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HONDURAS

COUNTRY DEVELOPMENT STRATEGY STATEMENT

FY 82

January 1980

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
WASHINGTON, D.C. 20523

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FY 1982-86

HONDURAS

Tegucigalpa, D.C., February 15, 1980

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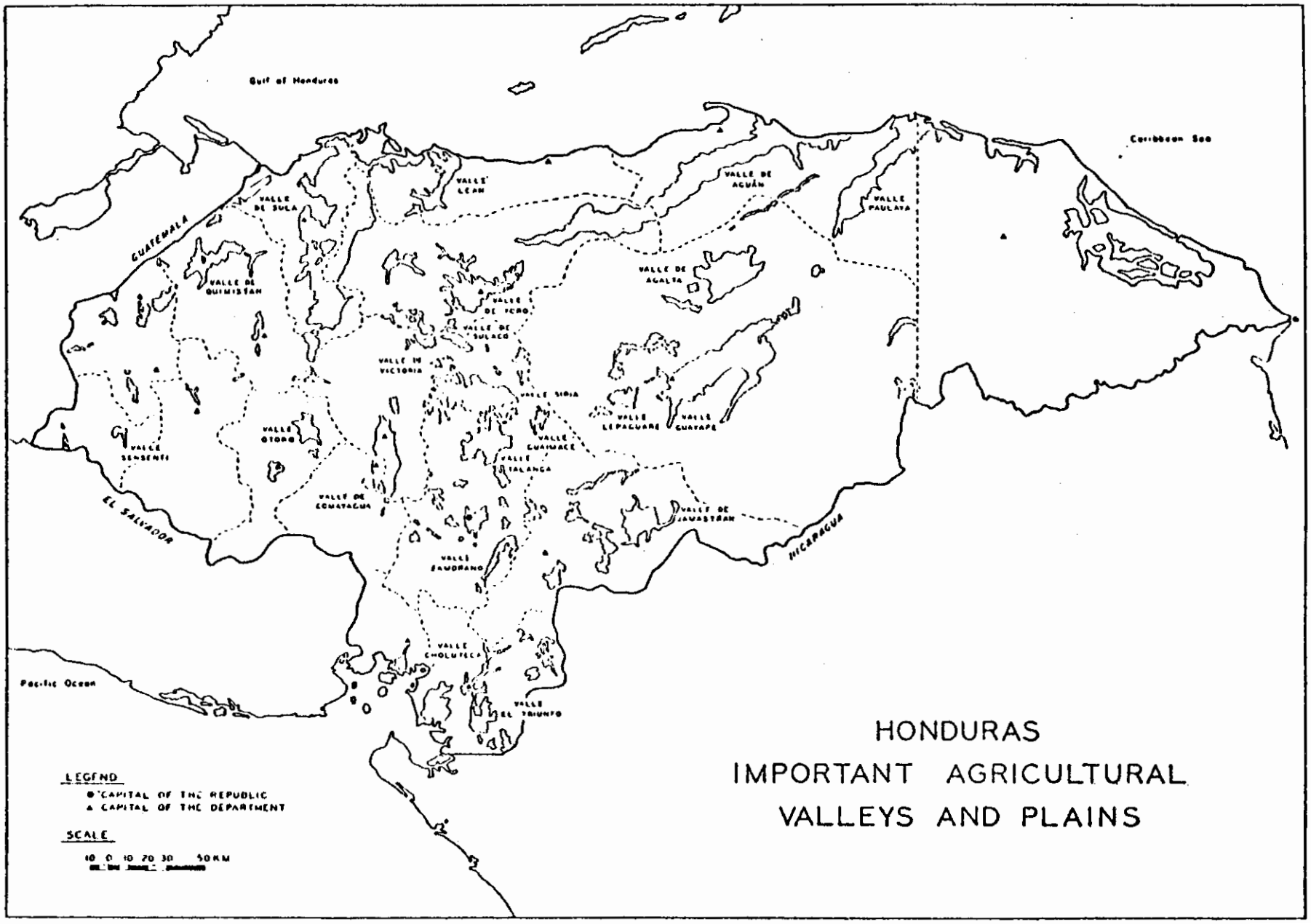

HONDURAS
IMPORTANT AGRICULTURAL
VALLEYS AND PLAINS

I INTRODUCTION

Since the preparation of the last CDSS, there has been no important change in the economic situation facing Honduras nor in the way in which the Mission views the fundamental development problems facing the country. However, there has been a very important change in the political situation facing the Central American region and Honduras. Given the sea change to the left that has occured in Nicaragua and the leftward shift in El Salvador, the GOH expects to face increased political challenges and associated pressures for early improvements in the conditions of life facing the Honduran population as it undertakes the transition to civilian government. The GOH thinks that it must undertake activities with a favorable short range impact on the social situation facing the less advantaged segements of its population faster than envisaged in the present 1979-83 Plan or possible at the level of domestic resources which can be generated consistent with the fiscal policies being followed by it with the encouragement of the IMF and the IBRD. For its part, the USG has concluded that it is important to the evolution of the political future of the region that Honduras be successful in its transition to, and consolidation of, civilian government; and agrees that an important factor in making such a successful transition will be the ability of the GOH over the next few years to convince the people that its development efforts are bearing fruit. Thus the USG is providing approximately $60 million in new resources to Honduras in FY1980 (over $40 million from AID, $10 from HIG, and some $10 million in PL 480 resources). This represents a doubling over the amounts originally planned for this year. These additional resources are being put into: improvements in the informal housing settlements in Tegucigalpa and San Pedro Sula, meeting the infrastructure needs of the secondary towns, and supporting an expansion of the GOH's programs for rural access roads and trails and safe water and sanitary systems in rural communities under 2,000 in population.

This CDSS is prepared on the assumption that the USG will continue this special effort for several years. Thus the levels of assistance proposed are higher than would be the case should we be working against the indicative planning level for FY1986, and the attention to early impact will be greater than would have been the case were we concerned only or principally with longer term development. This is not to say that we are proposing to put less importance on the sector approach with

its attention on thorough analysis, the collaborative style and the role of sound policies in support of the use of limited resources. Indeed, we have adopted that approach in the health sector this current year and probably will do so in the urban/regional and education sectors by early in the CDSS period. However, it does mean that we shall propose to go forward with support for key programs even before completing the full sector analyses and that because of the intensity of the USG's political interest in Honduras' development we may have to pay more attention to overall economic policies and to activities aimed at a greater variety of problems and sectors than would otherwise have been the case (e.g. the need to improve rural housing and to more fully integrate the private sector in the overall development effort.)

II ANALYSIS

A. Description of the Poor

1. Introduction

By any reasonable standard of measurement, the overwhelming majority of Hondurans are poor. Their income is insufficient to meet basic food, clothing and shelter needs. Their productivity tends to be low, and their employment alternatives are limited(1/). The "nutritionally-at-risk" standard provides a useful benchmark for the definition of poverty because of its universal applicability and its operational utility. (An alternative standard for the rural poor based on the quality of life, including health, education, and housing conditions is also useful as a description of poverty. However, this more complex measure is not entirely satisfactory in discriminating among the conditions in the different regions of the country.) This "nutrition- at-risk" population is defined as those who live on the edge of

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(1/) This description of the poor is based on studies of the rural poor conducted prior to the 1980 CDSS and utilized in that document as the basis for the description. In the interim, further analysis on regional variations has been conducted, which is reflected in this description. New material is included in the description of the urban poor, based on studies carried out by PADCO in conjunction with the development of an urban upgrading program. The Mission is currently financing a major effort to collect and analyze data on income and employment dynamics for the urban poor population, to be concluded in early 1981. Furthermore, intensive analysis of income and employment patterns among rural entrepreneurs is underway as part of the AID-financed Rural Technology Project. It is expected that both of these efforts will contribute to a better understanding of the causes of poverty among these two target subgroups in time for next year's CDSS.

malnutrition, those for whom relatively minor changes in income, food prices, health status, family size, or environmental conditions create significant hardships . Using this definition, the 1978 Agricultural Sector Assessment estimated that 64% of the urban and 90% of the rural population are poor. These percentages represent those families who did not earn sufficient incomes (in 1977 prices) to purchase the minimum diet suggested by INCAP for Honduras, which requires per capita incomes of $300 in urban and $220 in rural areas. Of a total population of 3.6 million, some 2.9 million people are thus our target group. The landed rural elite, banana plantation workers and families with more than 3 hectares of coffee and the urban middle and upper class, involved primarily in business or public service, are not included. The discussion that follows disaggregates, to the extent possible, characteristics of the subgroups in the target population who are defined as poor by the above measures.

The target group in the rural areas is divided into three sub-groups with different characteristics: the traditional small farmer(35% of the rural population), the agrarian reform farmer (9%), and the landless poor (47%). The urban target group also is classified into sub-groups: squatters (6.3% of the urban marginal population), renters of multi-family houses (50.2%), renters of single-family houses (10.3%), and homeowners (33.3%). These groups are fluid, representing stages in the dynamic movement of immigrants into the cities.

2. The Rural Poor

a. General Profile of the Rural Population

Most of the rural population are either traditional farmers or landless laborers. Thirty-five percent of all rural families carry on subsistence agriculture on small farms, i.e. those with 1 to 35 hectares, which is the upper size limit selected on the basis of income data from small farms surveyed for the Agricultural Sector Assessment. Their average annual per capita income is $135. The landless poor, 49% of the total, work as occasional laborers in a variety of sectors, or in small industry and commerce, though half of them earn some income on micro-farms with less than 1 hectare. Their average yearly per capita

income is approximately $63. Agrarian reform farmers make up a distinct category, with 9% of the rural population. Income differs significantly between agrarian reform farms which receive intensive government assistance, whose average annual per capita income is approximately $450, and those without such assistance, whose per capita income averages $106.

The size and distribution of these groups by region is shown on the following table:

Subgroups of the Rural Population
(number of families, 1978 population projections)

	Highlands	North Coast	South Coast	Total
Traditional Farmers	66,790 (21%)	34,207 (10%)	11,342 (4%)	112,339 (35%)
Agrarian Reform Farmers	17,800 (5%)	8,370 (3%)	2,830 (1%)	29,000 (9%)
Landless Poor	96,931 (29%)	38,371 (12%)	17,698 (6%)	153,000 (47%)
Non-Target Group Farmers	15,599 (5%)	8,898 (3%)	3,434 (1%)	27,931 (9%)
TOTALS	197,120 (60%)	89,846 (28%)	35,304 (12%)	322,270 (100%)

Source: Agricultural Sector Assessment for Honduras, 1978.

There are significant differences in social conditions of the target subgroups. Although the average family size of 6.2 persons does not vary significantly, family education, health, and housing conditions do. Forty percent of the small individual farmers are illiterate as compared to 55% of the landless poor. Further, 32% of the landless poor school-age children are not in school as compared to only 9% of the children of small individual farm families. Access to adequate medical treatment is similarly unequal, as only 15% of the landless poor have access to regular medical treament as compared to 38% of the small indiviudual farm families. Housing conditions differ as well -for instance, 94% of the landless have dirt floors compared to 79% of the individual farmers. The percentage of landless families with a supply of water close to the house is slightly lower (57%) than the small individual farmers (65%). In terms of sanitation facilities in the house, however, there is not as large a difference, i.e. 88% of the landless have no latrine near their household as compared to 83% of the small individual farmers.

The endowment of resources by farm type is skewed. Small individual farms have 36.8% of the land in 76.3% of the farm units. Landless laborers, including those with micro-farms with less than one hectare, have 0.8% of the land on 17.3% of the units. Agrarian reform farms have 6% of farm land on 0.5% of the units. The remaining 57.2% of the land is distributed among the 6% of commercial scale farm units.

Resource distribution and living conditions probably have improved somewhat since last year's CDSS. The GOH continued to distribute land in the agrarian reform program, bringing an additional 2,000 families out of the landless poor sub-group. Incomes in areas of concentrated agrarian reform and of small farmers probably have risen, although the exact quantities will not be determined until the evaluation of the Agriculture Sector Program is complete. Money income for the landless probably has risen by approximately 10% due to changes in minimum wage legislation and some increased seasonal demands for labor.

b) Traditional Farmers

The defining characteristics of traditional farmers is their use of traditional techniques and their concentration on production of basic grains. There are few, if any, truly subsistence farmers. Most are involved in the market economy in some way. However, their involvement is primarily to satisfy family production needs. As is true of traditional farmers in most of the world, they minimize risk and maximize

the use of locally available resources in the context of family production goals.

The principal constraint on traditional farmers is their inability to enter significantly and favorably into the comercial market. Inadequate storage and marketing facilities contribute to serious post-harvest losses and low prices at harvest times. Inadequate credit, technical assistance, and transportation systems constrain their entry into high-value market crops such as coffee. Their basic problem, in essence, is a self-perpetuating reliance on subsistence farming because of lack of access to resources and the minimization of risk within their constrained production environment.

i) Regional Variations

The slash-and-burn agricultural technique, characterized by shifting cultivation with periodic clearing of land by burning it over, is common to most traditional farmers. However, other significant variations occur in relation to the three principal ecotypes in the country, i.e.coastal plains, intermontane valleys, and hillsides. Slash-and-burn farming is a technique for farming the hillsides, which constitute a much greater proportion of the land in the western and central regions. The machete and the digging stick, used for planting seeds, are common in hillsides and on the northern coastal plain. The two-ox plow is used on the southern coastal plain and in some highland valleys.

Crop regionalization occurs as well. Corn and beans are the only crops that are grown in all the regions. Sorghum is grown mainly on the southern coastal plain, although in some areas of the west and central regions it is becoming more common. Vegetables and legumes are produced in some valleys of the central and west-central regions. Tobacco is grown in the west and the east-central regions. Cotton is significant in the south. Sugar cane is grown in small quantities on small farms on the coastal plains and in the highland valleys. Coffee is grown on hillside farms in most of the highlands.

Underlying most of the differences is that the percentage of arable to total land in the east and north is significantly higher, i.e. 18% as compared to 7% in the western and central highlands.

ii) The Highland Peasant Farmer

The highlands are more densely populated than the northern and eastern coastal plains, although the density decreases as one moves from the west to the east. Population density per square kilometer of arable

land ranges from 1,024 in the western highlands to 326 in the central region, to 250 in the central-eastern highlands.

Corn and beans occupy approximately 80% of highland subsistence farm area. These crops are marketed through networks of small merchants and intermediaries in local and regional markets. These two factors set the stage for the typical highland peasant's world-view, with two levels: the local hamlet which is made up of similar traditional farmers producing subsistence crops; and the regional market, from which he buys manufactured goods and to which he sells some subsistence and some market crops. The world beyond that is of significance (e.g. as the source of some technical assistance or training from national agencies) to less than a quarter of these farmers.

Women, while primarily responsible for domestic tasks, are responsible for fruit trees and some annual crops on small household plots; they also participate in heavier agricultural tasks at peak labor demand periods. Children at an early age begin to work in domestic and agricultural production chores. Men are primarily occupied with crop production, although they do have significant non-agricultural occupations in slack seasons of the year. Most highland peasant families live in hamlets (caserios) without formal community organization. Informal ties bind them in egalitarian networks of mutual labor, exchange, and social relationships. Formal commercial and political relationships are usually concentrated in the county seat (cabecera municipal).

In summary, the highland peasant farmer lives in a peasant economy with the following production and distribution characteristics:

a) Cultivation is predominantly subsistence oriented, not profit-maximizing.
b) Agricultural technology is traditional and rudimentary.
c) The family is the basic unit of production.
d) Local municipal markets are the basic foci of distribution.
e) Per capita income, production, and levels of investment are relatively low.

iii) The Lowland Peasant Farmers

Less than one third of the land is in small farms, compared to 51% of highland farm land. The basic difference between lowland and highland peasant conditions is that natural resources are more abundant in the lowlands. There is more land per family; population density is much

lower, 49 persons per square kilometer of arable land as compared to the extreme of 1,024 in the Western highlands. A higher percentage of the land is arable. Furthermore, land is more productive --the average corn yield on the coastal plain is 3,500 lbs/hectare compared to 2,100 lbs/hectare in the highlands. There are small differences in crop patterns between southern and northern lowland farmers, related to the differences in rainfall and soil conditions. Because of the coastal area's advantages in resource endowment, better transportation systems, and shorter distances to the market, lowland farmers tend to be more oriented to the market. They sell a higher percentage of basic grain production and tend to produce a higher proportion of cash crops. The technology and cropping systems introduced have tended to make these farm families transitional, between family and market-oriented production goals.

c. Agrarian Reform Farmers

Most agrarian reform farmers were landless laborers or sharecroppers. By grouping together in pre-cooperatives, asentamientos, and empresas asociativas in the last few years, they have been able to obtain land under Agrarian Reform legislation.

There is a significant difference between lowland and highland agrarian reform. Highland reform has been primarily a land redistribution process, with little distribution of other resources such as credit and technical assistance. Most public investment has gone into lowland agrarian reform because of the better agricultural potential of the land. Thus, most lowland reform is integrated agrarian reform with land, credit, and technical assistance. Farmers in the lowland groups tend to be self-selected, and typically have a higher overall educational level. Furthermore, the adult education efforts of the GOH tend to be concentrated in lowland reform areas. An estimated two-thirds of reform farmers, however, are in the highlands areas.

i) Highland Reform Farmers

There is little difference in production processes between most highland agrarian reform farms and traditional farms. The cooperative organization is intended to facilitate delivery of technical assistance and credit, but ecological constraints remain the same, and techniques are little changed. Thus, the principal effect of reform in the highlands has been to redistribute land wealth albeit to a very limited degree. It is estimated that less than 2% of the highland arable land has been affected by the reform process.

