efficient, and well-managed fattening/marketing enterprise, could integrate functions of providing breeding stock, technical guidance, and financing (through in-kind provision of sows), as well as a market outlet to small farmers. In the feeder pig operation, the small farmer would utilize a relatively extensive production system based on farm produced feedstuffs.

Such an arrangement could achieve a number of objectives:

- o Provide a low-risk income producing enterprise to the small farmer.
- o Integrate the market function closely with the production activity.
- o Provide high-quality technical and financial management and outreach at various levels in the overall production-marketing-processing-consumption (PMPC) system where it is required.
- o Provide a stable supply of quality products to processors.
- o Provide in-kind financing that avoids the problems of high-risk, expensive-to-administer small loans under conventional credit schemes.

The fattening/marketing enterprise could be a cooperative undertaking, or it could be a mixed ownership operation of producers, processors, and the public sector.

This type of integration model has been used successfully in Colombia by cattle producers, and could be considered in Honduras for both swine and cattle production. In Colombia, Fondos Ganaderos were established as mixed public/private organizations with development, improvement and promotion functions, using an initial capitalization mechanism similar to that of the cooperative farm credit system in the United States.

In Colombia, the capital of the Fondos is represented by two types of ownership shares: class A stock is purchased by national, state, and/or municipal public agencies to provide seed capital; class B stock is purchased by the private sector (producers as well as other investors). The Fondo is a for-profit enterprise and profits are distributed to shareholders. Class A shareholder dividends stay in the Fondo to be used for reinvestment and for promotion and technical assistance programs.

Fondos provide breeding stock and feeder animals to producers on a share basis, as well as credit for other inputs and capital improvements as may be appropriate. They also provide technical assistance to producers.

The Fondo receives 35 percent and the producer 65 percent (60 percent in cash and five percent in shares of class B stock in the Fondo) of the increase in value of the animals provided.

An organizational structure of this type could be modified in a number of ways to fit the specific needs and interests of both small and large producers in Honduras.

The need to integrate government services to farmers who produce livestock is consistent with the systems approach to farm improvement, as well as improved integration of production, marketing, processing, and consumption activities to improve efficiency of the livestock industry.

Livestock research, promotion, and extension cannot be effective if carried out in isolation from research, promotion, and extension activities in crop agriculture. Even single enterprise livestock ranches must deal with technology related to pasture improvement and supplemental feedstuff production and/or utilization. For improved technology in these activities to be effectively integrated at the farm/ranch level, they must be integrated at the research, promotion, and extension service levels, as well.

Additionally, because producers have much to offer in terms of improving technologies and because the capabilities of the public sector in generating appropriate improved technologies are quite limited, it is important that private sector resources be mobilized and incorporated with public sector resources to achieve the goal of improved efficiency and profitability of livestock production. Livestock producers, through their associations and organizations, should be brought actively into the process of technology development, PMPC system integration, and market expansion. This requires relevant public sector agencies to seek a true partnership with the private sector; it also requires a policy environment which enables the private sector to participate on a self-interest basis. Mechanisms which allow

earmarked check-offs at sales points, and other use of public resources as seed capital for essentially privately operated enterprises, should be created.

The current practice of blending subsidized imported non-fat dry milk at major processing centers depresses the price of retail fresh milk and, in turn, the price to the farmer. This has resulted in a widening gap between the amount of milk produced and consumed.

Milk production from the small farm sector can be an important part of a cash flow economy within the local rural area. Milk can be produced in Honduras at competitive prices if encouraged.

The Task Force Recommends:

- o Focusing major attention on improved animal nutrition strategies to increase production efficiency. These strategies include improved pasture management (controlled grazing through controlled stocking and rotation), and utilization of supplemental feedstuffs, especially during the dry season. Use of supplemental plantings of lucerna or cassava, feeding bananas, plantain or cassava, and planting small irrigated plots of forage sorghum or elephant grass for green chop supplemental feeding are possibilities that could be examined. Supplemental planting of sugarcane for controlled feeding during the dry season also may have possibilities. An organized program of testing these and other alternatives could lead to greatly improved nutrition opportunities for livestock, not only for larger commercial producers but for small producers as well.
- o An assessment be made of the potential role of small ruminants as a part of a national livestock development strategy.
- o The feasibility of establishing vertically integrated enterprises (of the type described) for the livestock industry be examined.

o The use of subsidized or donated non-fat dry milk for reconstituting be discouraged, and the reconstitution of milk using subsidized imported products be eliminated gradually. Since virtually all such imports are subsidized, this likely will require gradually increasing import tariffs on non-fat dry milk, or decreasing import quotas. An advantage of using import tariffs is that the proceeds can be earmarked for technical assistance, promotion, credit, etc., for improving small farm milk production efficiency and milk collection systems.

