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**IDENTIFYING POVERTY GROUPS IN HONDURAS:  
Some Preliminary Estimates and Scenarios.**

May 1990



**Sigma One Corporation**

**RESEARCH TRIANGLE OFFICE:**

**Sigma One Corporation  
Post Office Box 12836  
Research Triangle Park,  
North Carolina 27709-2836**

**Phone: (919) 361-9800**

**FAX: (919) 361-5858**

**Telex: 490-000-8487 CGI UI**

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152 68437

**IDENTIFYING POVERTY GROUPS IN HONDURAS:  
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**by:**

**Ralph Franklin**

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## **IDENTIFYING POVERTY GROUPS IN HONDURAS: Some Preliminary Estimates and Scenarios.**

### **1.0 Introduction**

The purpose of this report is to assess, with data currently available in Honduras, which population groups might be in need of a targeted food or income transfer program in light of the economic reforms currently being implemented in Honduras. These findings are based on a World Bank/IDB/AID one week mission to Honduras at the end of April 1990. This site visit was coordinated by the World Bank's Regional Unit for Technical Assistance (RUTA), in San Jose, Costa Rica. This report is one of five preliminary reports generated by this mission.

This report borrows heavily from prior work carried out in Honduras by Sigma One Corporation (D. Franklin et. al., 1988; D. Franklin and Parillon, 1989; and C. Parillon and R. Franklin, 1990) similar work in Panama (D. Franklin et. al. 1985), Peru (Harrell et. al. 1989) Guatemala (Franklin, 1989) the United States (Harrell et. al., 1985) and more specifically El Salvador (Youngblood et.al. 1989) where similar data was available. This work complements the work currently being undertaken by the Secretaria de Planificacion, Coordinacion y Presupuesto (SECPLAN), the United Nations (UNDP) and International Labor Organization (ILO) in supporting a Permanent System of Multiple Purpose Household Surveys (Encuesta Permanete de Hogares de Propositios Multiples-EPHPM (SECPLAN/Direccion General de Estadistica y Censos)) SECPLAN/ILO/UNDP project HON/87/P02, and employment and poverty levels study carried out by Rafael Diez de Medina (Diez de Medina,1990 a,b.) during the first quarter of this year.

### **1.1 Objectives and Presentation**

This report sets out to measure and locate major pockets of poverty in Honduras and make a rough estimate of the population in extreme poverty as classified by their participation in the Honduran economy. Groups at risk of being extremely poor are identified and population size are estimated. The ability of each group to purchase a nutritionally adequate food basket was used to determine whether that group was likely to contain a large number of extremely poor people. A simple methodology was used to measure possible effects of the policy reforms; estimates are made of the current situation with regard to location and number

of people likely to be at risk of extreme poverty. Section 2 presents the methods used to identify and enumerate the poorest groups in Honduras. In section 3, scenarios are developed and results discussed. Based on these findings, several recommendations are made in section 4.

## 1.2 Statement of Problem

The possibility that a devaluation can have contractionary effects as long been recognized<sup>1</sup>. Yet, the differential effects of structural adjustment programs on the incomes of different groups in the population have only recently begun to receive more attention<sup>2</sup>. Some groups will benefit and others will lose; the net effect on a particular group will depend on many factors. These include the sector of employment, occupation, geographic location, the endowment of human capital, and mobility of productive factors owned by the group.

Jolly (1985) points out that structural adjustment policies have tended to have disproportionately negative effects on the health and nutrition of poor people in underdeveloped countries, particularly children. If these effects were taken into account in the design of these programs, many negative effects on the poor could be alleviated. This would ease the implementation of a reform program. To do this requires a careful analysis that identifies who the poor are, where they live and their size. This would help insure that in the medium- to long-run the poor benefit from the structural adjustment program. It is extremely important that the efforts taken to moderate the negative effects of structural adjustment programs on poor households not become barriers that prevent the objectives of the program from being met. Two additional points, it is very important that the measures taken to reduce possible adverse effects of a reform program not become viewed as entitlements but as short-term, transitional assistance; and that beneficiary groups be monitored as the reform process is carried out, so that as these groups shift, programs that address poverty can be adjusted as necessary.

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<sup>1</sup>Lizondo and Montiel (1989) survey the analytical literature on contractionary devaluations.

<sup>2</sup>See, for example, Heller, et al. (1988) and the IMF (1986).

Honduras has many food aid programs targeted principally at maternal-child health, school feeding, and food for work. Many interventions in the food systems of Honduras are also implemented through the actions of the Instituto Hondureño de Mercadeo Agrícola (IHMA) and via price controls, both of which attempt to maintain the prices of certain foods below their market clearing values.