Some of the highland reformed farms have mixed production systems, combining subsistence family farming of basic grains and group farming of market crops such as potatoes, melons, tomatoes and vegetables. However, the main problems of the land reform process has been the instability of these reform farms, which tend to disappear or dwindle because of their lack of a significant advantage over former modes of subsistence. The result is that the land remains in the hands of individual families who were members of the disintegrated cooperative and who tend to return the land completely to subsistence production.

ii) Lowland Reform Farmers

The GOH agrarian reform program has been more intensive and successful in the lowlands. Some 11,000 families, one third of the reform group but less than 4% of the total rural population, have been settled on the richer agricultural lands on the coastal plains. Most of these families are now well above the poverty income level because of the combined natural resource endowment and heavy public investment programs. For all practical purposes, these families have made the transition out of the target group. However, the high unit cost of these successful endeavors, in terms of land, financial, and human resources, limits their replicability.

d. The Landless Rural Population

i) Landless Laborers

This target subgroup is composed of the absolutely landless, with some 119,000 families, and approximately 34,000 families with farms that are not viable production units. Laborers on large commercial farms have income over the poverty line, and are not considered to be part of the A.I.D. target group

ii) Rural Small Industry

A significant portion of the rural landless poor earn their income from entrepreneurial labor in micro-industry. The typical enterprise consists of an owner and a laborer. In half of the cases, the laborer is another family member. More than half of the owners are women, and almost half of the male owners are also farmers. Only a small portion of rural families depend on industry for the bulk of their income. The Mission is financing, through the Rural Technology Program, an in-depth longitudinal study of small enterprises, which will permit a fuller analysis of the income and employment for this group.

3. The Urban Poor

In 1979, an estimated 38% of all Hondurans lived in urban areas. This is projected to rise to 55% by the year 2,000. Of the 180,000 urban families, 54% reside in the two major cities of Tegucigalpa and San Pedro Sula. While the overall annual population growth rate in Honduras is 3.5%, these two cities are growing at the rate of 6.2%. The bulk of this is in marginal neigborhoods, which are growing at the rate of 12%.

A recently completed study describes the urban target sub-groups in some detail. The study identified four major sub-groups within the urban marginal population based on tenancy of dwelling: renters of multi-family houses (50.2% of the marginal population), squatters (6.3%), renters of private houses (10.3%), and owners (33.3%). They all live primarily in the marginal neighborhoods, and are not much better off than the rural poor. Median per capita income in Tegucigalpa's marginal neighborhoods is approximately $140 per year. Malnutrition is as high as in rural areas, though the infant mortality rate of 86/1000 live births is somewhat lower. The literacy rate, estimated at 80%, is significantly higher than in rural areas. The socioeconomic situation in these neighborhoods is dynamic. For example, the barrios around the market in Tegucigalpa are way-stations which house recent immigrants who rent the houses from former slum dwellers who have moved to outlying neighborhoods. Thus, longer term residents who are upwardly mobile are replaced by newer immigrants who usually start at the bottom. A common phenomenon in marginal neighborhoods is well-built cement block structures adjacent to wooden hovels. These improved houses have been built on site as their owners' financial conditions improve.

The capital and human resources of marginal families are extremely limited. Housing within the means of marginal families is badly deteriorated due to lack of maintenance. Environmental sanitation is poor leading to high rates of water-borne and air-borne diseases. Basic needs such as food, water, and clothing are not adequately met. Access to information concerning their rights and opportunities for betterment is limited. Employment opportunities are limited and employment is frequently unstable. Self-employed artisans and small businessmen among the marginal population lack access to credit and the technology needed by their enterprises. The Mission is financing a study of the dynamics of urban income which will provide a fuller understanding of current employment/income relationships.

Most of the urban poor (80.0%) are in unskilled occupations, working as day laborers in service and construction. Skilled blue collar occupations are next in importance, with 13.7% of the labor force. The most important blue collar occupations are driver (4.3%), mason (4.1%), carpenter (2.2%), seamstress (1.9%), and tailor (1.2%). Some of the urban poor have white collar occupations, the most important of which are accounting clerk (1.6%) and secretary (1.3%).

A survey of marginal barrio residents in Tegucigalpa shows that the problem of unemployment in the urban poor target group varies significantly between different age and sex groups. The highest unemployment rate is 21.9%, found among young women in the 19-25 age bracket. This is followed by young men, 11.0% of whom are unemployed. The overall unemployment rate for women is twice as high as it is for men, i.e. 18.6% as compared to 9.2%. It is significant to note that the unemployment rate for the most important group in the labor force , that is, adult males, is only 5.3%; furthermore, only 9.6% of adult females are unemployed.

Unemployment rates vary significantly by occupational category as well. The highest unemployment rate, 15.8%, is for secretaries, followed by accounting clerks (8.7%) and day laborers (8.4%). The first two are occupations which mean upward mobility for skilled young women and men in the urban poor labor force. The high unemployment rate is an indication that the unemployment problem is not simply a result of an untrained labor force, but also of a market that cannot absorb all the upwardly mobile poor.

i) Renters of Cuarterias

This sub-group has the lowest median per capita income level --$116 per year. They also have the least access to urban services and live in conditions of extreme overcrowding with communal or non-existent water and sanitation facilities.

ii) Squatters

The median per capita annual income of squatters is $130. They live in communities that are not officially recognized, and are occupying land illegally. They do not pay any rent for the land, and usually build and own their own structures. Like all groups that do not own real estate, they usually lack access to formal credit which is often an essential element to the improvement of private sector entrepreneurial activities such as market vending and small store operations.

iii) Renters of Houses

The renters of private houses have a somewhat higher median per capita annual income than the first two groups --$165. They usually have the ability to pay for basic urban services and to repay loans. With services such as water they are willing and able to pay user charges, but it is usually the responsibility of the landlord to pay connection costs.

iv) Homeowners

The median income of this group is significantly higher than the other three groups --$250 per capita per year. Some own their homes outright; others are paying mortgages. They are stable members of a community. They have greater access to credit than the others. Because of higher incomes they are better able to take advantage of formal sector services.

B. Why the Poor are Poor

Poverty in Honduras has its roots in the history, geography and culture of the country. Honduras has always been the backwater of the region, and modern development efforts began only about 1950. Prior to that date the only significant modern activity was that of the foreign fruit companies on choice bottom lands along the North Coast. Fractured mountainous geography and relatively sparse population combined to make transportation and communications with the rest of the country difficult, and the lack of domestic capital did not allow for the funding of the infrastructure needed to integrate the isolated population with the outside world. The transcontinental railroad lines that linked the highlands of Costa Rica, Guatemala and El Salvador with Atlantic and Pacific ports allowed the development of export agriculture beyond the coastal areas generally dominated by the fruit companies in those countries. Similar systems were not developed in Honduras because the terrain of Honduras is even more rugged than the others while the then very low population density combined with less atractive soils for coffee and agriculture in general limited Honduras' ability to sell railway bonds. (Some bonds were sold; and 59 miles of main line were constructed on the north coastal plain; but the line terminates near the escarpment. The bonded debt was an albatross around Honduras' neck until 1925 when agreement was made to settle it.)

Mineral resources have been exploited on a small scale since colonial times. However, the minerals (gold, silver, lead and zinc) have never been mined in quantities large enough to justify smelter investments, nor

are they particularly apt for being the base of manufacturing industries. There is some low-grade iron ore that might be exploitable if steel prices were relatively much higher; however, the country's low grade lignite deposits are not suitable for metallurgical use, and would require benefication even for use as a boiler fuel. Petroleum exploration has covered some of the more probable coastal areas, but no economic discoveries have been made to date.

Compounding problems of the lack of industrial and infrastructure development is the fact that land in the traditional areas is unequally distributed both in terms of quality and quantity and that malaria and other tropical diseases have made the colonization of available lowland areas relatively unattractive. Small farmers in the traditional areas who have been able to get at least three hectares of producing coffee have prospered and are no longer below the poverty income benchmark. However, most farmers in these areas do not have the land or capital needed to reach that threshold, and are limited to subsistance type farming while others are left with no alternative but to sell their labor to the larger land holders rather than being able to play an entrepeneurial role in the more active and more remunerative product markets.

Then too government policies have not been particularly effective in dealing with the problem of rural areas. For well-known political and bureaucratic reasons the school system focuses first on the population centers, and the more costly and less attractive distant points are served poorly. Similarly, the health delivery system traditionally has been focused on hospitals, and a lack of resources and faulty organization has limited its outreach to places of easy access. Nutritional status suffers from the constraints of subsistence orientation and its resultant concentration on the corn and beans diet. Facilities to provide savings and credit are very limited.

Urban poverty largely is a result of immigrants moving from rural poverty to urban, low income but non-poverty status. Rural to urban migration seems to be primarily a function of the pull of the cities rather than of a push from the countryside. The migrants are thus generally young and looking for upward mobility. The health and education opportunities they face are somewhat of an improvement over what they left, but the housing environment may be no better, and may even be worse when crowding is considered.

The basic problems they face are lack of well-paid and regular employment, skills and access to capital for decent housing. Unemployment is not only concentrated in the youthful age groups but is also frequently a reflection of the casual and unstable nature of the occupations available to this group of marginal urban barrio residents. These people are found to move in and out of such jobs. Essentially, the society is too poor to support non-productive members so all must work at something, no matter how poorly remunerated. The other major problem facing the urban poor is the lack of adequate housing. They pay higher rents than the middle class for equivalent housing quality and space because of the high transactions costs and risk elements inherent in the lowest end of the housing market. Similarly, thrift institutions with limited funds and narrow interest rate margins prefer large, safer mortgages. Thus, for the urban poor, the solution to the problem of poor housing has been largely relegated to the informal sector where the individual struggles to accumulate building materials for a piece-meal construction effort, and frequently seeks to legalize the tenure of his precarious land-holding. It is a struggle for the municipalities to extend utilities and services to the areas growing on their outskirts, a struggle made more difficult because the poor are not always able to hook up to such services due to high front-end charges.

In both urban and rural areas large family size tends to keep the poor in poverty. The effects of large families on health, nutrition, time in school, family savings, etc., are well known. The failure of government policy is pronounced since, because of a perception of a generally uncrowded country, family planning has not received the attention it deserves.

C. Macro-Economic Framework

1. Recent Performance

Overall real GDP growth rates in the last four years have been high: 1976, 7.8%; 1977, 7.0%; 1978, 7.9%; 1979, 7.0% (preliminary); but about half of the growth was offset by population growth (3.5% per year). GDP growth has been fueled by a strong export performance and the GOH's aggressivene pursuit of a debt-led growth strategy. Inflation has been moderate, but has accelerated recently. Foreign exchange reserves grew in 1979, but the current account balance of payments shows a large deficit. All sectors are performing reasonably well. An IMF agreement has established reasonable and cautious parameters for macro-economic

policies. The future depends on export performance, private sector confidence and continued ability to borrow.

The Honduran economy is built on a primary productive base of tropical and sub-tropical agriculture, forestry and some mining. As in virtually all developing economies, the primary sector's share of total output is slipping while the manufacturing sector's share is rising. Indeed manufacturing has grown substantially in the last decade, with real growth rates in excess of 10% per year being observed in the last four years. However, as a result of the strong agricultural base, the decline in agriculture's share of GDP has been slight -from 37.6% for the 1960's to 32.9% in 1978. Service activities have held virtually constant at 45%, while manufacturing has gained nearly 5%.

Honduras has a very open economy. Over 40% of gross national product is accounted for by foreign trade. Principal export crops are coffee, and bananas (27% each in 1979). Other categories accounting for 5-10% of export value are beef, wood and minerals. The total value of agricultural and forestry exports doubled between 1975 and 1978, and preliminary data for 1979 and Central Bank projections for 1980 indicate a further growth of 39% over these two years. The total value of exports is projected to reach $870 million in 1980. The major limitation to growth of bananas and beef exports seems to be external demand. Beef exports will grow substantially this year, but future growth probably will depend on U.S. beef import policies. The supply response of coffee lags due to the gestation period of the new coffee bush, but the long run elasticity of supply is believed to be very high. Corn and beans are grown principally for domestic consumption, but some quantities are exported unofficially in response to higher prices in neighboring countries.

The rate of growth of imports has averaged 18.5% in the last several years. Total dollar value of imports is expected to reach $1 billion dollars in 1980. The capacity to import is a major determinant of Honduras' overall growth, as imports of machinery and raw materials are crucial to increased manufacturing, and imports of other manufactures are essential to complement domestic production. In addition, Honduras imports all its oil, and its transportation sector is completely dependent on fuel or animals. The quantity of fuels and lubricants imported has remained essentially constant over the last several years, but the cost has jumped from $71 million in 1977 to a projected $176

million in 1980 (some 17% of total projected imports). Imports of foods and edible oils rose from $49 to $80 million in the same period reflecting growing demand for wheat and edible oils as well as the need to cover shortfalls in domestic production of corn, beans and rice due to recent flooding at harvest time.

In spite of the stupendous increase in petroleum prices, the terms of trade facing Honduras improved 63% from 1974 to 1978. Whether they will continue to improve is unclear. Coffee prices have declined recently although they remain high; sugar prices are rising; meat demand is strong; and minerals prices have shot up (at least temporarily); and bananas, wood and other commodities appear to be holding their own.

Net external debt has risen from $230 million in 1974 to $ 820 million in 1979 (est.). Debt service payments remained relatively constant at around 14% of the total public sector budget in 1977, 1978 and 1979 (see Annex C., Table 1). However the ratio of debt service to exports of goods and services has risen from 5% in 1974 to 9% in 1978. Recent IMF projections suggest that it will climb to over 11% by 1981, and could reach 15-16% in the mid-1980's when grace periods run out on large development loans (see Annex C., Table 3). The debt has financed a large and growing balance of payments deficit on current account which in 1978 was equal to 9.8% of GDP. However, the term structure and interest burden of the debt is quite favorable, and most of the borrowing has been linked to development projects. Nevertheless, the effect has been to fuel a large increase in the supply of money and demand for goods and services. The response of domestic production has been excellent, with scarcity of cement at the official price having been the principal drag on to the growth of the economy in the last year. All in all foreign exchange reserves rose some $25 million during 1979 to close at approximately $180 million (equivalent to 2.6 months of imports). This respectable but not overcautious outcome is in part the result of the discipline imposed by the Extended Funding Facility (EFF) arrangement plus the export/debt performance, and occured in spite of whatever capital flight resulted from the unsettling political conditions in neighboring countries and/or the uncertainties about the future of Honduras following the elections of April 1980.

The consolidated government deficit grew from about 4% of GDP in 1974 to 7.5% in 1978, where it is expected to remain throughout the IMF-EFF arrangement. The current account surplus of the consolidated government

grew in this same period from 3.3% to 5.4% of GDP, while government capital expenditures grew from 7.9% to 11.3% of GDP. To moderate the growth in money supply domestic credit creation has been restricted to compensate for the effect of increased international borrowing. The inflation rate has been moderate (7.1% in 1976-78); but it accelerated in the latter part of 1979 so that the cost of living index in December 1979 stood 17% higher than a year earlier. A rising average propensity to save (from 0.6 in 73-75 to 10.1 in 1978) and a decline in the income velocity of money (from 4.02 in 70-75 to 3.21 in 1978) indicate inflation probably has been imported, both in the form of rising petroleum prices and the demand effect from increased export prices. During the last several months, the GOH has adjusted internal interest rates upward and increased a variety of domestic and export taxes to generate new revenues of $40 million. These measures were intended to satisfy the commitment which the GOH made to the IMF in securing the EFF which is to give reassurances regarding monetary stability while carrying out the El Cajon Hydroelectric and the Olancho Pulp and Paper Mill projects.

A Central Bank analysis indicates that real wages have declined slightly in recent years since food price increases have generally led the Consumer Price Index and wages have lagged. Yet wages paid are above the minimum wage required by law in a variety of occupations. Labor problems have been relatively minor though industry and even agriculture is union-organized. Several recent strikes in the banana industry and oil refinery were settled with generous wage increases. Incomes of rural folk, especially those owning coffee and other export crops, rose faster than the average.

There do not seem to be serious economic dislocations at present. Most interest rates follow London and New York trends, although some specially targeted funds are available at concessional rates. While there are some tariff and non-tariff barriers to importation, in general the tariff structure can be considered primarily a revenue instrument with higher rates on non-essential and luxury goods serving as an effective supplement for the much-evaded income tax. There are no taxes or subsidies on purchases or sales of foreign exchange, and no restrictions on foreign payments. Although it may be too much to conclude that the capital/labor relationship is in order --if strict economic efficiency criteria were to be applied the economy would surely look different-- in a non-repressive political economy such as we now see

in Honduras, the macro-economic relationships seem basically sound and flexible. A major deterioration in the external sector would, however, have to cause serious readjustments throughout the macro-economic fabric.

2. Prospects

The GOH's overall economic strategy and performance must be considered a relative success to date. It should continue to give positive results inasmuch as the debt service ratio is still under 10 % of exports. Projections by the IMF show this ratio rising steeply in the next several years, but the projections of the real export performance of the economy made in conjunction with them are very conservative. While the overall foreign exchange reserve situation is presently satisfactory, the susceptibility to deterioration of the balance of payments is large, should export prices or borrowings fall. The ripple effect of political developments in neighboring countries, and the uncertainties related to the upcoming elections, could undermine the confidence of the Honduran private sector and foreign lenders and lead to serious capital flight with its attendant contraction in monetary availabilities. Should this occur, it would seriously effect the balance of payments picture to the point where cutbacks in the GOH's plans and tightening of credit policies further restricting the private sector would be required. Certainly, in the longer run, it is essential that the GOH strategy put increasing emphasis on generating exports (or saving imports, especially of petroleum).

Despite the progress of the last four years the economy remains underdeveloped and concerted efforts continue to be needed to mobilize domestic and foreign resources and to diversify the economy. While the investment program contained in the 1979-83 Plan is expected to strengthen Honduras' productive base and increase exports, thus resulting in a strengthening of the current account of the balance of payments by the mid-1980's, in the interim, heavy import requirements will place the balance of payments under considerable strain.