### Agricultural Credit

A shortage of agricultural credit is widely perceived to be a severe constraint to improved agricultural production efficiency and increased output. In the past two years, there has been a sharp reduction in credit accommodations by international lenders to the semiautonomous agencies, and commercial bank credit lines have been severely reduced or cancelled. Because farmers have, in the past, received a considerable amount of credit directly or indirectly through public and private lenders relying on these sources of funds, this has resulted in a severe curtailment in the availability of credit to farmers.

World economic conditions, unstable political conditions in Central America, high interest rates worldwide, and shrinking markets for traditional agricultural exports have acted in concert to reduce available supplies of loanable funds. These are problems external to the agricultural credit system in Honduras; suggestions for alleviating some of these external constraints have been made in other sections.

A number of constraints to efficient and effective operation of the Honduran agricultural credit system exist. These tend to discourage lenders from making agricultural loans in favor of other uses of available funds. They also tend to increase costs, risks and losses in agricultural lending, and result in less than optimum use of available credit.

A number of sources provide credit to agriculture and agroindustry. The biggest institutional lender is BANADESA, with about 45 percent of the institutional agricultural credit portfolio. Fifteen private commercial banks provide the balance of institutional credit to agriculture. Informal credit sources (money lenders, output market intermediaries, input supply firms, and individuals) supply about one-half of total credit to agriculture.

Internal constraints to an effective and expanding agricultural credit delivery system include:

- o National objectives relating to agriculture are poorly defined. Mixed signals often find their way to lenders and producers. There appears to be confusion and lack of understanding by the ministries, and even more confusion and lack of understanding by the private and public subsectors (private banking system, public credit institutions, labor and reform groups, farm groups, agroindustry, etc.) about the roles each is to undertake to achieve as yet unspecified goals. There is tremendous scope and complexity to the problems faced in the sector.

There is much to be done and without a well-defined plan which permits appropriate participation and decision-making by all those concerned, efforts will be dissipated and often at cross-purposes. This severely limits progress in resolving critical weaknesses in the agricultural system.

- o Exchange controls and slowdown of foreign exchange transmittals have improved domestic liquidity, but impair the ability of the private sector to service offshore currency debts. This increases uneasiness among foreign suppliers and lenders, and dampens willingness to extend further credit.
- o High debt levels and limited debt servicing capability of both government and private agroindustry are deterrents to lenders. Most government institutions and several private companies have been unable to generate sufficient operating margins to cover interest and principal payments. Operating losses have contributed to a decline in already limited equity. Under present conditions, it is unrealistic to rely heavily on debt to operate and expand. Available long-term funds are provided only at floating interest rates. During this deflationary period, lack of equity imposes a heavy penalty on companies whose debt structure was created during the earlier inflationary "easy-money" period.
- o During the earlier expansionary period, corporate, financial, and government institutions poured funds of all kinds into numerous

programs. This caused the building of a bureaucratic structure that is unwieldy and expensive. Each source of funds has its own criteria as to how they are loaned and administered. These have combined to create a "paper-blizzard," a multi-tiered management and decision process, and the burden of trying to cover heavy costs. Margins added to original costs of even concessionary rate programs make them expensive to final borrowers. To these problems are added delays in obtaining commitments, failure of timely disbursement, and, sometimes, arbitrary reduction of projected needs. These problems translate into a dismaying series of barriers to the effective use of funds.

- o Administration of government credit programs has been and continues to be poor. Insufficient attention is given to the progress of crops or presence and condition of livestock. Disposal of crops and livestock and distribution of proceeds are inadequately monitored. This has resulted in excessively high delinquencies (40 to 75 percent) in loan repayment.
- o The legal system, commercial practices, social and political customs, and legislation do not provide reasonable equity to the various parties to a financial transaction. There is little effective ability by lenders to recoup loan proceeds on agricultural-type collateral in the event of default by the borrower. Close and frequent supervision is not practiced. Such practices could sharply improve collection of loans. Supervision is expensive and lenders tend to make loans of a size sufficient to allow earnings and fees to cover high administrative costs and profit requirements. Private lenders view most agricultural loans as risky and expensive and have not been generally aggressive in entering this market.