In the past, food prices have been artificially depressed because of these direct interventions as well as the indirect effect of macroeconomic policies (Franklin et. al. 1988). Two elements of the current reforms have been a devaluation of the Lempira and a reduction in some tariffs. This should help eliminate implicit and explicit subsidies to food prices. Therefore, food prices are expected to rise.

Due to these considerations, the reforms in Honduras have raised concerns that the food security of the poorest segments of the population might be adversely affected. These concerns are particularly acute, since food expenditures represent the bulk of total expenditures of the poor. To moderate the effects of these price increases on the poorest people, alternative proposals have been made regarding targeted food programs, including a food stamp program. With any assistance mechanism there are problems with: program coverage, identification of beneficiaries, operational aspects such as problems with transport and storage, and lack of coordination among the institutions involved. There has also been concern and criticism that high levels of food assistance could create disincentives for food production and probably adversely affect the performance of the economy. Given experience that the country has had with food assistance programs, it is not surprising that there is considerable interest in exploring whether a targeted food program could be used to support the economic reforms by creating a safety net for the poor. The central issues are will assistance be needed and to whom should assistance be targeted.

## **2.0 Defining the Poverty Groups**

This section describes the techniques used to identify and characterize the poverty groups in Honduras. The population groups defined to be poor were determined by comparing the cost of a basic food basket with the reported per capita household income for persons in that group. This methodology was first developed by Joy and Paine (1975) and was used in Central America by Valverde (1978).

## **2.1 Identification of the Poverty Groups**

The number of people likely to be extremely poor in Honduras was estimated for groups identified according to their occupation and economic sector. This classification was performed for Tegucigalpa, San Pedro Sula, the rest of the urban areas (as defined for EPHPM) and the rural areas. These data were used to compute the likelihood that a person in a given group would be extremely poor.

### **2.1.1 Basic Food Basket**

The basic food basket used by SECPLAN's department of nutrition was used to determine the food basket cost income criteria, reported in Tables 1 and 2. These hypothetical baskets reflect a Honduran food consumption pattern to a good degree and meet the nutritional requirements of the population while also taking into account the differences in the composition of the urban and rural diets.

Since the data on household per capita income is from september 1988, the food basket cost used was that of the 1988 basic food basket. That is L/. 2.59 for the urban areas and L./ 1.82 for the rural areas. It is important to note that there is a need for a more appropriate basic food basket that is based on a more current Household Income and Expenditure Survey, perhaps one that also includes a 24 hour recall food consumption sub-sample. Ideally a nutritionally adequate, least cost diet which follows the consumption pattern of the population could be determined from household budget survey data by finding the lowest income (expenditure) cut at which households have a nutritionally adequate diet.

Following the lead of the United Nations Economic Commission for Latin America (ECLA) and the World Health Organization (WHO), researchers throughout Latin America have used this concept of the cost of a basic food basket to establish poverty levels. This concept establishes a monetary criterion for poverty, defined as the amount of income necessary to purchase a basket of basic needs, which includes food, clothing, shelter, etc. In this study, extreme poverty is said to exist if households would have to spend more than 70 percent of their income on the basic food basket, thereby leaving only 30 percent to fulfill their other wants. To test the sensitivity of the data to the costs of alternative food baskets (Basic Food Basket and the Minimum Food Basket) are used to test the sensitivity of the data to the income criteria.

Table 1. Basic Food Basket by Urban and Rural Residence: Honduras 1988.

CANASTA BASICA DE ALIMENTOS  
(Cálculos Percápita Diarios)  
1988  
Cantidades en Gramos y costo en Lps.