The IMF-EFF arrangement covering the three year period beginning June 28, 1979 provides SDR 47.6 million (over $60 million U.S.) to protect the Honduran macro-economic position in this period of gestation of the public sector investment program. Honduras is firmly commited to the free convertability of the Lempira at the two to the dollar rate. The recent GOH tax measures were taken in part to reduce internal demand so that the balance of payments current account deficit would not grow

beyond the present 12.5% of GDP. These taxes should have the effect of raising public sector saving by two percentage points. According to the EFF arrangement the GOH will limit the growth of public sector borrowing from the Central Bank to less than 1% of GDP, and will rely on external financing for the remaining public sector deficit of nearly 6% of GDP. Moreover, the GOH intends to continue borrowing on favorable terms (new credits in 1977-78 carried an average maturity of over 30 years and an average interest rate of less than 4% per year), and will limit use of supplier credits to about 7% of total public debt. Total investment is expected to continue at about 24% of GDP, with the public sector's share being about 42%. The investment will be financed about equally by external and national savings. Finally the EFF provides that Honduras will not adopt restrictive import policies, multiple currency practices or restrictive payment policies.

A dark cloud has appeared on the horizon in the form of spreading coffee rust (the roya). Previously confined to Nicaragua, the roya is now spreading in a northwesterly direction in El Salvador. The widespread outbreak of the roya in neighboring countries must inevitably infect the coffee trees here. The effect on the balance of payments (coffee accounts for 27% of export earnings) and on the income and wealth of some 30,000 small farm families, many of which are now above the poverty line, could be devastating. A major regional research program to discover effective anti-roya measures and/or develop resistant coffee varieties would seem to be a high priority, as every country in the region will be negatively affected.

In short, the prospects for the Honduran economy are generally positive; but, as indicated above, the economy is highly dependent on a number of factors whose deterioration would drag the balance of payments and the economy with it. To provide a measure of insurance against the consequences of such an eventuality the Mission soon will be proposing a sizable increase in PL 480 Title I/III program for the CDSS time frame. We also must note that the vagaries of weather have set Honduras back repeatedly in the past and her vulnerability to weather damage increases as the level of investment and sophistication of the economy increase.

3. Honduras and the Regional Economy

In 1979 only 6.5% of Honduran exports and 10.8% of its imports were with the other Central American countries. Its deficit on current account with them was $58 million. This is not an atypical year.

Thus the Central American market has not been of great importance to Honduras, and Honduras currently has low expectations for the future of Central American integration. The new Honduran five year plan makes no mention of regional economic integration, and Honduran government spokesmen seem to pay only lip-service to the idea. Recent political developments in Nicaragua have further dulled diplomatic and commercial relations. Honduran relations with El Salvador have been interrupted since the 1969 war. While OAS sponsored mediation with El Salvador made encouraging progress during 1979, solution to the remaining problem of border delimitation seems harder to find as a result of the unsettled situation there.

Some Honduran observers believe that this country's entry into the CACM in 1962 was premature, in that the less developed local industrial sector was set back by aggressive importing from the other regional partners. They assert that a return to the Common Market should come only when Honduras has nearly caught up with the others or if stronger preferential treatment is granted to Honduras. All in all, we are not optimistic that Honduras will go further than its present set of bilateral trade agreements with the four CACM countries.

Longer Term Issues

Honduras must seek ways to expand its exports without causing undue inefficiencies in its economic structure. Intensification and diversification of agricultural exports and development of exports based on native raw materials (e.g., wood) are the most probable sources of growth. Honduras' good ports and free zone on the north coast give it an advantage in access to the U.S. east coast and to Western Europe. However, to remain competetive will require keeping production costs down while developing better infrastructure. Thus the development budget and strategy must continue to strike a balance between long-run infrastructure requirement and productive projects.

Another long term issue is how to get more elasticity into the tax structure. The recent tax package consisted primarily of increases in specific rates on consumption goods (beer, liquor, cigarettes) plus an acceleration of income tax payments. Many import duties are assessed on the net weight of the commodities rather than their value. Government savings and equity in general would be well served by greater reliance on economically more neutral taxes such as the income, value-added and

inheritance taxes and by a combination of less direct taxation of labor and more (effective) taxation of land value.

Public versus Private Sector. The ambitious GOH development program is putting the squeeze on the private sector in the form of increased taxes, reduced credit availabilities, and competetion with or preemption of traditionally private sector functions. There is no obvious "correct" position on the optimal split between these two sectors. There is great need for the infrastructure and social services being financed, and there are usually good reasons for the state to enter into the productive sectors, such as forestry. State enterprises often seem to be less efficient than private, profit oriented ones of State entry or regulations sometimes results in unintended effects, as for example the land reform legislation may have frightened off investment in larger non-affected properties.

If private sector confidence should fall for reasons external to Honduras, the GOH may feel compelled to try, at least, to pick up the slack. The problem facing the Government, then, is how to draw the line and define responsibilities for the two sectors that satisfies growth, equity, and efficiency objectives.

D. The Development Plan

The National Development Plan for 1979-1983 is basically a continuation of the previous five year plan. The Plan's general objectives indicate that the GOH's priorities continue to be to increase the well-being of the Honduran people, and, more specifically, to implement the three programs which were the focus of the previous Plan: the El Cajon Hydroelectric project, the Olancho Pulp and Paper Mill project, and agrarian reform.

The Plan appears to be of generally acceptable quality for the long-range purpose of setting priorities in a realistic framework. The economic statistics and projections are, on the whole, reasonable given past economic performance. However, some basic assumptions; such as the inflation rate and the price of petroleum are already out of date. Social development goals are probably somewhat optimistic in view of past performance but not so much as to call the entire Plan into question. The Plan does not discuss or propose a population policy or a policy on Central American Regional Development. It is primarily a plan for government action, and does not make more than occasional reference to the private sector, except in the industrial sector document. There the

Plan recognizes fully the need for stimulating private sector investment, and identifies the need for government policies to encourage the private sector. However, policy changes themselves are not described. In sum, the 1979-1983 Plan appears to be logical in its methodology and realistic in its economic projections but somewhat less so in terms of social development.

To increase the well-being of the Honduran populace, the Plan puts forth a series of general objectives:

a) Increase national production on a growing and sustained basis. The Plan calls for a 6.5% annual growth rate in real Gross Domestic Product. Key to such a growth rate is the agricultural-forestry sector and the two principal programs in that sector, the Agrarian Reform Program and the Olancho Forestry Project. The industrial sector also plays a major part in plans for overall growth, particularly with respect to its involvement in and use of the El Cajon Project and the production (sawmill, pulp and paper mill) aspects of the Olancho Project.

b) Intensify actions to satisfy the minimum living requirements of the people. Major efforts are to be made in the areas of health, nutrition, education, agrarian reform, housing and social services to expand coverage of services so that overall performance against such quality of life indicators as infant mortality, morbidity, illiteracy and income improve.

c) Increase productive employment opportunities by means of increased public and private sector investment and the consequent expansion of the productive apparatus in the agricultual and industrial sectors with concurrent increased demand for labor. The Plan calls for greater attention to be paid to the training and recruiting of members of the unemployed or underemployed groups, particularly women(2/).

d) Rationalize the exploitation of natural resources in such a way as to assure their conservation while obtaining maximum benefits from them.

e) Increase and diversify exports.

f) Improve the ability of public sector to promote and implement the development processes initiated by it.

(2/) The Plan does not devote a specific section to Women but gives consideration to a more equal role for women at appropriate places.

g) Decentralize socio-economic development programs currently managed by the Government in order to achieve impact throughout the country on a more uniform and effective basis.

The following are economic goals or projections as set forth in the new Plan (all monetary figures are in real terms unless otherwise noted):

a) As noted earlier, the Gross Domestic Product growth is set at 6.5%. In view of performance in recent years (real GDP rose 7.3% in 1977, 7.9% in 1978 and 7.0% (preliminary) in 1979), the planned increase does not appear unreasonable, and may be a bit conservative if export prices remain at their present high levels.
b) The inflation rate is projected to be 7% annually.
c) Fixed capital formation is planned to increase by 9% annually.
d) Exports are expected to increase by 10.3% on an annual basis.
e) Imports are projected to increase at an annual rate of 7.8%.
f) The number of jobs available in the country is expected to increase by 216,000 new positions over the next five years.
g) Real per capita income is expected to increase at an annual rate of 2.0% in the course of the planning period.
h) Consumption in the private sector should go up 5.2% a year.
i) Consumption on the part of the public sector is expected to increase 7.5% annually.
j) Public sector costs should increase at an annual rate of 13.8% (based on current prices).
k) Public sector income is expected to increase at an annual rate of 12.3% (based on current prices).
l) The domestic savings rate is expected to increase at an annual rate of 17.3%.

There is some variance between the economic goals and projections made in the Plan and those that are found in the later IMF-EFF program. Some of the differences reflect later information. Some variation is due to the differing bases of real and nominal dollar figures, and others are due to the nature of the underlying economic development model used by the planners (the Plan used adaptations of a UN model and an IBRD model while the IMF used the Robichek model). Development plans wouldn't be any good if they weren't ambitious, and while we see the IMF projections as perhaps more relevant for predicting the short run, the Plan as a statement of medium run objectives has a coherence and internal consistency that we judge to be appropriate.

With respect to specific sector goals, the 1979-1983 Plan asserts the following:

In the area of Health, the Government proposes to expand health service coverage throughout the country with particular attention to rural areas. Priority attention is to be given to mothers and children especially in the areas of nutrition, environmental sanitation, communicable diseases and dentistry. To do this, the Plan calls for efforts to rationalize the use of available resources and new resources where warranted and to strengthen institutional and sectoral operating abilities. Measures to be taken in support of those efforts include development of new sector programs, the development of new administrative and budgeting techniques, and the provision of increased training in terms of both quantity and quality.

In terms of infrastructure efforts, the GOH would support the construction of 15,000 wells, 375 aquaducts and 52,000 latrines over the next five years. This would mean coverage of water supply and sanitation facilities for 75% and 38% of the population, respectively, in the rural areas, and coverage for 76% and 54% of the population, respectively, in urban areas. At the same time, the number of hospital beds and patient visits is expected to increase from 1.09 to 1.30 and 31.6 to 52.9, respectively, per 1,000 patients, over the period 1977 to 1983.

With respect to Education, the Government's policy is to improve and expand education services provided by the sector and improve the overall administration of those services so as to assure their uniform quality throughout the country. Efforts made in pursuit of that policy will be directed in the main toward primary education, especially in rural areas; toward middle-level technical education in agricultural, industrial and forestry subjects; and toward the basic education of illiterate adults.

In more concrete terms, the Plan calls for an increase in overall primary school coverage from 52% in 1979 to 95% in 1983. (Unfortunately 95% primary school coverage rate is in our judgment probably impossible to achieve in this short time frame.) Enrollment in technical (mid-level) schools in the agricultural and industrial sectors is expected to increase by 50% and 39%, respectively. Coverage in mid-level schools overall should increase from 28% in 1979 to 37% in 1983. University enrollment should reach 46,000 students in 1983.

The National Institute for Professional Development (INFOP) expects to provide professional or in-service training to 170,000 workers during

the next five years, while PROCCARA, the Training Unit for the Agrarian Reform Program has projected training courses for 350,000 campesinos during the present Plan.

In the Agricultural Sector, the plan's objectives include increasing per capita income; improving the distribution of that income; increasing and sustaining increased production levels; and decreasing unemployment in the sector. The Government plans to use a variety of policies and related measures to achieve those objectives, among them being continued support of the Agrarian Reform Program; the reorganization of INA and the BNF; the regionalization of planning offices of INA, the BNF and the MNR; the provision of adequate amounts of credit, seed and machinery through the BNF, the MNR and small private businesses; implementation of market and price stabilization programs by IHMA; and the training of key personnel working in all of the aforementioned institutions. Two goals are quantified. First, overall production goal for the Plan is calculated at $392 million for 1983 as compared to $236 million in 1975-77, which signifies a 4.5% annual production growth rate over the life of the Plan. Second, the Agrarian Reform Program plans to recruit 10,000 families a year for participation in the settlement of expropriated lands or those which will pass into Government hands in the next few years. (Based on the GOH's previous performance of settling 5,000 families per year this settlement rate probably is overly ambitious unless major changes are to be made in the conduct of the program.)

Public fixed investment will increase substantially. The Plan, projects public sector capital expenditures will rise approximately 13% annually between 1978 and 1983, from $225 million to $412 million. There are to be large investments in infrastructure, particularly for power and transport; in export diversification with special emphasis on forestry development; in agricultural development to implement the agrarian reform program and increase rural productivity; and in social services, particularly health and education. Power investments will be the largest, and include the $500 million plus El Cajon hydroelectirc project, a smaller dam at Nispero, and the electrification of the Aguan valley. Transport investments will include access roads for sawmills in the Olancho region, rural roads, an expansion of the trunk highway system, and a new port for exports of wood products. Forestry investments include six large sawmills in the Olancho region and agricultural investments focused on rural development projects for three

major valleys: Aguan, Guayape, and Comayagua. Investments in health will be concentrated on water supply and medical facilities for the capital city and provincial towns. The implementation of the investment plan and anticipated complementary private investments would be supplemented with credit facilities for agriculture and industry from official financial institutions.

Over 60% of the planned investment is to occur in basic infrastructure for which absorptive capacity is highest. This high proportion of investment in basic infrastructure, (relative to investment in the productive and social sectors) while no doubt necessary to bring the market within reach of relatively isolated Hondurans, may adversely affect the economic growth rate because productivity increases will be lower in the short-run due to a higher capital/output ratio in the basic infrastructure sector(3/). In any event, accomplishment of the Government of Honduras' goal of directly improving the lives of the rural poor by increasing their productivity, income and access to social services will take longer to achieve unless significant investments are made in these areas. However, that will require overcoming the limited public sector absorptive capacity for managing social investment projects such as rural trails, development of intermediate technologies and small business, formation of farm cooperative groups and in some instances, rural electrification. GOH officials have recognized these constraints and are committed to improving the performance of these sectors. It is our judgment that increased planning, analysis and management capacity is and will continue to be critical to the achievement of the planned higher levels of public sector investment.

(3/) Since the Plan was prepared, a project to construct a new airport for Tegucigalpa at an estimated cost of $100 million has been proposed. Analyses have been presented by the Japanese and Spanish governments to the Ministry of Transportation; however, the proposal has not yet been presented for cabinet consideration. A new airport would have little impact on exports, but would require substantial amounts of foreign and domestic resources. The World Bank and the I.M.F. have repeatedly cautioned the GOH not to overinvest in public sector infrastructure (see for example the last World Bank Economic Memorandum dated Jan 78). The USAID's concern is not only that of the IBRD/IMF but also that donor and counterpart funding for a new airport would almost certainly have to be at the expense of programs benefitting the target group.

Overall public investment budget is to increase by 22% each year. External financing is to average 65% of the projected public sector investment budget over the Plan's five years. Given the financing requirements implicit in the programs outlined above and the projections of increasingly heavy debt service burden, the consolidated public sector budget deficit is projected to increase at a rate of about 8% per year, reaching a level of $262 million in 1983. Obviously, considerable external and internal financing will be required; not only from the international donor community but from the IMF, the Central American Monetary Stabilization Fund, the Venezuelan Oil Fund and supplier's credits as well. This means that the Government of Honduras will need to impose new taxes and further improve its tax administration to increase its revenue collection in order not only to support its share of the investment program but also to provide increased services to a rapidly growing population and to meet increasing debt servicing costs. In December 1979, a tax reform decree was enacted, which increased tax rates on beer, alcohol, cigarettes, and non-alcoholic beverages, and imposed ad-valorem export taxes on sugar and meat. As a result of this reform, the GOH expects to collect additional tax revenues of $40 million in 1980. However, because of the inelasticity of the tax structure, new measures adding $25 to $35 million in additional revenues will be required to meet the unfinanced public sector resources gap.

Given the number of the exogenous (and uncontrollable) factors operating on the Plan, it is extremely difficult to assume full achievement of all economic and social development goals set forth in the current Plan by 1983. Still by then some of the principal goals of the Plan should have been achieved. The Olancho and Aguan Valley should be some of the most productive areas of the country, turning out agricultural and forestry products as a result of both agrarian reform efforts and the Olancho Forestry Project. The land reform program itself will have provided more land and other resources to farmers in the Aguan and elsewhere in Honduras, contributing to a more equitable distribution of income amongst the rural poor. On the other hand, the El Cajon project will still be in progress with construction scheduled for completion sometime in 1985 or 1986, and subjects not fully treated in the current plan such as population policy and private sector involvement probably will have become critical issues for the following Plan.

E. Absorptive Capacity

The past success of Honduras in absorbing external financing and converting it to a high rate of real economic growth suggests that a continuation of substantial resource flows is warranted. We concur in the GOH/IMF program target level of 12.5% of GDP as an appropriate, sustainable level for the current account balance of payments deficit. This implies external financing, ranging from $294 million in 1980 to some $440 million in 1986. Roughly half of these amounts should come from official capital resources with the remainder coming from private sources.

Given relatively low land, industrial plant and labor utilization rates, there should be little overall problem in expanding aggregate output at the current rate. Of course relative prices of certain goods and factors will shift as a result of growing and changing demand (and of petroleum price rises as well), and should there be a political reaction to these changes, in the form of regulating prices or subsidizing them, growth and absorptive capacity could be restricted.

The GOH's ability to supply counterpart required for development projects has not been a major problem to date. The strong growth of the economy and some further tax measures should continue to generate growing revenue collections, and the GOH's willingness to borrow for development should mean that the total budget constraint on absorption will not be binding over the long run. Still the budget will be tight, and project budgets will have to be careful in their time-phasing of counterpart requirements. However, none of the proposed A.I D. activities will require more than a few percentage points of the respective agency's budget for their financing.