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The Task Force Recommends:

- o The climate for capital formation be improved. While there is some temporary improvement in the banking system's liquidity, bankers are not confident this will continue. There is a national need to

enlarge the pool of domestic funds. There are few restrictions limiting the price bankers can pay for deposited funds except for limits to the maximum lending rate. Lending rates on the demand-side might also be liberalized to encourage more attractive supply-side rates. Presently, the maximum loan rate a commercial bank can charge a farmer or cattleman is 19 percent, which is based on a 15 percent discount rate and a four percent add-on spread. Rather than open the loan rate immediately to market forces, it might be more feasible to increase the allowable spread to, say, six percent. This should permit more aggressive competition on the deposit side for investor's funds and also stronger competition for the Government bond sales program. If liquidity continues to improve, both supply and demand rates should react in ways favorable to the borrower and should also lower costs of funds to the lender.

- o The Government program to merchandise tax-free bonds at 11 to 13 percent is an effort to build government liquidity, but these bonds are a serious competitor to efforts to build up the private sector pool of funds. If the private sector is to take a greater role in agricultural financing, such competition must be reduced. Possibly equating the returns on bonds on a tax-equivalent basis to the market rate for deposits would provide a better balance between government-private sector competition for funds.
- o Some type of crop lien system should be developed whereby the purchaser of commodities from the farmer is apprised of the existence of financing secured by the crop. Payment would need to be made by the purchaser to the lender for the account of the farmer. After satisfaction of credit outstanding, or scheduled term-debt payments, the balance would be remitted to the farmer.
- o Numerous entities have underwritten loans by providing guarantees which promise repayment of loans in the event of default by the borrower. Several demands for guarantor performance have not been met either because of an unwillingness to face up to an obligation, or an inability to come up with the funds due to illiquidity or

possibly even insolvency of the guarantor. Credit institutions have relied too heavily on worthless guarantees, which at inception were not adequately analyzed to determine whether the guarantor was actually capable of servicing his contingent liabilities in the event he was called upon to do so. Banks should not be permitted to take guarantees without supporting financial exhibits indicating the guarantor's ability to perform. It is our understanding that the Central Bank has issued a rule requiring this, but that it has not as yet been strictly enforced.

- o Reduce the large amount of contingent liabilities that have been so readily and easily created. While difficult to accomplish, it is necessary to improve credit-worthiness of government institutions. Some institutions may find it necessary to shrink both operations and their balance sheets to accomplish this. However, without some improvement in the overall financial condition of autonomous and semi-autonomous agencies, it will be difficult to renew or obtain external financing. The IMF agreement will govern how much can be done.
- o Foreign exchange controls probably continue to be necessary in the short term. However, while recognizing the need to manage a limited supply of dollars, the inordinate length of time taken by the Central Bank to approve either the availability of dollars or their transmittal is eroding the image of importers by breaching usual commercial trade terms. Also, the system of trying to allocate a scarce resource among many users breeds an environment of graft and forces some users of foreign exchange into illegal activities. The IMF agreement addresses the problem in the Central Bank of foreign exchange transactions that are pending, but even with determination of the extent of the problem, the \$30 million in applications pending are unlikely to be processed in a year. Even with the pressure of the IMF agreement, there is no assurance that these transactions will be expeditiously serviced by the Central Bank in the future. The approval process must be improved to reduce the time lag between date of application, approval, and the actual transfer of dollars. Over the longer term, foreign exchange controls should be substantially reduced and then eliminated.

- o It appears that farmers have resources not revealed by published estimates. Some lenders have experienced equity support for farm operating credit of over 20 percent put up by the borrower. To broaden the agricultural credit delivery system, it may be feasible to organize a stock company to function as a financier to cater to local farmers. Shareholders could be farmers, agroindustry, banks, etc. The company would need to be capitalized adequately. Equity could be leveraged by borrowing from banks or by use of the Central Bank's discount window. Such an institution would have many of the characteristics of a successful lender. They know their area and their borrowers, and they can monitor performance throughout the growing season. We recognize that a similar type institution was created in the past but did not succeed. However, with appropriate management and adequate safeguards, we see no reason why such an institution could not be made to work.
  