ALIMENTOS	URBANA		RURAL		NACIONAL	
	CANTIDAD	COSTOS	CANTIDAD	COSTOS	CANTIDAD	COSTOS
<b>PRODUCTOS LACTEOS</b>						
Crema	16	0.133	2	0.065	10	0.083
Leche Fluida	148	0.141	129	0.122	105	0.099
Queso	36	0.242	22	0.152	38	0.262
<b>HUEVOS</b>						
	33	0.135	33	0.135	33	0.135
<b>CARNES</b>						
Res	62	0.711		0.375		0.519
Cerdo	27	0.274	24	0.114	48	0.228
Aves	17	0.180	23	0.153	24	0.160
pescado	17	0.075	14	0.062	12	0.053
	25	0.162	7	0.046	12	0.070
<b>FRIJOLES ROJOS</b>						
	49	0.127	75	0.195	52	0.161
<b>VERDURAS</b>						
locote		0.107		0.105		0.105
Falaste	38	0.042	19	0.021	19	0.021
Repollo	19	0.027	23	0.032	23	0.032
	38	0.038	52	0.052	52	0.052
<b>FRUTAS</b>						
Naranja		0.073		0.025		0.085
Otras	33	0.070	41	0.025	41	0.025
	37	0.073	37	0.050	32	0.060
<b>BUSACEAS</b>						
Piñano		0.045		0.052		0.053
Banano	39	0.023	57	0.034	60	0.036
	78	0.023	60	0.018	57	0.017
<b>RAICES Y TUBERCULOS</b>						
Papas		0.033		0.024		0.024
Yuca	10	0.077	10	0.015	10	0.015
	10	0.006	15	0.009	15	0.009
<b>CEREALES</b>						
Arioz		0.563		0.325		0.464
Miz/Tortillas	46	0.027	44	0.021	41	0.028
Pan	232	0.116	279	0.140	225	0.112
	75	0.360	21	0.101	57	0.274
<b>AZUCAR</b>						
Azúcar Blanca		0.060		0.021		0.071
Fanela	50	0.060	29	0.035	40	0.048
			10	0.016	5	0.023
<b>GRASAS</b>						
Aceite		0.109		0.056		0.087
Manteca Vegetal	3	0.014			3	0.014
Manteca Cerdo	29	0.097	22	0.055	25	0.059
	2	0.007			1	0.004
<b>NICELANEAS</b>						
Café		0.086		0.040		0.040
	19	0.086	9	0.040	9	0.040
<b>TOTAL</b>		<b>2.591</b>		<b>1.823</b>		<b>2.108</b>

Table 2. Minimum Food Basket by Urban and Rural Residence: Honduras 1988.

CANASTA MINIMA DE ALIMENTOS  
(Cálculos Percipilos Diarios)  
1988  
Cantidades en Gramos y costo en Lps.

ALIMENTOS	URBANA		RURAL		NACIONAL	
	CANTIDAD	COSTOS	CANTIDAD	COSTOS	CANTIDAD	COSTOS
PRODUCTOS LACTEOS		0.471		0.309		0.357
Crema	14	0.116	7	0.058	8	0.056
Leche Fluida	134	0.127	17	0.111	128	0.112
Queso	33	0.728	19	0.131	26	0.179
HUEVOS	29	0.119	30	0.123	29	0.119
CARNES		0.635		0.533		0.405
Res	56	0.266	22	0.103	33	0.158
Cerdo	24	0.160	20	0.133	22	0.117
Aves	15	0.066	12	0.053	11	0.046
pescado	22	0.143	7	0.046	8	0.052
FRIJOLES ROJOS	45	0.117	57	0.174	67	0.174
VERDURAS		0.077		0.098		0.096
Total	36	0.042	19	0.021	19	0.021
Palastle	12	0.017	23	0.032	19	0.027
Repollo	36	0.038	43	0.043	48	0.049
FRUITS		0.020		0.077		0.072
Naranja	33	0.020	37	0.022	37	0.022
Otras	32	0.030	29	0.055	29	0.055
MUSACEAS		0.013		0.041		0.047
Plátano	35	0.022	50	0.033	54	0.032
Banano	69	0.021	51	0.016	50	0.015
RAICES y TUBERCULOS		0.029		0.023		0.027
Papas	16	0.024	10	0.015	13	0.020
Yuca	9	0.005	13	0.003	11	0.007
CEREALES		0.505		0.283		0.347
Arroz	41	0.078	40	0.076	37	0.070
Malt/Tortillas	210	0.105	251	0.125	217	0.109
Pan	67	0.322	19	0.091	35	0.168
AZUCAR		0.054		0.077		0.047
Azúcar Blanca	45	0.054	26	0.031	35	0.042
Panela			10	0.046		
GRASAS		0.079		0.060		0.072
Acelle	3	0.011				
Manteca Vegetal	26	0.078	20	0.060	21	0.071
Manteca Cerdo	2	0.007				
MICELANEA		0.077		0.036		0.036
Café	17	0.077	8	0.036	8	0.036
TOTAL		7.320		4.641		4.799

FUENTE: Departamento de Nutrición de SECCPLAN

### 2.1.2 Classification of Poverty Groups

Estimation of the likelihood that a person in a particular group would be extremely poor was conducted in three steps. First, the average per capita income for each group is determined for each area and for each economic and occupational group. Second, a poverty index was formed in which this income was compared to the cost of the basic food basket from Section 2.1.1; the value of the index was assumed to be the mean of the distribution of incomes from which the probability that an individual in that group would be extremely poor was calculated. Third, the number of extremely poor persons was calculated by multiplying this probability by the population of each group. This analysis was conducted for Tegucigalpa, San Pedro Sula, the other urban areas of the country and rural areas.