We have identified the GOH's institutional capacity as a factor needing strengthening, particularly in the sectors of A.I.D.'s principal concern. Other donors recognize this too. Accordingly, all projects need to include a thorough institutional analysis, and must be designed either to establish the required capacity through training and technical assistance, or to work around the problem using A and E or other consultants. The Mission has taken and will undertake long-run programs to address this problem in its approach to the Agriculture, Health, Education and Urban/Regional sectors.

The GOH has geared its investment budget process to collaboration with donors so that two-thirds of its investment program can be

externally financed. Still Honduras' debt service capacity is not likely to become a constraint. The debt service ratio has risen quite a bit in the last several years, it is still less than 10% of current exports. The GOH has been careful to keep the interest and maturity structure of its debt very favorable, and should be able to borrow on such terms as it should remain in the IDA-eligible class for the foreseeable future. Debt service could become a concern if the GOH were forced to borrow commercially to compensate for a deteriorating balance of payments situation.

F. Progress and Comiitment

The process of accelerated development is of fairly recent origin in Honduras. The World Bank has observed that "The first serious government attempts to activate the economy were initiated in 1950". Real GDP per capita grew by only 19% between 1950 and 1975, i.e., an average of about 0.7% per year. However since 1972 the Government of Honduras has demonstrated an increased will to accelerate the process of development, to allocate the necessary resources which give some promise of significant achievement and to increase markedly its efforts to reach the disadvantaged poor, particularly the rural poor.

This marked change in Honduran development goals followed the military take-over which was headed by General Oswaldo Lopez Arellano and was institutionalized under a 30 member Superior Defence Council. Lopez Arellano committed the Government in general to achieving higher living and employment standards for the Honduran poor, and in particular to carrying out a land distribution program to benefit the rural poor. A five-year National Development Plan adopted late in 1974 supported the Lopez Arellano initiatives. The possibilities for more significant development programs were improved, and multilateral and bilateral donors began to show more interest in supporting Honduran development efforts. Leadership of the country passed from Lopez to General Juan Alberto Melgar and subsequently to General Policarpo Paz as head of a three-man Junta. There has been general continuity of policies throughout the period of military leadership although a slight shift in emphasis toward more pragmatic and less "populist" programs has been noted.

Progress and commitment in relation to FAA Section 102(d) criteria have been the subject of analyses (78 Tegucigalpa 5554 and 79 Tegucigalpa 5855) which have twice earned Honduras the highest category rating. These messages are summarized in Annex A. Honduras, on the eve of

elections is an excellent example of an open, western style society performing well in the job of development. Of course it is still faced with very serious problems, and the return to elected government may cause doubts and uncertainties to arise regarding the security and continuity of its development progress and commitment. However, as we see it now, the two major and one minor political parties qualified for the election are centrist in nature. The National Party has published a platform which is quite consistent with the new GOH five year Plan. The other major group, the Liberal Party, is proud of its record of initiating land reform, social security and other health and educational advances. Thus we find it reasonable to assume that the new civilian government will be commited to a continuation of the present development program. Whether the new government will be more or less effective in carrying out the program will have to be seen. It will have to deal with a more complex regional political situation which may cause stresses in the internal political fabric as well as tests and probes from the outside. These concerns may lead to pressure for higher military budgets on the one hand and for faster movement on reform and socially oriented programs on the other.

G. Other Donors

As has been the trend during the last few years, external development assistance has continued to grow -particularly in dollar volume. In 1978, approximately $16 million in largely grant funded technical assistance and $125 million in loan assistance to Honduras was authorized by a combination of multilateral, bilateral and private organizations. In 1979, preliminary estimates indicate that Honduras will receive in excess of $20 million in grant and $215 million in loan assistance.

The El Cajon hydroelectric project has dominated recent other donor activity. This $500 million project on the Humuya River in the northwestern part of the country will assist the nation's power agency to meet demand through 1990 as well as sell surplus energy to Guatemala and Nicaragua. In 1978, the Inter-American Development Bank (IDB) approved loans totalling $95 million ($77 million from the Fund for Special Operations and $18 million in complementary financing from inter-regional capital). In 1979, the Central American Bank for Economic Integration (CABEI) approved a loan of $30.6 million for the El Cajon project and in 1980 it is anticipated the World Bank will approve a loan of $125 million (of which $20 million is IDA funded) for the project. Lastly, the

Canadian government has initiated discussion with the GOH regarding their possible participation in the El Cajon project. This assistance, if approved, will likely be in the neighborhood of $35-40 million. The timing is yet to be determined.

The programs and plans of the other principal donors are summarized in Annex B.

At both the technical and management/administrative levels, there has been a continuing exchange of information and ideas between donors. For example, in the forestry and natural resources area, A.I.D. is working with COHDEFOR, CONSUPLANE and other GOH institutions and agencies in the design of the Water Resources and Afforestation activity. At the same time, the view of the UN, CABEI and others are being solicited to avoid overlap or duplication. Care is also being exercised in the selection of project areas to ensure maximum complementarity with the FAO efforts in the north, CIDA activities in the Olancho and Colon areas, and the IDB supported watershed management/reforestation project in the El Cajon dam watershed area. In the Rural Technologies Project, A.I.D. is working closely with local PVO groups such as the Reformed Evangelical Vocatioal Center (CEVER) in Yoro, ICAITI, Save the Children Federation and FEHCOVIL. A.I.D. also is cooperating with the Institute for International Development Inc. (IIDI) in the application of capital saving processes to small industries and a local PVO, Escuela Vocacional Igualdad, which is developing and disseminating implements for small farmers. We are interchanging ideas with the German assistance program which is introducing capital saving methodologies in road construction and the FAO which is supporting a variety of erosion control projects. Also in the agriculture sector, the Agriculture Sector II program will provide support to human resource development (including the strengthening of the Atlantic Coastal Regional University Center (CURLA), institutional development (development/strengthening of the MNR planning capability, development of an information system, etc.), and delivery systems strengthening (including support to the extension service, development of zonal infrastructure packages, etc.). This project will pave the way for planned credit support from such institutions as the IBRD and the IDB, increase the human resource bank upon which all developmental efforts and agencies must draw; and increase the planning and implementational capabilities of the GOH.

In all areas, the USAID is attempting to work closely with the GOH and other donors to ensure a more efficient use of available resources. In this regard, the Mission favors the formation of a Consultative Group for Honduras. The Consultative Group could be an effective instrument in encouraging a greater participation on the part of the smaller donors and in insuring a greater degree of cooperation and coordination at a time when assistance inputs from all donors are expanding. The possibility of a Consultative Group is being explored by both the IBRD and the IDB.

III STRATEGY

A. A.I.D.'s Overall Objective and Strategy

1. Objective

A.I.D.'s aims are to help Honduras sustain a high rate of economic growth with justice and greater equity in order to support the transition to and consolidation of constitutional government and to help this second poorest country in Latin America catch up with the rest of Central America so that the countries of the region as a whole can advance and work together better. This means pursuing an especially intensive development program here, in conjunction with the other donors, for the next decade. If successful, the GDP per capita should reach $650 by 1990 (in 1977 dollars).

2. Current Situation

The nature of the poverty problem and of the GOH's development efforts were discussed in the previous sections. However, it might be useful to list here the main factors -- favorable and unfavorable -- which affect the achievement of our objective.

a. Favorable Factors

i. The current GOH appears to have genuine support for its efforts from the population and the nation's private enterprise leaders.

ii. The GOH is preparing seriously for a return to constitutional government later this year.

iii. There is a relatively greater equity in the conditions of life in Honduras due to past GOH efforts at land reform and at the provision of social services.

iv. There are no deep cultural or class differences among the population.

v. The attention to rationality in planning and administration is increasing. (This has been true particularly in the agriculture sector.)

vi. There is acceptance of the utility of external assistance and investment.

vii. There is a relatively well developed labor union movement.

viii. The prices of Honduran principal exports (coffee, bananas, sugar, meat, and lumber) are likely to remain relatively high; and their volume is increasing.

b. Unfavorable Factors

i. The number of well trained people in Honduras is still quite small.

ii. The ability to conduct analyses and to make decisions on how best to use scarce resources is still weak.

iii. The public sector is still not well organized, and is unable to hold well trained persons in its service.

iv. Large public investments in infrastructure and social services are still required while the capacity of the GOH to tax and borrow is limited.

v. The political situation of the region is such that the private enterprise sector is still not confident that the future of Honduras is certain enough to justify large investments, and the GOH will have to devote much of its attention to security and political matters during the next few years.

vi. Over 80% of the population has incomes under the poverty line, and health, education and housing are still very deficient. There are still large differences in living conditions between the urban and rural areas.

vii. The population is increasing at the rapid rate of 3.5% per year, and the GOH has not developed an effective strategy for dealing with the problems that such growth causes or for reducing the rate of growth.

viii. Forestry and other natural resources are being utilized in wasteful ways.

ix. The country is subject to fairly frequent natural disasters, such as hurricanes, which can undo years of progress.

x. Honduras is dependent on imports for all of its oil.

3. Strategy of the Program Prior to the CDSS Planning Period

In the last several years A.I.D. has placed its emphasis on working with the GOH in preparing a comprehensive, sectoral approach to broad development problems and a systems approach to particular innovations. A.I.D. saw its role as a partner in the analytical and policy formulation

process necessary for the development effort, rather than as a supplier of major financial resources to carry out those efforts, and when providing resources to carry out those efforts they were to be concentrated on human resource training, institutional reforms and relatively modest amounts of seed capital. Considerable success was obtained in that effort with the formulation of the Agriculture Sector II and the Rural Technologies programs. However, as the complexities of the sector and systems approaches were addressed, it became apparent that the impact of the programs on the ultimate beneficiaries would be somewhat delayed. Since the needs of those ultimate beneficiaries were so great, and since the political situation of the region made even more important the early meeting of those needs, it was decided that the sectoral/system approach should be complemented with activities aimed at the earliest possible impact on the life of the ultimate beneficiaries. Thus the A.I.D. assistance strategy currently is a mix of several types of activities.

a. Following the sector approach, the delivery of public services in key sectors will be rationalized and increased in effectiveness through analytic, carefully focused programs concentrating on problems of the poor. The Agriculture Sector II program now getting under way will improve the institutional structure and systems for delivery of public agricultural services to the rural poor. The health sector is now being analyzed in a joint GOH-A.I.D. sector planning project. The program which is expected to result will place high priority on: (i) vaccination to prevent immuno-preventable disease, (ii) information, education and infrastructure improvements to prevent environmental causes of disease, and (iii) simple cost-effective treatment, especially in an out-patient setting, of illnesses as they occur. Urbanization which is likely to put increasing strains on Honduran society over the next several years is the subject of another joint analytical effort just getting started. It is too early to outline the program which may emerge.

b. In order to accelerate the improvement of the lives of the poor in the rural areas and smaller towns of Honduras, A.I.D. is supporting GOH programs: to provide safe water to 375,000 additional rural people and rural sanitation systems to half that number, to increase the rural primary school enrollment ratio from 70% to 80% of the school-age children (i.e. adding 70,000 students to the system), and to provide rural trails and access roads into isolated communities so that their

people (some 300,000 in all) can become socially and economically integrated into the national market and public service systems. Further support of rural development will come from a project to help some 125 small municipalities with populations totalling 250,000 undertake essential infrastructure improvements. These efforts are building on our experience with previous efforts of this nature. In addition, resources from the Housing Investment Guaranty program will be used to supply lower income urban families with housing and provide or upgrade water, sewer and other public services in their neighborhoods.

As part of this effort, A.I.D. is making increased use of Private Voluntary Organizations to carry out specialized projects. In FY 1979, three new grants (OPG's) were approved for projects by the San Jose Obrero organization (vocational training at Choluteca), Hermandad (leadership training in the remote San Marcos area) and the International Eye Foundation (to add an eye care dimension to auxiliary nurse training). In addition, CARE and CRS operate school, maternal and child health, and food-for-work feeding programs using PL 480 Title II commodities. Several OPG's funded in previous years continue functioning, including projects by Save the Children Federation (integrated rural development in the Pespire Valley) and by the Foundation for Cooperative Housing (low cost core housing in Tegucigalpa). We expect to fund several new PVO projects in 1980 and 1981, including probably, a CARE proposal to add practical agricultural activities to pilot schools recently constructed in the North Coast region, a rural housing improvement project, a FEHCOVIL project for low cost concrete block construction, and an experimental hillside water retention project of Save the Children Federation.

c. A.I.D. will assist the Hondurans in developing innovations to solve key problems affecting the lives of the poor. The recently initiated Rural Technologies project is designed to foster the development, adaptation and widespread dissemination of inexpensive, capital saving technologies to increase output and reduce drudgery on small farms. To do so it will stimulate the development of rural small scale enterprises and industries. Taken together with programs to increase the impact and coverage of government services in education, health, roads and trails, and water and sanitation, it should change the daily life and improve the outlook of rural Honduras without radically changing the landscape.

A second innovative development effort is to be in natural resources conservation. Expansion of the population and exploitation of the forests are resulting in serious degradation of the country's watersheds. A.I.D. (as well as other donors) has expressed its concern, and the GOH has indicated that it would welcome cooperation from A.I.D. to implement a strong national land use planning program. Such an activity would include three interrelated activities: small natural resources conservation and reforestation projects which can eventually be replicated on a broader scale; expansion and improvement of the Government's capability to collect and analyze basic data essential to water and land use planning; and strengthening of, and improved coordination among, the public sector agencies involved in water and land use planning.

d. The population growth rate in Honduras is estimated to be 3.5% per annum. This very high rate diminishes considerably the ability of the country to achieve a rate of per capita GNP growth that would allow it to catch up with the rest of Central America. Because of religious beliefs as well as political perceptions, the Government of Honduras has been reluctant to enunciate a population control policy. However, there is an increasing awareness in both governmental and private circles that high fertility has serious deleterious affects on maternal and child health. As a result there is a growing acceptance of fertility control as a health measure. A.I.D. is quietly building on this health rationale by supporting the Honduran private voluntary family planning group's efforts to deliver contraceptive technologies throughout the country. In addition, we are giving limited support to demographic studies and to training of government personnel in fields immediately related to family planning.

4. Strategy for CDSS Planning Period

A.I.D.'s strategy in the 1982-86 period largely will be a continuation and filling out of the 1980-81 strategy as it recently has evolved. Specific sectoral discussion follow. Here we shall deal with a few multisectoral themes.

a. Economic Policies

Because Honduras' open, liberal economy is highly dependent on being able to maintain confidence and simultaneously finance a large balance of payments current account deficit, both the GOH and we need to pay close attention to the overall performance of the economy if the development

efforts in favor of the target group are to succeed. The IMF and the IBRD are, and will remain, the main channels for discussions with the GOH on its overall economic policies. The role we see for the USG is one of interested support in such discussions. In addition, PL 480 Title I/III would be used to give limited balance of payments support and to provide budgetary resources in support of rural development programs which would otherwise lag if the external sector slips. Furthermore, we propose that substantially higher meat quotas for Honduras under the new compensatory import policy be advocated by IDCA, and that the IDCA at the appropriate time take a forceful stand in favor of consultative group type of arrangement for Honduras. Given the important role of exports here, we will follow the same sort of strategy regarding export promotion.

b. Role of Private Sector

Another aspect of the development picture which trascends the sectoral strategies is the role of the private sector. There are indications that the private sector is not playing as important role in the Honduran development effort as would be desirable. Its spokesman assert that it has become increasingly difficult for the private sector to get credit resources from external sources because of the unsettled condition of the region (not of Honduras per se); that even partially concessional credit from assistance agencies is now denied it; that the provisions and administration of the agrarian reform law discourage investment in agriculture production and its auxiliary processing; and that the rapid growth in the GOH's activities has had the effect of denying credit resources and profit opportunities to the private sector. These same spokesman assert that the private sector is prepared to cooperate with the GOH in both fostering production and being more attentive to improving social conditions; and, indeed, the main private sector organizations now are working with the GOH to prepare a program to improve rural housing thereby hoping to contribute to social peace and to provide additional remunerative employment in rural areas.

During the coming year the Mission proposes to analyze in some depth the constraints on the role of the private sector in development in Honduras and particularly to address such questions as:

- To what extent and where is there potential for greater participation by the private sector in development programs? Are there disincentives to such increased involvement?

- Are protectionist or import substitution policies limiting employment and economic growth?
- Is the commercial banking system playing as large a role in development as is feasible?
- Are S & L associations and Credit Unions at their full potential in providing agricultural, industrial and housing credit? Can more agro-industry be developed by the private sector to increase rural employment?
- Can the construction and credit institutions be provided incentives to produce low-cost and rural housing?
- Can incentives be developed for medium sized farmers and industries to invest in expanded production?

We intend to conduct this analysis through contracts with US organizations to work in collaboration with the main Honduran private sector groups and the GOH. We shall explore with OPIC its possible participation in this effort. If the GOH were to agree, the analyses would indicate an evaluation of the policies and the operation of selected semi-autonomous public agencies. The conclusions of the analyses could lead to modifications in our program strategy early in the CDSS period since no other assistence agency is addressing this aspect of development here.

c. Human Rights

The recent Department of State human rights report gave Honduras a generally favorable rating. Honduras does not have a history of political assassination or torture, and the press reports widely any charges of police mistreatment. There are no political prisoners or death squad murders. Freedom of press, speech, religion and assembly are respected. The late 1979 deportation of a controversial "Third World" American priest who had acquired Honduran nationality caused a bit of a stir, and the order is reportedly being challenged on legal grounds. Honduras has about a 100,000 member black Carib, or Garifuna, community which has long been isolated from the mainstream of Honduran society, and there remains on the books certain legal prohibitions or entry into Honduras by blacks, Chinese, and other specified racial or ethnic groups, but these laws are ignored in practice. The legal rights of women in marriage, family relations and divorce are inferior to those of men.