- o There is another effective loan vehicle already in place which has been underutilized by the banking system: the local money lenders. They know the area and the people, can provide timely service, and generally enjoy excellent repayment of loans. Their own funds could be augmented by commercial bank loans as a substitute for more direct agricultural lending by private commercial banks.
  
- o The system of providing credit indirectly to small farmers by using established agroindustries as the credit conduit should be enlarged. A large agroindustry has access to the market for finished or semi-finished goods, can provide technical assistance to the farmer, and can supply crop and livestock enterprise inputs. The agroindustry, as the initial buyer of the agricultural commodity, also can make preharvest cash advances to the farmer who pledges to sell his products to the agroindustry. Credit arrangements are quickly made, with a minimum of "red-tape," and the agroindustry usually is perceived as being consistently interested, year after year, in a relationship with the farmer. This type of arrangement provides comfort and eases apprehensions of small farmers who often feel that their financial lives are in jeopardy each year during

prolonged negotiations with more institutionalized lenders. Recommendations in the section of our report dealing with the livestock sector is a logical extension of this means of channeling credit to farmers.

- o It does not appear feasible to attempt to develop a crop insurance program at this time. There are no actuarial data; natural catastrophes occur frequently, and premiums would be high. The Government would be required to underwrite most of the costs since farmers are not in a position to absorb a high overhead expense which is not a direct input to production. Development of a sound minimum price program for grains likely will do more to make the farmer an acceptable credit risk than an insurance program to cover disasters.
  
- o The feasibility of establishing a private commercial warehouse system should be examined. To attract the private capital necessary to construct and operate the physical facilities and perform the warehousing function itself will require existence of a commercial market for such services. The services need to be in demand by farmers, agroindustry, handlers, merchants, and speculators, and would involve such activities as unloading commodities from ships, trucks, wagons, and railway cars; drying and storage; grading to permit comingling of fungible commodities, loading of transport facilities; fumigation and cleaning; mixing of various lots to achieve a required grade; etc. Warehousemen would need to be well-trained, financially and ethically responsible, and operate in a manner to create confidence in the system and promote orderly marketing, reduce spoilage and leakage, and permit some degree of speculation. As a means of promoting financing to enable owners to hold inventories, the system will require negotiable or non-negotiable warehouse receipts which are evidence of title to the stored commodities and which can be used to collateralize bank loans.

### Natural Resource Use and Conservation

Honduras has a favorable climate and an abundant supply of agricultural land and water, the basic natural resource ingredients to a productive agriculture. The problem is that neither the land nor the water resource base is being utilized efficiently to achieve economic and social goals.

Many present land owners do not use their land efficiently. Additionally, a major portion of land suited for agriculture is still in the public domain. Constraints to efficient use of these resources are both institutional and technological.

Major constraints that could be alleviated through appropriate public policies and investment, combined with private initiatives and investment, are discussed in this section.

#### Drainage, Flood Control, and Irrigation

A considerable portion of the agricultural land is poorly drained, frequently floods, or is susceptible to drought during a part of the potential growing season. Because the necessary institutional structures and investments have not been realized, agricultural production on these lands is high risk and profitability is marginal.

Present policies are not conducive to private sector investments and commitments of future income required to manage water. For major agricultural areas in the Coastal Plains, large scale, multi-farm drainage, flood control, and irrigation works are required. Because of the large scale nature of required investments, and because benefits from them accrue to individual landowners, as well as to the economy as a whole, a partnership between the Government and landowners is necessary to make required investments in appropriate infrastructure (dams, dikes, drainage and irrigation channels, pumps, land leveling, etc.). There presently is no enabling legislation to permit the institutionalization of such a partnership.

The Government has neither the organizational nor financial capability to carry out the required investments alone. Furthermore, without the commitment of benefiting landowners to utilize future income from improved production resulting from the investments, as well as a commitment to maintain and operate the systems, anticipated benefits from such investments are not likely to be realized. Enabling legislation is required that provides a vehicle and incentives for landowners to organize themselves, finance initial investments and tax themselves in order to provide an income flow to amortize initial investments and to operate and maintain the system effectively.

In the past, the public sector has made investments in flood control and irrigation projects. These efforts largely have been unsuccessful; most existing public irrigation projects, for example, are greatly underutilized and poorly operated and maintained. The original investment has not been recouped and the infrastructure is steadily deteriorating. Major reasons for this poor performance appear to be:

- o Benefiting landowners have not participated effectively, either financially or organizationally, in planning, implementing, and maintaining the works carried out, and
- o Government capacity to effectively manage such projects is inadequate.