Finally, we should note that the poor find legal remedies nearly prohibitively expensive to pursue.

AID/W funded projects are currently setting the base for possible future Mission programs dealing with women's legal rights and legal services to the poor. In addition, AIFLD supported programs also will continue to provide legal services. The Mission and the National Council of Negro Women have been in touch with Garifuna groups regarding a possible OPG. Our objectives in such a project would be an improvement in the conditions of life in the remote bypassed communities, and the development of a bilingual-bicultural education system that would enable the Garifuna children to better deal with the Spanish world while preserving their singular black Carib culture.

d. Public Sector Management

All of our projects in this period will address to some degree the management and analytical constraints which we, as well as the other donors, have identified as limiting the effectiveness of the GOH's development efforts. Furthermore, in collaboration with the GOH, we shall continue the comprehensive, analytic methodology in A.I.D.'s sectors of focus. However, there also is a need to upgrade the GOH's ability to meet the large burdens imposed on it by the ambitious Plan it has undertaken (e.g. through better personnel policies, credit management and tax administration). Although other assistance agencies are helping to meet these needs there are a number of places where A.I.D. also could provide relatively small-scale technical assistance interventions in support of overall development administration, and we have proposed to AID/W that we be given authority to supply such interventions even if they are not directly linked to one of our projects. We hope to be permitted to develop a project of this nature in the near future.

B. A.I.D.'s Sectoral Objectives and Courses of Action

1. Agriculture/Rural Development

a. The Problem

Agriculture is the mainstay of the Honduran economy. It provides a living, however meager, for the vast majority of the target group and plays a dominant role in the balance of payments and in generating government revenues to pay the cost of social services essential to improving the quality of life. The main development problems facing Honduras are how to make the agriculture sector more productive and to get rural incomes up over the poverty line. Analysis and experience show that the small landholder can improve his productivity enough to move above the poverty line if he has secure land tenure and access to

technological advice and inputs; if he can get his crops to market economically; if he can secure enough capital to shift to high value crops; and, if necessary, can find off-farm employment during his non-peak periods.

b. Current Activities

The USAID Strategy is based on a Sector Assessment developed in 1978. This Assessment was prepared jointly with the Government of Honduras, and is being continuously updated with additional studies. The current A.I.D. program addresses many of the problems identified in the Assessment through a variety of activities:

i The centerpiece of these activities is the Agriculture Sector II program which focuses on human resource development, institutional development and the improvement of specific delivery systems. The types of activities being financed include participant and in-service training, strengthening of agricultural higher education institutions and assistance in data collection and policy formulation capability, with special emphasis on marketing problems. Those activities will also include assistance to the agricultural cooperatives movement and the construction of small scale infrastructure projects (access roads, storage, erosion control, irrigation and drainage).

ii Complementary on-going activities support improvements in the GOH's agriculture extension and research efforts.

iii We are assisting the provision of efficient inputs and off-farm supplementary employment through the identification and dissemination of appropriate technologies.

iv We are assisting with the reorganization of the National Development Bank, as well as providing funds for credit programs to both individual and agrarian reform settlements.

v Through a PL 480 Title I/III Agreement, funds are provided for a price stabilization program for basic grains.

vi In FY 1980 we shall begin support for work in the conservation of water resources and of the improved use of forest resources.

vii Finally, funds are provided to assist with the renovation and upgrading of rural trails and access roads, and with rural electrification in new land reform areas. In order to increase the short-run impact on the target group, we should plan to increase further the support for the rural roads program if additional resources were made available in FY 1980 and 1981.

Thus, by FY 1982 A.I.D. will have programs under implementation in the Agriculture Sector which should be in the process of directly reaching some 63,000 farm families through service delivery activities and indirectly reaching over 300,000 small farm families through other means. By that date these programs also will have improved the human resource pool of the sector institutions; created a new planning information gathering and policy generation system; increased the effective outreach of the extension service by over 100%, created six multi-community, multi-service cooperatives as the basis for a viable agricultural cooperative movement; expanded the capacity of the Honduran agricultural university; refocused the Honduran research system toward farm based, appropriate technology activities; and reorganized the agricultural bank into a more effective institution.

c. Strategy for 1982-86

The following objectives have been set for future A.I.D. activities in assisting the GOH: i) improve its capacity to delivery goods and services which enhance income and employment opportunities; ii) develop information, inputs and more appropriate technology in a form and content which can bring about relatively rapid increases in income and employment; iii) improve its capacity to identify policy alternatives and to determine the likely costs and benefits of specific decisions; iv) increase access to productive land by the landless poor and provide them with essential support services; and v) expand non-farm employment opportunities, principally for landless laborers and subsistence farmers. We propose to use as the point of departure, existing and on-going analyses, under which activities addressing many of these objectives already have begun. Further analyses will be undertaken to determine additional development activities which USAID might finance during the 1982-1986 period where opportunities have been created by the institution-building efforts now underway. The Mission is particularly interested in identifying activities for helping the landless poor, and improving the operation of the GOH's land reform program.

By 1985, USAID assisted activities in the agricultural sector are projected to increase the number of farmers receiving GOH services by over 100%. The percentage of rural population below $250 per capita income should drop from 90% to 80%. The average per capita income of small traditional farmers should increase from $135 to $175, and for

agrarian reform farmers should increase from $106 to $175 (all at 1977 prices).

(1) Institutional Development: The institutional development focus of USAID's Agricultural Sector II Program, will continue through the CDSS period and probably for some time into the future. Funding in the CDSS period will come both from the existing Agriculture Sector II Program and follow on projects. Participant and in-service training actrivities will be required over a very long time period in order to reach and maintain a high level of teachnical competence. Assistance to information gathering and policy development probably will continue at about present levels, although the natuare of activities will become increasingly sophisticated. A higher level of assistance probably will be needed for agricultural research and extension work. As new ecological zones open up and as results of research at international research centers become available, the need for expanded efforts in applied research and information dissemination will grow. Also, several specific crops will require more intensive investigation in the future, e.g., analysis of alternative solutions to coffee rust. Present assistance in marketing policy analysis is expected to lead to the identification of additional support requirements for improvement of the market system and related policies. Such an activity probably would help the GOH provide appropriate infrastructure and incentives for more efficient marketing by the private sector. Continued Title I/III support for this effort will be needed.

(2) Credit: If the USAID-assisted reorganization of the National Development Bank into a purely agricultural bank proceeds as planned, this institution will be a more effective channel for credit to small farmers, and probably will be able to use additional resources from A.I.D. during the CDSS period. Similarly, if initial efforts with the on-going service cooperatives activity are successful, expansion of this activity should be supported. The Mission also is examining other possible channels for agricultural credit, such as the Federation of Honduran Credit Unions. At present, it is not possible to project with confidence the level of support which would be required from A.I.D.; however, our rough estimate would be that $25 million will be needed. Both functional accounts and Title I/III would be used as a source of funding.

(3) Natural Resource Use: Building on the start to be made in FY 1980-81, we plan to support efforts to extend watershed improvement programs to all priority areas; expand forestry development management throughout the country and; increase the quality and level of sophistication of natural resource planning and management. This activity will be conducted in close coordination with the other donors who are interested in the problem.

(4) Appropriate Technology: To complete funding for our current activity $4 million more will be needed. By FY 1984, we expect small, rural industries will have additional needs for an expanded range of industrial processes and, small farms will be producing charcoal from woodlots of fast growing tree species. Building upon that base, we expect to support fuel and electrical energy generation from renewable resources, possibly mini-hydro plants and fuel methanol from charcoal, as well as support the delivery of low-cost farm implements and industrial processes throughout the country.

(5) Agrarian Reform: Perhaps the most difficult issue facing the GOH is how to improve the land tenure picture. A.I.D. is working with INA to improve its institutional capacity, and is supporting agrarian reform settlements in the less populated areas of the country. This effort would be continued and may be complimented by new activities such as: drainage of large extensions of cultivable land; leveling of land and development of potential irrigation; and colonization of new lands which are presently inaccessible. Furthermore, in FY 81 the Mission will begin exploring with the GOH other policies or programs which might reduce the inequitable access to income producing opportunities. One approach might involve the creation of a new land and estate tax structure, based on the USAID-financed national cadaster, which would make possession of large expanses of under-utilized land a personal as well as a social burden. An element of this approach might be to increase simultaneously the availability of financial resources for land purchase by small farmers through a land sale guarantee program or direct financing through local institutions, possibly with Title I funds. Another approach might be support for an evaluation of the conduct of the current titling and enforcement effort, followed by assistance in implementing the changes needed to make it more effective. We anticipate that our analyses would be advanced enough to undertake activities in support of this objective by FY 1982.

(6) Coffee Production: In view of the danger of the roya to the welfare of small farmers who have managed to graduate from the target group, and to get more small farmers into position to so graduate, we plan to explore with the GOH a possible program of assistance to these producers. Activities might be roya control through destruction of affected trees, use of pesticides, and other plant sanitation measures, and possible introduction of roya resistant varieties. CATIE is working on developing the resistant varieties and our bilateral program could consist of distribution of inputs, interim credit and technical assistance through the extension service, the Coffee Cooperative Federation, and the Honduran Coffee Institute. In combination with improved land tenure and additional access roads the program could encourage conversion of present precarious hillside farming to coffee trees with attendant benefits for watershed conservation. This effort would be an outgrowth of the general sector program, but in later years of the CDSS could receive enough importance to justify special program support.

2. Population

The continued high fertility rate is one of the major impediments to raising standards of living in Honduras, but this truth is not yet widely accepted among Hondurans. Fortunately a health rationale, based on maternal and child health factors, is accepted as a basis for official family planning programs although policy makers and planners will not yet publically recognize the demographic imperative for it. As a practical result less investment is being made in reducing the fertility rate than is required even to meet the health rationale needs. One of the issues facing us is how to change this situation.

Furtunately, there is an opportunity to expand the use of contraceptive services. At present, it is estimated that of the approximately 700,000 women of fertile age about 129,000 have access to such services on demand, either through commercial channels (70,000 mainly upper and middle class women), or subsidized programs (59,000 mainly target group women). Access is defined as both availability, knowledge of availability, and acceptance. In view of successes in the modest community based distribution (CBD) programs and a high unmet demand for voluntary sterilization, there appears to be a latent demand for contraceptives among the target group.

The problem is how to meet this latent demand. It is still our judgment that direct bilateral programs involving A.I.D. and host country institutions could be counter productive. This is also the judgment of the present and former Ministers of Health who, while recognizing in principle the need for fertility reduction, also are aware of the political millieu in which they must function. Overt USG involvement in family planning programs would be opposed for various reasons by small but vociferious or quietly influential groups from both the left and the right of the political spectrum. For the near future, at least, we see no alternative to continuing to work through intermediaries to provide more contraceptive services and to work on increasing the awareness of the Honduran leaders that more vigorous efforts to control fertility are called for.

Over the near-term (1980-82) our strategy will be to use a series of RAPID presentations sponsored by the Honduran Family Planning Association (HFPA) for national and local opinion leaders. At the same time the Mission will continue supporting demographic analysis within the Superior Council for Economic Planning (CONSUPLANE) with the objective of including demographic considerations in the national planning process. (The UNFPA also is assisting CONSUPLANE in its work on maternal-child health and vital statistics support, but has not addressed the population issue directly in its $4 million program.) A contraceptive prevalence survey also is being supported from central A.I.D. resources. The strategy also would support:

i) building up the HFPA community-based distribution (CBD) program and ancillary programs to the point that financial self-sufficiency is achieved by HFPA;

ii) creating linkages between HFPA and GOH institutions in order to diversify and expand the number of institutions engaged, and having a stake, in family planning activities; and,

iii expanding the client group demanding and receiving family planning services. By 1982 the Mission hopes to have increased by 148,000 the total number of fertile aged women practicing family planning in Honduras, thus increasing from 18 to 36 the percentage of acceptance in the fertile aged group.

The combination of information programs, and increased number of acceptors and institutions providing family planning services is intended to produce conditions which will bring the GOH later in the CDSS period

to adopt a goal of achieving family planning as an accepted, integral and effective element of the GOH's health delivery system. At that time, the Mission would be prepared to support, within the context of a second Health Sector Loan, explicit support for family planning programs. It is unlikely that the GOH will adopt a population policy anytime soon; however, the health delivery system already provides family planning services for health reasons and improving the health delivery systems through the upcomming Health Sector Loan is expected to make these services more dependable and more widely available. Family planning services now suffer from the same deficiencies in management and logistics that affect the entire health delivery system. As these services become more dependable and as more and more women seek them, the likelihood of a reversal of the growth trend in acceptor levels will be progressively reduced, and the probability of a de-facto acceptance of fertility control will be increased. The Mission is now developing a multi-year population strategy that will lay out the specific steps needed to bring about a level of acceptance and reduce fertility in the near to medium term. We plan to complete that strategy by the end of FY 1980

3. Health and Nutrition

Poor health and inadequate nutritional levels continue to undermine the productivity, income and well being of our target groups. Only 47% of all Hondurans have access to even basic medical attention, most of them through the village based primary care system staffed by volunteers. The infant mortality rate of 103/1000 live births nationwide (126/1000 rural areas) attests to the low level of health care. In rural areas 90% of all families have incomes below the level required for an adequate diet. The same is true for 60% of urban dwellers.

In the last five years A.I.D. has assisted the GOH to train 525 auxiliary nurses, 2,997 midwives and 2,542 community health workers and representatives for the primary health care system. An A.I.D. nutrition loan is financing the installation of 1,635 wells and 17,326 latrines. In the same period the IDB financed the construction of 243 rural health posts, the national teaching hospital and the rennovation or construction of 10 regional or area hospitals.

By early in the CDSS period the following should have been achieved.

(a) Present or planned projects supported by the World Bank, IDB and A.I.D. should have increased the number of Hondurans who have

access to safe water from the present 30% to 75% of the total population and the share of Hondurans who have adequate sanitary facilities to 36%.

(b) With the support of the FY 1980 Health Sector I Project, basic health care coverage for 65 percent of the population should be achieved and systems should have been established to increase the effectiveness of those systems with emphasis on technologies to prevent and treat gastro-intestinal infections and infestations, particularly among infants and children in their growth years when good nutrition is vital to their mental and physical development.

(c) The current supplementary feeding program should have been improved through the use of PL 480 Title II, Section 206 resources so that: (i) SAPLAN (National Nutrition Planning System) will be able to monitor nutritional status and adjust supplemental feeding and developmental programs accordingly; (ii) nutrition and health education will have been built into the supplemental feeding programs; and (iii) a capacity to produce blended foods from local raw materials will have been created.

Thus by early in the CDSS period there should be in place systems with which the GOH reasonably could aim to achieve, by the end of decade, primary health care coverage of the entire population, nearly complete access to safe water and sanitary facilities, and substantial reductions in malnutrition. The GOH should have been able to adopt a comprehensive sector program to achieve those goals, and our intent would be to support it with substantial resources for further expansion and improvement of the health system, of water supplies and environmental sanitation and of improved nutrition. PL-480 Title II resources as well as functional account funds will be used.

4. Education

The Honduran educational system is weak from top to bottom. It is fragmented; constantly under pressure from highly political teachers' unions; beset by the rapid expansion of the school aged population; perennially short of resources despite hefty budgetary increases in recent years; lacking policy orientation; weak in planning; and short of adequately trained teachers, administrators, textbooks and materials. These problems are most severe in the rural areas which have 65% of the school-aged population. In urban areas 97% of school aged children are

enrolled, but in rural areas the figure is only 71%. This shows only part of the picture since enrollment does not ensure attendance nor attendance education.

It is estimated that only about 60% of school age children actually attend school. At the rate of of 30 children per classroom and based on the total number of rural children in the primary school age group, it is estimated that the shortage of classrooms in rural Honduras is 3,171 and growing at the rate of 400 annually against projected enrollment. This crude measurement shows only part of the picture since it does not account for badly located, under-used classrooms or those that should be replaced. Nor does it take into account the 2,735 schools that offer less than six grades and would have to be expanded to accommodate six grades. This means unacceptably high numbers of students per classroom, and contributes to low retention rates and high repeater rates. Preliminary data indicate an average of 32 children per rural classroom at the present rate of enrollment but observation reveals that class sizes of 70-90 in the first three grades are common. If all eligible children were to enroll, the ratio would be 41 per classroom. In contrast, at near full enrollment, urban areas have an average of 29 per classroom. An absolute shortage of teachers does not appear to exist since in 1979 the MOE started an obligatory social service program for last-year student teachers under which 1,300 student teachers will be assigned to rural schools in 1980. A problem that does exist is that only 71% of rural teachers are certified. The GOH has begun a professionalization program aimed at certifying all of these teachers. However, it is expected that the MOE for some time will have to continue to rely on new uncertified teachers. All in all, the result is that only 126 out of 1,000 first grade entrants can expect to finish the sixth grade, and the average attainment is under two years in rural areas where, because of drop-out and repeater rates, it takes 18-19 years of classroom time to produce one sixth grade graduate. As a result, Honduran education is not building the human resource base needed to achieve the level of progress that should be expected from the country's development investments.

A basic GOH goal is to achieve 95 percent enrollment of primary school aged children by 1983, thus providing nearly universal access to six years of education, while raising to certification the majority of rural, now uncertified teachers. While the enrollment goal is probably

not achievable by 1983, it may be realistic to reach between 87% and 90% and to approach the 95% goal sometime late in this decade. However, substantial financial and human resources will be needed to accomplish this goal. Given the pronounced educational disadvantages of the rural population, the Mission currently is focusing its attention on rural primary education --the weakest, most neglected, least successful element in the system. This part of the sector has the highest GOH priority and the most opportunity for rapid improvement in benefiting the target group. Since about half of the rural population is under the age of 15 and because primary schools, for all their failings, are ubiquitous in the countryside, rapid expansion and improvement of the primary school system represents the fastest least-cost method of improving literacy and numeracy rates. The system also offers an effective outreach mechanism for health, nutrition, and agricultural programs. Pilot practical projects will be expanded along with school construction. They have proven to be effective in disseminating useful agricultural information to adults in the communities where they operate. Supplemental feeding programs are established in many rural schools and offer a vehicle for health and nutritional information programs -- aimed at both the community at large and at the student population. A significanct output of the Mission Title II, Section 206 activity will be devoted to nutrition curricula for rural schools. The Mission also is exploring ways in which the community production activity under the Agriculture Sector II Program can use the schools as an outreach mechanism.

Current projects are developing curricula and materials applicable in the rural environment (low-cost modular learning materials on basic subjects aimed at overcoming the chronic shortage of textbooks), training teachers in their use, and building and equipping 300 classrooms in rural areas as a pilot effort for practical skills training. These efforts will be merged into a larger project which, during 1980-83, will accelerate the construction of classrooms; increase teacher contact time by providing low cost housing in isolated areas; and improve the teacher supervision system. By FY 1983, these activities and a World Bank construction program, together will produce: 3,700 classrooms by (thus accommodating the growth of the school age population and marginally reducing the deficit in classrooms), enrollment of 80% of rural school-aged children, and general improvements resulting in higher retention rates so that it will take only 10-12 classroom-years to

produce each sixth grade graduate. By the end of the CDSS period it should be possible to achieve effective literacy for 70% of the age group under 15 years, an increase of 8% over the current literacy rate; and perhaps 85% enrollment coverage. It is expected that other-donor resources, particularly those of the World Bank, also will be available to Honduras during the planning period. Nevertheless, given the magnitude of the effort needed to reach the goal, a second A.I.D.-financed rural primary school construction project probably will be needed. Such a project may also begin expansion of rural primary education to cover nine grades, an approach common in Central America and being considered in Honduras.

In 1981-82, the Mission will employ a collaborative analytical process to examine the relationships between policies, resource allocations and internal and external efficiencies of the overall educational system and to identify systems and policies which would enable the MOE better to set and meet its goals. Early in the CDSS period, as progress toward improving the rural primary system is being made under the activities discussed above, specific priority attention will be directed toward management improvement in the educational sector as a whole. This will include all major subsystems, e.g., teacher training and qualifications, personnel management, standards and testing, materials production and curriculum development. Support for programs which may result from this process would be provided later in the CDSS period.

At this time we do not see that our strategy would include support for adult literacy programs, given the scarcity of resources in general, the high cost of such programs and the poor record of retention of such skills. Furthermore, the use of non-conventional methods such as instruction through mass media to optimize the effectiveness of available resources would play only a minor role in our strategy because of the fragmented, dispersed audience and the virtual absence of appropriate coordinating mechanisms. However, the development and dissemination of low cost, multi-student, modular materials, accompanying curriculum guidance, and instruction of teachers to audio-visual techniques should play an important role in improving educational quality.

5. Urban/Regional Development

Between 1961 and 1974 the urban population grew at a rate of 4.9% per year, approximately 1.4% higher than the growth rate of the total

population. The fastest growing localities are those cities with more than 100,000 people (6.2%), followed by tertiary cities between 5,000 and 10,000 population (5.3%), intermediate cities with between 20,000 and 40,000 population (4.4%), and secondary cities with 10,000 to 20,000 people (3.5%).

For the most part, the rural poor do not migrate because of their inability to subsist in the country side. Rather, these people move to the urban areas with the expectation of finding adventageous employment, and perhaps the education and health services and other amenities of larger communities. The flow of migrants is from the rural areas to small towns, thence to larger cities. This migration has not accelerated as rapidly as it has in many other countries nor has it produced the magnitude of social ills found elsewhere. Thus Honduras still has an opportunity to influence the pattern of rural-urban migration and urban/regional development to achieve an orderly development of its urban service centers that will contribute to the socio-economic development of rural areas and slow the deterioration in urban living conditions.

Studies by the Urban Planning Office of the Ministry of Public Works and by the Tegucigalpa Metropolitan District highlight low paid and irregular employment as the principal problem for the urban poor especially among the young and women. The pace and geographical distribution of industrialization is inadequate to provide productive employment for the growing numbers of urban poor. San Pedro Sula, the most industrialized area, has an estimated total unemployment rate of 11%, while Tegucigalpa's total rate is estimated at 18%. Smaller urban areas, more directly linked to the seasonal agricultural economy also experience considerable seasonal underemployment. By most measures, migrants, especially recent migrants to the larger cities, find themselves in conditions not much improved over those they left. They are about as likely to be unemployed or underemployed in the city as in the country. They are as likely to be poorly housed and malnourished but do have better access to education and health services.

During the past two years the GOH has put increasing emphasis on regional planning, although the analytical basis for such planning continues to be weak. The GOH has not decided whether to stress a sectoral (vertical), or a regional (horizontal), approach to development. While in practice there is no problem in proposing and assessing regional development goals and strategies, some conflicts do

arise when the implementation of the regional approach requires the necessary coordination or "subordination" of various sectoral entities to the multi-sectoral approach. In an attempt to resolve the conflict between vertical and horizontal approaches the 1979 Annual Operating Plan of the GOH was organized by region, and Regional Development Boards were established. They were patterned on military regions, and headed by military commanders with the assistance of representatives from CONSUPLANE. However, for lack of trained CONSUPLANE representatives, the Regional Development Boards have not yet begun to operate as proposed. Furthermore, there is a question as to whether or not they ever will, given the fact that Honduras is expected to return to an elected civilian government shortly. It is still unclear how the central and regional planning functions will accomodate the change. This in turn makes it difficult to describe the A.I.D. urban regional strategy at this time in more than general terms.

Current urban AID programs are focusing on HIG financed low cost housing and urban upgrading, principally in the two major cities, and on the creation of infrastructure in secondary and tertiary cities and regional growth poles. The program also is attempting on a pilot basis, to integrate the provision of social services and physical improvements, and is supporting two OPG projects which involve housing-related small-scale industries. Other donors such as the OAS and the UNDP are assisting the GOH in regional development planning projects in the Aguan Valley and in the border region with El Salvador, but they are not involved in the countrywide regional planning process. In the smaller urban areas the IDB has provided financing for water systems, and in Tegucigalpa the IDB will soon begin a housing program that will include an employment generation objective by developing small industries. CABEI's secondary mortgage operation also is expected soon to become a significant source of housing financing. In response to the high priority the GOH attaches to rural housing, and because it will have an immediate impact on rural life, we are developing a Rural Housing Improvement Program for FY 1981.

The Mission is also in the first stages of an Urban/Regional Assessment which will assist the GOH to examine the laws, policies, practices,. and investment patterns that influence regional and urban development and to develop a plan for investments that will facilitate country-wide development and equity. Policy recommendations and

investment suggestions will be available from this Assessment beginning in 1981 which should allow the resulting investment program to be in accord with the emerging political realities and to reflect the policies which will be adopted by the new government.

We plan to undertake a major Urban Sector Program beginning with development funds in 1982 and to be supplemented with HIG funds in 1983. It will have the following goals: encourage the rational growth of the country's pattern of human settlements and service centers to support the economic (particularly agricultural) development of the country and reduce the migratory burden on the two major cities; and improve the living conditions of the urban poor. The program would draw upon the experience gained in projects underway, or soon to begin, and the results of the Assessment. Its focus would be on the rationalization of regional planning, the improvement of municipal planning and administrative capacities, infrastructure and housing improvements, and employment generation. (Since Honduras is basically an agricultural country, the principal approach to resolving the unemployment problem will continue to be through stimulation of the agricultural sector. However, this main thrust could be complemented by generating direct and indirect employment through infrastructure investments of the type to be included in the proposed sector program.) The program probably would not include the two major cities because these cities already have a disproportionate command of financial and human resources which in turn attract to these centers.

Recognizing that the shift to civilian government will imply some shift of power to elected local representatives, we find it likely that the A.I.D. strategy will include supporting the development of local governments --i.e. municipal planning and implementing capabilities-- as well as dealing with the central and regional planning and policy framework which will circumscribe local development options and influence local decisions. Efforts already have begun in this respect through A.I.D. support to the Autonomous Municipal Development Bank (BANMA) which provides training and technical assistance to municipalities as well as financing for infrastructure projects. This project as well as the A.I.D. assisted National Cadaster Program will help increase local revenues to ensure that increasing demands for local development may be financed to the extent possible from local resources. In recent years the taxing authority of municipalities have been narrowed, as the central government and its autonomous agencies have assumed these authorities.

However, in recognition of the fiscal plight of most municipalities the GOH is now considering amplifying the municipal taxing authority.

6. Energy

Energy is a development problem in Honduras for the following reasons:

- The cost of imported oil weighs heavily in the balance of payments.
- The excessive cutting of trees has contributed to watershed detoriation, depleted sources convenient to the rural and urban poor, and raising cost of woodfuel.
- The rising relative cost of energy makes it harder to integrate rural areas into the marketing system and makes processing and manufacturing for increased value added less attractive.

The combined effect of the above factors on the economic development of Honduras is quite negative in terms of overall economic growth, the daily life of people dependent on wood, and the loss of production and income of the people in the downstream of the deteriorated watersheds.

The El Cajon hydroelectric project, which is being supported by the IBRD and the IDB, will allow the interconnected electric grid to be supplied entirely by hydro power when it starts production in 1985. Until then some fossil fuels will continue to be required. Thereafter, isolated diesel systems will continue to require fuel until interconnection or smaller-hydro systems become feasible. The IDB is beginning to support the development of mini-hydro installations in isolated rural areas

In transport, there is no real substitute for petroleum distillates available in the CDSS time frame. Construction of an electrical railway would be prohibitively expensive in these mountains. Newer, more efficient vehicles could provide a small improvement in the gas mileage rate, as would road improvements. Of course road improvements also would create more transport demand, but that would serve the broader needs of rural development; and for the latter reason we anticipate that the IBRD, the IDB, and A.I.D. all will remain active in their support for improvements in the road system in Honduras. Gasohol might be a partial solution, but if the price of sugar remains high it probably will be more advantageous to export sugar than to convert it into alcohol. Thus further petroleum exploration is a possibility Honduras should pursue. There have been suggestions that the Mexican and the Venezuelan formations are linked and that more refined geophysical exploration

techniques applied to the Honduran North Coast might result in commercial discoveries. The World Bank will make a small loan for developing Honduran institutional strength to regulate the exploration and exploitation by petroleum companies.

We see the role of A.I.D. as supporting further analysis of the energy options facing Honduras and working on innovations in the way our target groups use energy resources in their daily lives. For the former we intend to help Honduras expand its capacity to undertake energy planning and implement alternative energy activities, partially with centrally funded projects such as the Central American Energy Assessment. This effort would be relatively modest in size and not give rise to separate projects. It would take place throughout the period of the CDSS. The latter effort will begin with the work already undertaken in the Rural Technologies project and to be undertaken under the Watershed Management and Afforestation project and is expected to lead to a FY 1983 project. Both projects would be reinforced by ROCAP's Woodfuel project which seeks ways to replace wood with other energy sources, to develop more efficient wood burning technology and to identify and introduce fast growing tree varieties. Assuming progress in these efforts, we anticipate supporting a major effort to expand this coverage throughout the country in the CDSS period.

7. Regional Cooperation

For the reasons discussed in the Macro-Economic Framework and the Development Plan parts of this paper, we do not at this time see that there is likely to be much interest on the part of the GOH in increased regionalism and economic integration. Nor do we see much that we could do at present to kindle such interest. That will have to await a clarification of the region's poltical future. In the meantime we intend to encourage and support the GOH's continuing to draw upon the regional technical institutions for inputs into its programs. In our view the most relevant institutions for Honduras' needs are CATIE, INCAP and ICAITI.

The technological information being generated and disseminated through ICAITI will become increasingly important in the CDSS time period as the Rural Technologies Project begins to produce results. Its work on energy will also be drawn upon.

INCAP has made important contributions to our current nutrition program, and would have a future role in our proposed FY 1980-81 PL 480

Section 206 program. The Mission will encourage the GOH to contract directly with INCAP for services.

We have suggested that CATIE take the lead in developing and improving coffee varieties that are resistant to roya. If it would do so we should propose that the bilateral A.I.D. program here support arrangements at the appropriate time for adapting the coffee research work to the specifics of Honduran ecological conditions. We should anticipate that our Rural Technologies and Water Resources/Afforestation projects could do the same with CATIE's work in small farmer cropping systems and woodfuel tree variety research.

It appears to us that at present the work of the several regional technical institutions often is too remote from the immediate needs of our projects. We suggest that at least some of the future A.I.D. support to these institutions be in the form of IQC-like agreements under which the Missions could issue task-orders for specific services. A specific annual amount could be allocated to ROCAP for funding these IQCs, and the USAID's would get drawing accounts. That mechanism could be broadened to permit the host governments to draw on the arrangements as well. The institutions might be given a guarantee of a certain minimum level of support, and might be more responsive to our current needs.

The importance of CABEI as a donor bank is described elsewhere in this paper. The Honduran perception of CABEI appears to be that it is cumbersome to deal with. If this is a common complaint, it would bear investigating - especially if A.I.D. plans to use CABEI as a significant channel for assistance to the general development of its member countries.

C. Special Efficiency Measures

The Mission has made significant progress in adopting special efficiency measures. Its activities in agriculture are now organized under the sector approach, and that approach will be worked out for the health sector by the end of FY 1980. The ongoing and FY 1980 program will be using a score of Peace Corps volunteers, and we will be looking to increase that number in the CDSS years. The new impact projects in FY 1980 all build on institutions and procedures created in past AID assisted projects, and greater reliance is being put on Honduran institutions in their conduct (e.g. treating BANMA as a fully responsible ICI. The Mission is supporting six activities through PVOs. We have proposed a substantial increase in funding for the work of intermediaries in support of fertility reduction here.

These trends can be continued into the CDSS period. However, given the nature of the USG's intense interest in this region and in the success of the GOH's development efforts over the next several years, we do not think that AID would be wise to narrow its focus of concern to one or two sectors or to a few activities or to try to perform its responsibility here with fewer people. Indeed, we found that it has been very difficult to increase the level of our activities in FY 1980 with significantly less staff than was projected for FY 1979 and 1980 in the last CDSS. We doubt that with all the efficiency possible we shall be able to perform at the level of quality expected of us under the conditions confronting the program here unless we are provided the staff levels indicated in part IV C below.

Our comments on the particular efficiency measures suggested are given in Annex D.

IV. ASSISTANCE PLANNING LEVELS

A. Proposed Assistance Planning Level (PAPL) and Resource Table

The Indicative Planning Allocation (IPA) for Honduras for 1986 is $32 million. For reasons discussed in the Analysis and Strategy sections above we recommend a substantially higher level throughout the CDSS period. In summary, these reasons are that we have at this time in Honduras a high level of progress and commitment to development and a political imperative to help the country reestablish constitutional government and restore stability to the region. This requires that the GOH demonstrate that it can meet the aspirations of the people for tangible progress in a relatively short time. Correspondingly, our role in Honduras in this period should be more than just that of one donor among many or the provider of a marginal level of development resources. The level and mix of our assistance should reflect balance of payments concerns and the need to demonstrate USG confidence in the course being pursued by the GOH so that the other donors, commercial lenders and private investors do not shy away from supporting the GOH's resolve for growth with equity. Accordingly we propose to maintain the FY 1980 level resources throughout the CDSS period. A grant level of approximately $7 million will be required to support the innovative aspects and technical assistance inputs of the proposed program.

Proposed Assistance Planning Levels
($ 000)

	OY 1980	BY 1981	....CDSS PLANNING PERIOD.... 1982	1983	1984	1985	1986	TOTAL 1982-86
Agriculture and Rural Dev.	23,235	35,173	33,900	44,700	26,600	51,600	32,700	189,500
Ag. Sector Program	805	7,809		15,000			10,000	25,000
Rural Technologies	1,900	6,150			6,000			6,000
Water Resources/ Afforestation	5,000	10,000				15,000		15,000
Rural Trails & Access Roads	8,250	3,000		10,000			10,000	20,000
Agrarian Reform			10,000			25,000		35,000
Small Farmer Credit Syst.			15,000		10,000			25,000
Energy for Rural Dev.				10,000				10,000
PL 480 Title I/III	7,000	7,700	8,500	9,300	10,200	11,200	12,300	51,500
OPG's and PD&S	280	514	400	400	400	400	400	2,000
Population	120	330	400	600	600	600	1,000	3,200
Reduced Fertility Rate	90	130	200	400	400	400	800	2,200
OPG's and PD&S	30	200	200	200	200	200	200	1,000
Health and Nutrition	22,222	6,000	5,400	16,100	16,400	6,200	20,900	65,000
Health Sector Improvement	7,400	1,100		10,000			15,000	25,000
Rural Water & Sanitation	10,250	.			10,000			10,000
OPG's and PD&S	150	100	200	200	200	200	200	1,000
Nutrition	250							
PL 480 Title II	4,372	4,800	5,200	5,900	6,200	6,000	5,700	29,000
(Of which Section 206)	(600)	(1,400)	(1,500)					
Education	1,105	17,400	400	400	20,400	4,100	4,100	22,000
Rural Primary Education	650	17,000						
Education Sector					20,000			20,000
Development Coordination		200	200	200	200	200	200	1,000
OPG's and PD&S	455	200	200	200	200	200	200	1,000
Urban Regional Development	15,650	350	20,400	10,400	400	400	10,400	42,000
Urban/Regional Sector Prog.			20,000	10,000			10,000	40,000
Urban Upgrading	10,200							
Municipal Development	5,000							
SDA, OPG's, PD&S, & others	450	350	400	400	400	400	400	2,000
Rural Housing		3,000						
Totals by Funding Category								
AID Functional Accounts	36,160	46,653	46,800	47,000	48,000	42,000	47,400	226,200
ARD&N	16,485	27,473	25,400	35,400	16,400	40,400	20,400	138,000
Population	320	330	400	600	600	600	1,000	3,200
Health	17,600	1,200	200	10,200	10,200	200	15,200	36,000
Education/HRD	1,105	17,400	400	400	20,400	400	400	22,000
Selected Development	650	350	20,400	400	400	400	10,400	32,000
Other Accounts								
- Houusing Guaranty (HIG)	10,000			10,000				10,000
- PL 480	11,372	12,500	13,700	15,200	16,400	17,200	18,000	80,500
- Economic Support Fund ESF	5,000	3,000						
TOTAL RESOURCES	62,532	62,253	60,500	72,200	64,400	59,200	65,400	321,700

C. Staff Levels

The Mission's on board staff levels in FY 1979 were considerably below the levels identified as necessary in the last CDSS. Meeting the expanding program responsibilities with that on board level was quite difficult. Thus, we think that a modest increase in the FY 1979 on board level (but one well under the increase projected in the last CDSS for FY 1980 and subsequent years) is justified. The following table gives the breakdown of the Mission's staffing in FY 1979 and our best estimate of our needs for FY 1980 and 1981. We cannot project in detail with confidence our personnel needs beyond that time. However, since we shall already have reached the indicative planning level by that time; since we shall have completed most of the sectoral analytical work necessary for the new elements to be incorporated into our current strategy; and since we should be able to space new activities and additional funding for ongoing ones, we think that we can continue to conduct the proposed program with the same overall level of personnel. This assumes that we shall be able to use AID/W and regional personnel to assist in certain aspects of analytical work and project preparation and project funds to reinforce both the GOH's and our own monitoring capability as may be called for by the individual projects. We believe that the GOH will accept that use of project funds. The figure for IDIs is what we think a program of this size and variety could accomodate. The IDI Coordinator from AID/W supports that figure.