If private sector users are empowered to take the initiative and assume major responsibility for organizing the system, making required investments, maintaining and operating the system, and amortizing their fair share of the investment cost, the potential for success of such activities would be considerably enhanced.

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Agricultural areas of the interior of the country are subject to serious soil erosion. In addition, a number of opportunities exist to greatly reduce the risk of crop failure and to extend the growing seasons through small scale irrigation. As in the case of water management in coastal agricultural areas, erosion control and small scale irrigation in the interior are

feasible only if there is active participation and commitment by landowners. Experience in other countries, such as Guatemala, suggests that small farmers will respond to opportunities to carry out soil conservation and supplemental mini-irrigation programs. They are willing to provide labor in construction, to commit a part of future enhanced incomes to amortizing a part of the initial investment, and to agree to maintain and operate the systems. Government must provide enabling legislation, make initial financing available, and underwrite an appropriate share of the initial costs.

The Task Force Recommends:

- o It be determined to what extent agricultural landowners are willing to participate organizationally and financially in soil and water management improvement investments, and that consideration be given to adopting appropriate enabling legislation and incentives to permit landowners and government to carry out, maintain, operate, and pay for such improvement investments.

Land Distribution, Tenure, and Social Objectives

A system of agricultural production based on private ownership of land must provide security of tenure and adequate flexibility to enable land to be put to its most economical use. At the same time, the use of land must mesh with the social equity objective of improving the livelihood and enhancing the human dignity of the rural population.

It has been demonstrated amply throughout the world that an agricultural system based on private ownership of farmland, combined with an appropriate policy environment, can achieve high levels of production efficiency and output, and at the same time achieve social equity objectives. In contrast, other systems, based on state or collective ownership of the land base have had a poor record of production efficiency and output except in isolated cases where an overriding religious or social cohesiveness controls communal action. A number of experiments in state and collective enterprises in Latin America have poor, and generally disastrous, records of production efficiency and output.

An appropriate policy environment is critical to the success of a system of agriculture based on private land ownership. The policy environment must achieve a balance between incentives to assure production efficiency and the realization of social objectives. These objectives may, at times, be conflicting.

The present structure of agricultural land ownership and the policy environment in Honduras contain several obstacles to achieving the two objectives referred to above:

- o Productive land ownership is highly skewed, with 20 percent of the agricultural land being held by 279 large owners and 126,000 small subsistence farm families holding less than four hectares each. In addition, some 50 percent of the rural campesino families own no land at all, and are unable to find enough employment to earn sufficient income to cover basic needs.
- o Only an estimated 3,000 farms are legally titled out of a total of 185,000 to 190,000 units in possession. A considerable amount of this land is legally classified as public domain, and a large amount of unsettled land suitable for agriculture is in the public domain. Most of the latter is inaccessible because of lack of roads.
- o A number of policies have a negative impact on decisions of landowners to put their land to its most appropriate use. Because of lack of legal title, owners are hesitant to make major medium and long-term investments in land improvements. Land cannot legally be rented, thereby excluding a viable economic alternative for allowing land to be used by efficient farmers when it may be owned by inefficient farmers or non-farmers. And, to be exempted from agrarian reform, large farms must be planted to specified crops (such as sugarcane). ~~These crops may not be the most effective use of that~~ land. Virtually no land market exists in Honduras, mainly because of lack of clear titles to transfer and lack of a system for financing land sales. In the past, the Government has relied on direct intervention through agrarian reform to provide land to landless

campesinos. This requires a bureaucratic structure that is expensive and a management efficiency beyond the capabilities of government. It treats the land recipient largely as a passive onlooker in the process, thereby neutralizing many of the individual ownership incentives inherent in a private market. Land redistribution under the present system has been very expensive and has been at such a slow pace that it has not kept pace with the increase in new rural families entering the landless group.