The Ambassador is in agreement with these levels.

PROPOSED WORKFORCE REQUIREMENT
(on board 9/30)

	1979	1980	1981
Office of the Director(1/)	8	8	7
USDH	5	5	4
FNDH	3	3	3
Program and Capital Resources	13	12	11
USDH	7	7	6
FNDH	5	4	4
PSC	1	1	1
Development Engineering	4	4	4
USDH	2	2	2
FNDH	2	2	2
Food and Agriculture Development	8	10	10
USDH	4	6	5
FNDH	3	3	3
PSC	1	-	-
PASA	-	1	2
Human Resource Development(2/)	10	10	11
USDH	5	5	5
FNDH	4	4	4
PSC	1	1	1
PASA	-	-	1
Environment and Technology	4	5	6
USDH	1	2	3
FNDH	1	1	1
PSC	1	1	1
PASA	1	1	1
Office of the Controller	14	14	13
USDH	3	3	2
FNDH	10	10	10
PSC	1	1	1
Management Office	7	8	8
USDH	1	1	1
FNDH	5	6	6
PSC	1	1	1
PASA	-	-	-
IDI's	2	3	4
Totals	70	74 (5/)	74
USDH (Regular)(3/)	28	31	28
FNDH	33	33	33
PSC(4/)	6	5	5
PASA	1	2	4
IDI's	2	3	4

1/ Includes Senior Advisor and Regional Legal Advisor.
2/ Includes Education, Health, Nutrition, and Urban Development.
3/ Excludes 2 regular USDH positions in JAO.
4/ Includes only PSC's of one year or longer funded from Operating Expense Budget or PD&S funds. All such PSC's in 1980 are with foreign nationals.
5/ AID/W has informed us that this ceiling is to be: Regular USDH, 28; IDI, 2; Foreign National, 33. We have asked for reconsideration of the level.

V. ANNEXES

Annex A. Progress and Commitment

Progress and commitment in relation to FAA Section 102(d) criteria have been the subject of analyses which have twice earned Honduras the highest category rating. The first message, 78 Tegucigalpa 5544, documented:

a) the extensive involvement of the poor, including women in the development-related decision making process at both local and national levels and the GOH's encouragement thereof;
b) the ambitious GOH policies for mobilizing and improving resource allocation and encouraging growth of the private sector through infrastructure investment, non-inflationary monetary and fiscal policies, encouragement of private manufacturing and agriculture, and reasonable government management procedures;
c) the moderate tendency of government economic policies with respect to the capital/labor choice in investment;
d) the active agrarian reform program which has increased access of the poor to land in conjunction with reasonable producer prices and improved infrastructure and input systems;
e) the adoption and implementation of a policy of rural based preventative medicine using volunteer health workers and an upward referral system;
f) the tacit acceptance of a health rationale for family planning; and,
g) the increasing of access of the poor and the rural populations to formal and non-formal education and vocational training.

The second message, Tegucigalpa 5855, concluded that Honduras earned a well-above-norm (the highest) rating on progress and commitment in comparison with other countries and after adjustment of the data to avoid use of natural disaster-affected years. Achieving sustainable economic growth and increasing agricultural productivity (both on a per capita basis) are the basic elements of a growth with equity strategy, and Honduras' well-above-norm grades for these two were earned in spite of its high rate of population growth. The total well-above-norm performance rating is the result of policies, programs and budgetary allocations (see Macro-Economic Framework) appropriate to the resource base. Building on an agricultural base which has great potential but which must overcome fractured terrain and resultant high infrastructure cost, this sector has developed following comparative advantage principles. Even though agrarian reform is lagging compared to the ambitious goals set by the GOH, this country has gone further in this important area than any other in the region. The private sector is left primary responsibility for productive decisions although the government intervenes judiciously as regulator and investor in a few cases beyond the traditional infrastructure and social service role.

Going beyond the quantitative cross-country variables analyzed in the second Progress and Commitment excercise, the following qualitative factors should be noted --namely, Honduras:

a) has an excellent human rights record;
b) enjoys relative political stability;
c) has a strong, moderate labor movement;
d) gets good cooperation from the populace for government sponsored programs;
e) has accorded women a growing participatory role in policy and professional positions in the government and private sectors; and,

f) has a government which is open to external suggestions on policy and strategy.

The new five year Plan (1979-83) is further evidence of the GOH's commitment to overall growth with equity in the Honduran Economy. (For further discussion of the Plan see Section II.D.) Furthermore, the reality of the commitment is shown by the measures which the GOH has taken over the past few years, including several reform or policy decisions, and by other actions currently contemplated. Some of the key actions taken, and certain qualifications which must be noted to give perspective, include:

a) The establishment, in 1976, of SAPLAN, a multi-sectoral planning body for nutrition programs. This body is designed to work nutritional considerations into all applicable national programs dealing with food production, processing or storage. SAPLAN initially became too involved in project operations, and has not yet excercised the degree of program leadership required to achieve its complex objectives.
b) The establishment, in 1977, of the Agricultural Policy Commission which is intended to carry out planning and programming of all agricultural sector projects amongst the various sector institutions.
c) The establishment of the Honduran Grain Marketing Institute in 1978. This organization was established to carry out an aggressive, unified and rational policy in the supply, production and administration of basic grains. IHMA has been slow in getting effectively into the grain market, partly because a capital transfer from the National Development Bank was stalled.
d) Passage of a set of small enterprise development laws. These laws expand the mandate of the Industrial Development Center and provide the means by which small business can receive the same fiscal incentives available to larger enterprises.
e) The preparation of a law creating a new agricultural development bank (replacing the present National Development Bank - BNF) designed to improve and expand agricultural credit services particularly to individual small farmers or small farm groups. The enactment of this law has been long delayed. The present BNF has serious problems with default rates and its administration. The new law will be only the first step necessary in overcoming this legacy.
f) The development of draft legislation to establish policy priorities for inventory, control and conservation of natural resources.
g) The emergence of economic development planning on a regional basis. As noted in the National Development Plan objectives, the Government is interested in decentralizing development programs. In fact, this objective is now being acted upon with the establishment of regional planning and programming offices in seven regions throughout the country. However, these regions largly coincide with military districts, and it is unclear how the forthcoming civilian government will implement the concept.
h) Finally the Extended Fund Facility arrangement with the IMF, approved on June 28, 1979, represents a strong commitment to controlling government spending and safeguarding the access of the private sector to a fair share of domestic and foreign credit. The recent tax increase reaffirmed the GOH's commitment to a responsible fiscal approach to development financing. The effects of the new measure probably are not as great as would have been desired, but the measures certainly represent a positive development.

Annex B. Other Donors

This annex provides relevant details on the programs of the other major donors that currently have active programs in Honduras.

a) United Nations: In FY 1980 the UN expects to provide approximately $2.2 million in grant funded technical assistance. This assistance will be channeled through roughly 14 ongoing projects in forestry development and management, agriculture (farm management, marketing studies, erosion control, silo construction, support for the training activities of the Instituto Nacional Agrario (INA), and agriculture extension training), small enterprise development, population census, health and education. The UN is expected to continue support in essentially the same areas in the intermediate future at approximately the same dollar level.

b) European Common Market (EEC): In 1980, it is expected the EEC will approve a loan of $19.8 million for the development of milk production in Honduras. This integrated project will include farm management assistance, artificial insemination activities, research, etc. The EEC also is studying a list of projects, as presented by the GOH. No decisions have been made with regard to support of these activities which include rural silo construction, construction and equipping of rural health centers and hospitals, training of Instituto Hondureno de Mercadeo Agricola (IHMA) personnel and rural housing and access road construction.

c) Central American Bank for Economic Integration (CABEI): CABEI's program for the five year period 1978-82 total $1,156 million. Approximately $64.4 million of the 79-80 budget of $237.6 million is earmarked for Honduras. In the period 1961-1979, Honduras received a total of 226 loans with a value of approximately $235.1 million. In 1979, CABEI, as noted earlier, authorized a loan of $30.6 million for support of the El Cajon Hydroelectric project. In addition, it provided loan financing for cashew nut development ($2.5 million), construction of the La Ceiba-Juticalpa road ($2.4 million), the construction of buildings for industrial use in Puerto Cortes ($2.9 million) and platano development ($1.9 million). In 1980, the CABEI program will be fairly well distributed among the following: physical infrastructure, manufacturing, electricity and water, transportation, communications and storage. While the value is not determined, major commitments are expected to take place in energy development (including the development/dissemination of small hydroelectric units) and appropriate technology. A major regional forestry activity is also under development. In the period 1978-82, CABEI will continue to emphasize energy development, natural resource and forestry management, and appropriate technology development and dissemination. The annual assistance level during the period of its plan will remain at approximately $50 million. Beyond 1982 we should expect to see essentially the same program concentration at slightly higher levels.

d) World Bank (IBRD): Major IBRD loans in FY 1979 were for Industrial Credit ($15 million) and Tourism Development ($19.5 million) and the Nispero Hydroelectric plan ($30 million). In FY 1980 it is anticipated the World Bank will approve the previously discussed loan of $125 million for the El Cajon project (of which $20 million will be IDA funded). Future projects will likely include a $45 million agriculture credit program, port development, road construction, and

tourism development. The level of World Bank assistance is likely to drop off immediately following the authorization of the El Cajon loan, but will increase within a couple of years to an assistance level of roughly $50 million per annum.

e) Inter-American Development Bank (IDB): In FY 1978, the IDB, authorized loans to the El Cajon project totalling $95 million ($77 million from the Fund for Special Operations and $18 million in interregional capital) and a loan of $4 million for the second stage of an agriculture research and extension project.
In FY 1980, the IDB is expected to approve loans to the Piedras Azules Cement plant (15.0 million), transport ($27.4 million), sanitation ($7.3 million), pre-investment development ($3.2 million), and an integrated agriculture project ($6.0 million). In the future the IDB is expected to support projects in vocational and technical education, health and agriculture (credit, fishery development, etc.).

f) Organization of American States (OAS): The OAS will provide approximately $1.7 million in technical assistance in the two year period of 1980-81. Projects will be continued in: income tax training, customs training/development, tourism promotion, educational reform, and fisheries development. The level of assistance is expected to remain relatively constant during the period 1982-86.

g) CANADA: In the period 1977-82, Canada is providing $10.4 million in loans and $5.7 million in grants to support a forestry inventory, scholarships, and equipment. Canada also will continue support to the Banco de Expertos established in 1978 under which Canadian technicians provide technical assistance to Honduras in a variety of fields ($1.0 million in grants over three years) and an integrated agricultural development project in the Guayape Valley ($2.5 million grant over 3 years starting in 1978). The Canadians are also discussing possible participation in the El Cajon project.

In addition to the above donors, Taiwan, Belgium, the Federal Republic of Germany, the United Kingdom, Switzerland, France, Japan, Israel, Venezuela Investment Fund, Organization of Petroleum Exporting Countries (OPEC) and a host of private organizations such as Foster Parents, Catholic Relief Services, Caritas, Red Cross, Save the Children Federation and CARE all have important programs in Honduras. Their projects are distributed across all sectors and include: fisheries development, credit cooperative formation and support, well drilling/-construction, child feeding, health promotion, construction of latrines and health centers and a host of other projects.

Annex C. Macro-Economic Tables

TABLE No. 1

Honduras: Consolidated Public Sector Operations, 1976-1980

(Millions of U.S. Dollars)

	1976	1977	1978	1979	1980
Total Revenue	250.6	317.5	361.0	401.0	455.0
Current Revenue (1/)	241.5	308.0	356.0	394.0	446.9
Current Transfers (2/)	7.5	5.0	5.0	3.5	4.4
Capital Revenue	1.5	4.5		3.5	3.7
Total Expenditure	326.0	398.0	467.5	560.0	643.7
Current expenditure	205.0	242.0	264.0	318.9	365.7
Capital expenditure	121.0	156.0	203.5	241.1	278.0
Current Account Surplus or Deficit (-)	36.5	67.0	92.0	75.1	81.2
Net Lending Operations	8.0	13.0	21.5	20.4	20.0
Overall Surplus or Deficit (-)	-83.5	-93.5	-128.0	-179.4	-208.7
Foreign Financing, net	65.0	73.5	101.5	156.9	144.1
Domestic Financing, net	18.5	20.0	28.5	22.5	22.5
To be Financed					42.1

(1/) Includes the current account surplus of the public enterprises.
(2/) Excludes transfers from non-financial public sector.
Sources: Central Bank of Honduras; Ministry of Finance and Public Credit, and Fund staff estimates from IMF Consultation Paper No. SM/79/17, January 1979, p. 60, for 1976-78; CONSUPLANE and Central Bank, for 1979-80.

Table No. 2
Honduras: Central Government Budget Expenditures 1977-1980
(Millions of U.S. Dollars)

Ministry or Agency	1977	1978	1979	1980
Judicial Branch	2.5	2.9	4.0	5.3
Chief of State	8.5	11.5	10.9	15.4
Government and Justice	7.2	7.6	8.5	7.5
Foreign Affairs	2.9	4.1	4.6	5.1
Defense and Public Security	25.2	31.4	41.6	45.2
Economy and Commerce	4.3	5.2	6.4	6.6
Treasury	9.6	13.7	15.2	17.4
Attorney General	0.1	0.2	0.2	0.2
Education	54.2	63.1	72.0	88.1
Health and Social Security	33.7	42.3	54.7	62.3
Culture, Tousism and Information	2.4	3.5	4.4	5.0
Labor	8.2	9.9	11.5	13.2
Communications, Public Works and Transport	58.5	95.7	124.9	106.5
Natural Resources	42.0	55.0	59.6	80.3
Public Debt Amortization and Interest	47.3	56.3	66.7	84.3
Other	5.7	13.8	16.9*	26.0**
TOTAL EXPENDITURES	312.8	415.9	502.2	568.4
INCREASE OVERALL		33%	21%	13%

* Includes $3 million budgeted for the National Electoral Census.

** Includes $2 million budgeted for the National Electoral Tribunal.

Source: Ministry of Finance, Presupuesto por Programas, 1977, 1978 and 1979; Records of the General Directorate of the Budget, for 1980.

Table No. 3
Honduras: Summary Balance of Payments
(In Millions of U.S. Dollars)

	1976	1977	Prel. 1978	Est. 1979	Project. 1980
Goods, Services, and Transfers	-111.5	-134.0	-212.4	-258.7	-235.4
Exports, f.o.b.	406.2	522.2	615.7	678.9	870.0
Imports, c.i.f.	-469.9	-598.7	-765.0	-865.7	-1020.5
Services, net	-61.2	-71.7	-79.6	-90.0	-103.4
Transfers, net	13.4	13.2	16.5	19.0	18.5
Capital Movements	137.4	198.8	227.4	281.3	294.0
Private Capital	52.6	79.3	90.0	100.0	115.0
Official Capital	64.6	73.0	101.6	142.3	135.0
Financial Intermediaries	20.2	46.5	35.8	39.0	44.0
Net Errors and Omissions	-2.7	-18.1	*	*	*
Net International Reserves (increase -)	-23.2	-46.7	-15.0	-22.6	-58.6

* Included in private capital movements.

Source: 1976, 1977, 1978, International Monetary Fund Consultation Paper No. SM/79/17, January, 1979, p. 20; 1978, 1979, 1980, derived

Annex C. (page 4)

Table No. 4

KEY ECONOMIC INDICATORS: HONDURAS

All figures in million US$ unless otherwise stated.

Exchange rate as of February 1980 US$1.00 = Lempiras 2.00 (Since 1931)

ITEM	1977 (Final)	1978 (Final)	1979 (Prelim)
ECONOMIC GROWTH			
GNP at Current Prices	1,483	1,741	2,067
Per Capita GNP at Constant 1977 (US$)	410	428	443
Population (1,000) (mid-year)	3,318	3,439	3,564
MONEY, PRICES AND FINANCE			
CENTRAL GOVERNMENT:			
Current Revenues	234	272	313
Current Expenditures	205	236	275
Capital Expenditures	98	149	162
Deficit	69	113	124
Money Supply	205	237	272
Public Debt Outstanding (Central Government)	381	498	629
Domestic Debt	139	181	212
External Debt (Central Government)	242	317	417
Public Debt as % of Current GNP	26	29	30
Consumer Price Index (1966 - 100)*	172	184	215
BALANCE OF PAYMENTS			
Net International Reserves (Consolidated Banking System)	111	136	118
Net International Reserves (Central Bank)	148	157	180
Current Account Balance	-134	-212	-259
Debt Service Ratio (% Export Goods & Services)	6.1	7.0	9.5
Total Exports (F.O.B.) Goods and Services	522	615	679
Bananas	130	141	200
Coffee	168	211	197
Lumber	47	42	42
Refrigerated Meat	22	39	57
Metals	32	31	45
Total Imports (F.O.B.) Goods & Services	670	845	955
Imports of Goods (C.I.F.) from U.S.	249	291	340
Trade with CACM			
Exports (F.O.B.)	43	49	55
Imports (C.I.F.)	71	97	113
Deficit	28	48	58

* As of December each year.

SOURCE: Central Bank of Honduras and USAID estimates. from IMF and Central Bank of Honduras.

Annex D. Special Efficiency Measures

1) Phaseout of AID missions where country programs are no longer necessary or desireable This measure does not seem to be relevant to Honduras in the CDSS period given the USG's political and regional security interests here and the country's situation as the second poorest in Latin America.

2) Enhanced Use of Intermediaries. There is room for even greater use of this measure, and we have plans to do so. In particular, our use of Peace Corp Volunteers and intermediaries specialized in fertility control programs should be rising substantially. However, we doubt that it will be possible just to turn over resources to any other institution to conduct activities which are central to our concerns or of such size or nature that the GOH seems them as of consequence to its development plans. The GOH will expect AID to be a full partner in the conduct of such activities, and will want to be able to deal with the USG on them. This will be particularly true under the sector approach. Thus we should expect the use of intermediaries to be most useful for experimental, smaller efforts and to respond to those targets of opportunities that complement any overall program no matter how well planned. Furthermore, we do not see this measure as a way to save any important amount of staff time since dealing with a considerable number of activities even relatively small in scope is time consuming and all the more so to the extent that newer, less experienced PVOs become involved. Furthermore, the use of Peace Corp Volunteers in activities which AID is assisting is likely to be in lieu of contracted technical advisors rather than of direct AID staff. Since our Agriculture Sector Program already is underway we doubt that work on its implementation will prove to be suitable for a Title XII approach.

3) Reduce project proliferation and the number of management units by developing projects of larger average size. This measure seems to present a conflict with a thorough going sector approach. For instance, in the sectoral analysis preceeding the current Agriculture Sector II program more than eleven distinct major activities were identified as being essential for achieving significant and comprehensive improvement in the performance of the sector and not likely to be attended adequately by other assistance agencies of the GOH without AID assistance. The number of activities was limited to eleven for management reasons, but even then the sector undertaking is complicated and demanding. Certainly it would not have been possible just to spend more on a couple of aspects and still claim to have a sector program. We should expect the analyses of the health and regional/urban sectors to give similar results. In other types of projects this measure can be applied within the limits set by the absorptive capacity of the cooperating entities over the usual three to five year life of projects. The Mission has started to do this in its impact program of FY1980, and will continue to do so in the CDSS period principally through larger amounts to credit programs under the proposed projects for cooperatives, agrarian reform, and rural technology expansion.

4) Replicate successful projects using more local management. This is a promising measure for use in Honduras. We have done precisely this in the Municipal Development II project in FY1980. We anticipate that by the CDSS period we shall be able to expand substantially the rural technologies activity and transfer much of the responsibility for its conduct to the Honduran entities involved. Other candidates for this

treatment are rural access roads and trails, rural electrification, additional rural school construction and practical training outreach, and the afforestation programs. However, we estimate that this measure will not have a substantial effect on our staffing needs until the latter years of the CDSS period.

5) Increase the use of sector support. As we mentioned above, the sector approach in itself does not mean that AID would be engaged in fewer or less complicated activities. Furthermore, if well done the approach requires extensive analytical work in close cooperation with and at the pace of the local government. That implies reliance on seasoned direct hire staff. Still, to the extent that the sector analyses identifies policy changes which in themselves would bring about improvements in the life for the target group and to the extent that activities in support of those changes can in fact be carried out by the local government without the need for extensive participation by AID this approach should be able to save on AID staff time. From our experience in Honduras we can not yet conclude that the sector approach is likely to encounter either of those happy conditions. Perhaps over time it will turn out that is has, but it would not be safe to plan on it now.

6) Concentrate country programs in a limited number of sectors. This measure could permit some economizing of staff resources. However, given the relatively small economy and the limits on the absorptive capacity of any one institution, or sector for that matter, its use in Honduras could well prevent our being able to provide the level of resources to Honduras which our overall interest in the country appears to call for. Thus, this CDSS proposes that AID be directly active in the sectors of agriculture, health and nutrition, education and urban and regional development and in the problem areas of energy and appropriate technology. The work involved will be somewhat more manageable than it might seem by the phased scheduling of sectoral analyses and major undertakings. The basic analytical work in agriculture was done during FY1978 and FY1979; that in health and nutrition is being done in FY1980; that in regional and urban development in FY1980 and FY1981; and that in education in FY1981 and FY1982. Thus in most of the CDSS period emphasis will be able to be placed on the implementation of the consequences of the analyses and filling in the gaps that are always left from the first sectoral cuts. These too can be phased. Still the undertaking is ambitious, and we seriously doubt that it will permit a reduction in the level of staffing here. Our proposals respond to the USG's high level of interest in Honduras, and we do not want to overestimate our ability to meet that challenge with inadequate personnel resources.

7) Concentrate program geographically within countries. Given Honduras' relatively small size and the fact that we already have undertaken activities in all the major regions and that by its nature the sector approach is aimed at comprehenssive nationwide policies and programs, we do not see that it is useful here to try for a regional focus. Of course, to the extent practical we shall try to have our various activities reinforce each other. For instance, following Hurricane Fifi, AID resources were concentrated in the affected area, and road reconstruction, school building, agricultural credit, low cost housing and small town repair programs helped the North Coast to bounce back quickly.

8) Establish complementary and mutually reenforcing relationships with other donors. There is no question that this measure is

useful, and should be followed to the maximum practical extent. There are monthly meetings of the resident heads of the various assistance programs operating in Honduras, and a representative of the IBRD from Washington has begun to attend these meetings as well. Informal contacts at the sector and technical level are frequent. Programing and economic missions from the multilateral agencies usually make direct contact with us. All of this helps prevent conflict and misunderstanding. Thus the rural roads, rural water and sanitation and rural education programs of the IBRD, the IDB and AID are able to follow different geographic foci and complementary emphases on various overall aspects such as technical advice and maintenance administration. Then too, AID was given the lead in overall sector work in agriculture and health and probably will be given that lead in urban/regional development and rural education. However, not much progress has been made in using analytical work of one agency as the basis for actual project preparation by another. The differing timing of the projects and the tendency of each agency to want its own system to prepare the analyses and to limit the analyses to the immediate needs of its proposed projects have stood in the way. In the preparation of our Afforestation Project for FY1981 we shall attempt to prepare an analysis which might be suitable for use by other financing agencies as well and in turn we shall seek to use the work of the IDB and the OAS in the preparation of our proposed project in Rural Water and Sanitation.

9) Fully exploit increasing host-country analytical and managerial capabilities. We have started to do this. The Agriculture Sector Assessment completed last year and the Health Sector and the Regional/Urban Sector Assessments currently underway rely heavily on participation by Honduran public and private groups. The second Municipal Development project treats the implementing agency as a full intermediate credit institution. The implemetation of the Agriculture Sector II program relies much more heavily on the Honduran entities involved to monitor and assume responsibility for the proper handling of funds. The FAR system is being used in the current school building program, and probably will be followed in the future for such activities. Nevertheless, we should not expect too much from this measure in Honduras whose human resource base--especially in the public sector--is not yet very strong and in which the careful handling of funds can not be assumed to be the rule.

10) Increase life of project funding. In so far as funds are available this is easily done.

11) Streamline project approval procedures. This Mission has authority to authorize projects up to $5 million, after approval of the PIDs, and OPGs up to $500,000. We have not found the project approval process to be an important limitation on our ability to perform properly except in the case of small activities which are not large enough to be given full project treatment but do not fit within the purposes of PD&S funding. We have proposed that a project be prepared under which certain development administration improvement activities could be authorized by the Mission without full project appraisal and preparation so that we could be more agile in responding to targets of opportunity--especially in fields not directly related to our sectoral programs.

ANNEX E

COMMONLY USED ACRONYMS -- HONDURAS

AGAS	Asociacion de Ganaderos y Agricultores de Sula (Cattlemen and Farmers of Sula Association)
AHPF	Asociacion Hondurena de Planificacion de Familia (Honduran Family Planning Association)
AID	U.S. Agency for International Development
ALIPO	Alianza Liberal del Pueblo
ANACH	Asociacion Nacional de Campesinos de Honduras (Honduran National Peasant Association)
ANDI	Asociacion Nacional de Industriales (National Industrialists Association)
APH	Asociacion de Prensa Hondurena (Honduran Press Association)
ASHONPLAFA	See AHPF
BANAFOM	Banco Nacional de Fomento (National Development Bank)
BANCAHSA	Banco Capitalizadora Hondurena, S.A.
BANCATLAN	Banco Atlantida
BANCOMER	Banco del Comercio
BANFINAN	Banco de la Financiera Hondurena
BANMA	Banco Municipal Autonomo
BCIE	Banco Centroamericano de Integracion Economica [Central American Bank for Economic Integration (CABEI)]
BID	Banco Interamericano de Desarrollo [Interamerican Development Bank (IDB)]
BNF	See BANAFOM
CABEI	Central American Bank for Economic Integration
CACM	Central American Common Market
CAR	Comision Agricola Regional (Regional Agricultural Commission)
CARA	Comision Asesora Regional Agricola (Regional Agricultural Advisory Commission)
CARE	Cooperative for American Relief Everywhere, Inc.
CDSS	Country Development Strategy Statement
CEDEN	Comite Evangelico de Desarrollo y Emergencia Nacional (Evangelical Committe for Development and National Emergency)
CENADIH	Centro de Adiestramiento del Ministerio de Hacienda (Ministry of Finance Training Center)
CGT	Confederacion General de Trabajadores (General Workers Confederation -- Christian Democrat)
CIDA	Canadian International Development Agency
CIM	Comision Interamericana de Mujeres (Interamerican Women's Commission)
CLASC	Confederacion Latinoamericana Sindical Cristiana (Latin American Christian Labor Confederation)
CMDC	Consejo Metropolitano del Distrito Central (Metropolitan Council for the Central District)
CTH	Central de Trabajadores Hondurenos
COHBANA	Corporacion Hondurena del Banano (Honduran Banana Corporation)
COHDEFOR	Corporacion Hondurena de Desarrollo Forestal (Honduran Forestry Development Corporation)
COHEP	Consejo Hondureno de la Empresa Privada (Honduran Council for Private Enterprise)

COLPROSUMAH	Colegio Profesional de Superacion Magisterial Hondureno (Honduran Teachers Union)
CONADI	Corporacion Nacional de Inversiones (National Investment Corporation)
CONARA	Comite Nacional de Reforma Agraria (National Committee for the Agrarian Reform)
CONCORDE	Consejo de Coordinacion para el Desarrollo (Coordination Council for Development)
CONSUPLANE	Consejo Superior de Planificacion Economica (Superior Council for Economic Planning)
COPEHM	Colegio de Profesores Hondurenos de Educacion Media
COPEN	Consejo Permanente de Emergencia Nacional (Permanent Council for National Emergencies)
CORFINO	Corporacion Financiera de Olancho (Financial Corporation of Olancho)
CPA	Comision de Politica Agricola (Agricultural Policy Commission)
CRS	Catholic Relief Services
CSJ	Corte Suprema de Justicia (Supreme Court of Justice)
CURLA	Centro Universitario del Litoral Atlantico (La Ceiba) (University Center for the Atlantic Coast)
CURN	Centro Universitario del Norte (San Pedro Sula) (University Center for the North)
DGT	Direccion General de Transito (General Directorate of Traffic)
DIFOCOOP	Direccion de Fomento Cooperativo (Directorate for Cooperative Development)
DNI	Direccion Nacional de Investigaciones (National Directorate of Investigations)
EAP	Escuela Agricola Panamericana (Pan American Agricultural School)
EDUCREDITO	Credito Educativo (Educational Credit)
EFF	Extended Funding Facility of the International Monetary Fund
ENA	Escuela Nacional de Agricultura (National Agricultural School)
ENEE	Empresa Nacional de Energia Electrica (National Electric Co.)
ENP	Empresa Nacional Portuaria (National Port Authority)
FACACH	Federacion de Cooperativas de Ahorro y Credito de Honduras, Ltda. (Savings and Credit Cooperative Federation)
FAH	Fuerza Aerea Hondurena (Honduran Air Force)
FASH	Federacion Autentica de Sindicalistas de Honduras (Authentic Federation of Honduran Workers)
FECESITLIH	Federacion Central de Sindicatos de Trabajadores Libres de Honduras (Central Federation of Free Workers of Honduras)
FECOAGROH	Federacion de Cooperativas Agricolas de Honduras (Honduran Agricultural Cooperative Federation)
FEHCOVIL	Federacion Hondurena de Cooperativas de Vivienda, Ltda. (Honduran Federation of Housing Cooperatives)
FENAGH	Federacion Nacional de Agricultores y Ganaderos de Honduras (National Federation of Honduran Farmers and Cattlemen)
FES	Federacion de Estudiantes Socialistas
FESITRANH	Federacion de Sindicatos de Trabajadores Nacionales de Honduras (Honduran Federation of National Workers' Labor Unions)
FEUH	Federacion de Estudiantes Universitarios de Honduras (Honduran Federation of University Students)
FICENSA	Financiera Centroamericana, S.A.

FINANSA	Financiera Industrial Agropecuaria y Comercial, S.A.
FINAVI	Financiera Nacional de la Vivienda
FFAA	Fuerzas Armadas de Honduras (Honduran Armed Forces)
FONDETUR	Fondo de Desarrollo Turistico (Tourism Development Fund)
FUNHDESA	Fundacion Hondurena de Desarrollo
FUSEP	Fuerza de Seguridad Publica
FUUD	Frente Unido Universitario Democratico
FRU	Frente de Reforma Universitaria
GOH	Government of Honduras
GDP	Gross Domestic Product
HIG	Housing Investment Guaranty
HONDUTEL	Empresa Hondurena de Telecomunicaciones
IADSL	Instituto Americano para el Desarrollo del Sindicalismo Libre [American Institute for Free Labor Development (AIFLD)]
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Association of the IBRD
IDB	Interamerican Development Bank
IFIC	Instituto de Formacion e Investigacion Cooperativista (Institute for Cooperative Research and Training)
IHCAFE	Instituto Hondureno del Cafe (Honduran Coffee Institute)
IHCI	Instituto Hondureno de Cultura Interamericana (Binational Center USICA)
IHMA	Instituto Hondureno de Mercadeo Agricola (Honduran Institute for Agricultural Marketing)
IHSS	Instituto Hondureno de Seguridad Social (Honduran Social Security Institute)
IHT	Instituto Hondureno de Turismo (Honduran Tourism Institute)
IICA	Instituto Interamericano de Ciencias Agricolas (Interamerican Institute for Agricultural Sciences)
IMF	International Monetary Fund
INA	Instituto Nacional Agrario (National Agrarian Institute)
INCAP	Instituto de Nutricion para Centro America y Panama (Regional Headquarters Guatemala)
INFOP	Instituto Nacional de Formacion Profesional (National Institute for Vocational Training)
INVA	Instituto Nacional de la Vivienda (National Housing Institute)
JNBS	Junta Nacional de Bienestar Social (National Social Welfare Board)
MNR	Ministerio de Recursos Naturales (Ministry of Natural Resources)
OAS	Organization of American States
OEA	Organizacion de Estados Americanos
OISH	Organizacion de Inspectores de Salud de Honduras
OPEC	Organization of Petroleum Exporting Countries
PADCO	Planning and Development Collaborators
PANI	Patronato Nacional de la Infancia
PC	Penitencieria Central (Central Penitenciary)
PC	Peace Corps
PCH	Partido Comunista de Honduras
PDC	Partido Democrata Cristiano (Christian Democrat Party)
PINU	Partido de Innovacion y Unidad
PLH	Partido Liberal de Honduras

PNIA	Programa Nacional de Investigacion Agropecuaria (National Agricultural Research Program)
PNH	Partido Nacional de Honduras
PNUD	Programa de las Naciones Unidas para el Desarrollo
PREDIA	Programa de Rehabilitacion y Diversificacion Agricola, FAO
PRICMAH	Primer Colegio Magisterial Hondureno (First Honduran Teachers Union)
PROCCARA	Programa de Capacitacion Campesina para la Reforma Agraria (Agrarian Reform Training Program)
PRONAEE	Programa Nacional de Educacion Extraescolar (National Program for Non-Formal Education)
PSA	Programa de Salud Animal
PVO	Private Voluntary Organization
SANAA	Servicio Autonomo Nacional de Acueductos y Alcantarillados
SAPLAN	Sistema de Analisis y Planificacion de Alimentacion y Nutricion
SECOPT	Secretaria de Estado en el Despacho de Comunicaciones, Obras Publicas y Transporte
SECTUR	Secretaria de Cultura y Turismo
SITRATERCO	Sindicato de Trabajadores de la Tela Railroad Company
SNEM	Servicio Nacional de Erradicacion de la Malaria (National Malaria Erradication Service)
SUTRASFCO	Sindicato Unido de Trabajadores de la Standard Fruit Company
UN	United Nations
UNDP	United Nations Development Program
USG	United States Government