The Task Force Recommends:

- o INA should concentrate on accelerating the land title program now being initiated.
- o The prohibition against land rental should be reexamined and a system devised that permits economically sound land rentals, while protecting small farmers from manipulation in a rental market.
- o The system of allowable crops for exemption from agrarian reform be reexamined and adjusted to conform to economic realities.
- o Alternatives for a financing and transfer system to create a viable land market be examined. This should involve participation of representatives of campesino groups, the banking and capital market system, and government. As an acceptable alternative is evolved, a pilot program could be implemented to test procedures and mechanisms. Campesino groups could make a considerable contribution to assuring the success of such an undertaking.
- o The Government should investigate the feasibility of making land available for resale by ~~saving landowners who benefit from drainage, flood control, and irrigation works~~ make a proportion of the improved land available for sale to small farmers through the proposed land market financing system.

- o The Government should establish priorities for constructing roads and other infrastructure to permit access to presently unsettled lands suitable for agriculture, and explore alternatives for colonization that would mobilize the capabilities of the private sector to organize and carry out the settlement process (private agroindustries campesino organizations, cooperative federations, mixed public/private organizations, etc.). Government resources can then be focused on providing an appropriate policy and investment climate, required infrastructure, research and extension to achieve the productivity and income necessary for economic success.

### Public Sector Structure and Organization

Since the Government of Honduras took the first major step of involving itself directly in the development of agriculture by establishing the National Development Bank (a predecessor to BANADESA), the organization of the public agricultural sector has evolved more in response to crisis situations than to any overall plan with consistent criteria. In addition to central government agencies, the sector today is composed of several semiautonomous organizations which have an independence of action resulting in less than effective unified planning and coordination. <sup>1/</sup> There is only one agricultural sector organization, the Ministry of Natural Resources, which is a centralized component of the Government. But, there is no entity assigned responsibility for overall agricultural development, nor is there an overall leadership role in the agricultural sector short of the President.

The many separate institutions with independent policy structures and the inconsistency of membership of the policymaking boards results in fragmented views of policy issues and creates barriers to developing effectively integrated and mutually supportive policies and plans. There presently is no clearly defined system for the analysis, decision, and execution of agricultural policy and the solution of problems by development of integrated actions. This has resulted in sometimes contradictory policy goals and in unnecessary intermingling of social and economic policy objectives. The proliferation of agencies and projects now exceeds the limited executive personnel resources, creates competition among organizations for the same small technical personnel pool, increases the array of coordination and control mechanisms, dissipates authority of agency heads, and seriously reduces the ability of government to control the agricultural development program. Moreover, it has seriously impaired chances for effective or efficient delivery of development services to the agricultural sector.

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<sup>1/</sup> The semiautonomous agencies in the agricultural sector are BANADESA, IHCAFE, COHBANA, COHDEFOR, INA, IHMA, and DIFOCOOP.

The Task Force Recommends:

- o Attention be given to restructuring the agricultural public sector to greatly improve its institutional organization and capacity. There have been in the recent past numerous descriptive and analytical studies of public agricultural sector institutions in Honduras, sponsored by various international organizations and countries. We do not advocate any particular specific reorganization plan that has been proposed. Rather than another study, however, we urge that the results of the ongoing study sponsored by USAID and the results of the previous studies be carefully evaluated and used as the basis for designing a new structure.

Regardless of the particular configuration, we think it imperative that public sector entities be unified in a central agency, a strengthened Ministry of Natural Resources, and that lines of responsibility and authority be clarified. This, of course, entails bringing the semiautonomous institutions into a central framework or shifting their functions to the private sector. And, it means developing a mechanism in the central government for effective integration and coordination of policy development for the sector consistent with national policy.

### Human Resources

The pressure on Honduran agriculture to meet the present food needs of the country is already great and, with the rapid population growth, will intensify in the years ahead. Of the many ingredients essential for successful agricultural development and sustained growth in the food supply, one of the most critical is the development of the country's human resources. These resources are crucial to the adaptation of existing technology, to the creation of new technology for the future, and for the effective dissemination and use of technology in its applied forms. This entails not only training teachers and researchers, but also extends to the many farmers who must put the knowledge to work.

At the present time, trained personnel in Honduras for agricultural education, research, and extension are few. Augmenting this body of professionals is a long-term process, but one that must be commenced without delay. We believe this will require a fundamental change in the philosophy, organizational structures, and priorities for the education and training of agricultural scientists and professionals. Such changes will require many innovations and will perhaps be politically unpopular. This may be especially true as it involves changes in institutional structures, particularly the university system, and especially for CURLA, the agricultural university at La Ceiba.

We find the deficiencies in the present system to be basic: the lack of well-trained teachers; the lack of an appropriate curricula; inadequate laboratory and other facilities; and a philosophy of university education that precludes rigorous education and solid achievement.

#### The Task Force Recommends:

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- o The university system be reevaluated and modified as appropriate to ensure that a rigorous education be made available in the agricultural sciences. This will undoubtedly involve a fundamental restructuring of CURLA.

- o In addition to changes in the existing institutions, there are several other institutional models that might be considered such as the privately funded Panamerican School at Zamerano and a specialized agricultural institute for research, training, and extension.

#### Research and Extension

While the development of a body of trained people is essential, there must at the same time be an organizational structure that facilitates the effective dissemination of new technologies to increase food production. The present fractionation of the research and extension system impairs efficiency, resulting in the lack of coordination of the scarce resources now available, duplication of effort, and the failure to reach much of the farm sector, especially the numerous small farmers.

Providing effective extension services to the many small farm families is perhaps the most difficult of all activities. But, with more than 50 percent illiteracy in the agricultural work force, more effective farmer education and training are essential prerequisites to expanded food production.

#### The Task Force Recommends:

- o The public sector research and extension functions be placed in the same organizational and administrative structure at all levels in the country within the Ministry of Natural Resources. Further, there should be a reevaluation of current extension activities, an increase in resources for extension, and a concerted effort to coordinate all such activities with an emphasis on improved technology transfer and training of small farmers.
- o Ways be explored to entice trained Hondurans to return to the country to work and a policy conducive to retaining them and preserving the much-needed continuity in the research and extension efforts be formulated.

### Short-Term Efforts

While the efforts to fundamentally improve the human resources at all levels require considerable time to come to fruition, there are steps which will result in more immediate improvements in the food situation. Some of the most immediate problems can be addressed through concerted efforts to borrow and adapt existing technology, and through the use of outside technical assistance for specific problems. For example, enormous sums of public money have been spent in areas such as the Aguan Valley. However, severe production problems have been encountered, primarily because required technology measures are not understood by the campesinos and, as a result, they are reluctant to participate in needed physical operations. Total marketable production could be increased substantially and quickly if minor element deficiencies and other agronomic problems, such as weed control and drainage, could be economically corrected. Some of the problems could be corrected by intensive labor; most, however, can only be corrected through skilled management of technology and a willing labor force. The same applies to the African oil palm production and processing enterprise there.

### The Task Force Recommends:

- o The Government seek to obtain outside technical assistance for this and other projects with similar problems. Some assistance is available now in Honduras and can probably be contracted on a reasonable basis. Many of the badly needed human and technical resources currently exist within the private sector and closer linkages between farmer groups and efficient companies should be encouraged. For example, much of the information needed to improve citrus production in the Aguan Valley is probably available in the San Pedro Sula and La Ceiba areas. If not, it certainly is available in Florida and California and probably usable without much additional adaptive research.

We would further urge that this assistance be coupled with a training program which will assist in dealing with such problems in the

future. One of the most valuable aspects of technical assistance can be the trained people it leaves behind.

- o Some long range planning to focus on establishing commodity priorities and production targets is needed. Available technical personnel and funds are not sufficient to increase production on all important crops simultaneously.
  
- o Consideration should also be given to the production team concept. Highly trained teams with skilled leaders can stimulate production rapidly if adequately supported. Using both trained nationals and technical assistance from outside, these teams could focus on the most acute problems. For example, for Aguan Valley citrus production, a small team of experts, including a soil scientist, an agronomist, an entomologist, and a pathologist, could identify technical solutions within a short time. At the same time, marketing, packing, and shipping problems also are limited factors in the Aguan Valley Project. A team of appropriate experts also could address these problems and examine solutions such as the feasibility of a juice or concentrate plant.

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This concludes our treatment of the specific areas of the agriculture and food system which we examined in our effort. In closing, we reaffirm our hope that this mission will serve as only the beginning of a renewed effort to address the problems that confront Honduran agriculture. We were delighted that at the conclusion of our mission President Suazo embraced the suggestion of a joint Honduras-United States committee to plan follow-up activities by designating two cabinet ministers for the committee.

Our government, and especially the Agency for International Development personnel, stand ready to assist and to fully participate in these subsequent activities. And, we reiterate that the individual members of this Task Force

are prepared to assist in any capacity in which we might make a contribution to improving the agriculture and food supply for the benefit of all the Honduran people.