Average household per capita total reported income for each group in each area was taken from raw data from the EPHPM survey by SECPLAN's Departamento de Población. These data were collected in September of 1988. The average household size and the number of households for each group in each area was taken from the same data set.

Average household per capita income was presented for the cross of economic sectors with occupational groups: The economic sectors were: (1) agriculture; (2) mining; (3) industry; (4) public utilities; (5) construction; (6) commerce; (7) transportation and communication; (8) finance; (9) personal services; and (0) Other (activities that were not well specified). The occupational groups were: (1) professionals; (2) managers; (3) office workers; (4) farmers/ranchers; (5) transport workers; (6) workers (trade) (i.e., textile workers, mechanics, electricians etc.); (7) workers (craft) (i.e. graphic arts, food processing, leather works, ceramics etc.); (8) laborers (i.e., stevedores, warehouse workers etc.); and (9) services.

There were a number of households for which the economic sector was classified as "not clearly specified" and whose heads of household occupation group was listed as professionals; their incomes and number were inconsistent with the rest of the households whose heads claimed to be professionals. This group was excluded from the analysis. The names of the groups in this analysis used the 1988 EPHPM naming convention with some modification the group names though are in appendix A . They are still based on the International Uniform Industrial Classification System for economic sectors and the International Uniform Occupational Classification System for occupations. To a large extent, the names are self explanatory. It should be noted that this analysis could be performed at a higher level of

disaggregation given that the sectors and occupation codes are currently presented for the first digit of a four digit code. This identification could be further enhanced by the use of additional socio-economic and demographic characteristics such as, those related to nutritional status, health, education, access to water, sanitation, education, and other important indicators of the conditions of living for the households involved.

There were 99 possible sector/occupation groups for each urban and rural areas. Groups for which no workers were reported in the EPHPM were dropped from the analysis. In the next step of the analysis, the average per capita income for each group was compared to the cost of the basic food basket. If 70 percent of that income was less than the cost of the food basket, then the average person in that group was defined to be extremely poor. That is, the condition:

$$0.7(\overline{YPC}_{ijk}) < C_i \quad \text{or, equivalently,}$$

$$0.7(\overline{YPC}_{ijk})/C_i < 1 \quad (2.1)$$

$\overline{YPC}_{ijk}$  = Average per capita household income of an individual in the  $i$ th area of residence, the  $j$ th economic sector and  $k$ th occupational group

$i$  = Tegucigalpa, San Pedro Sula, Other Urban Areas and Rural Areas  
 $j$  = 0,...,9 economic sectors  
 $k$  = 0,...,9 occupational groups.

where,

$C_i$  = the per capita cost of the basic food basket for the  $i$ th area is the criterion for extreme poverty for the average person in that group.

This technique is used by the United States Department of Agriculture for assessing the benefit levels for participation in the Food Stamp Program, and by the Office of Management and Budget for monitoring poverty in the United States. For Honduras, the income criterion developed by WHO and ECLA was used as the cutoff for extreme poverty. This criteria differs somewhat with the criteria used by Diez de Medina (1990) in that it uses the equivalent of 1.43 basic baskets as the income criteria in  $(1/.7=1.43)$  thus allowing for 30% of household expenditures to be used for non-food expenditures. Diez de Medina establishes a poverty criteria based on 2 basic baskets for the urban areas and 1.5 basic baskets for the rural areas. In addition he determines a line of "indigence" that is based on

the cost of one basket. For this report, the higher income criteria creates groups that are too large for meaningful targeting. Another difference in methodology focuses on the use of different shares of food consumption for urban and rural dwellers, Diez de Medina uses 50% of expenditures on food for urban dwellers and 75% of expenditures on food for rural dweller. This is one way to compensate for the under reporting of income that occurs for agriculturalists. This is an important consideration which can only be addressed with the better capture of household consumption data and with great care taken not to treat such production as costless to rural households. For this study the 70% consumption pattern has been used for both urban and rural areas. Consideration has been taken for the under reporting of income through the differences in the cost of the urban and rural food baskets.

If we applied this income criterion without further refinement, a value of the index of less than one would cause us to classify an entire group as extremely poor, when in fact the group is only extremely poor on average. Furthermore, finding a value greater than one would cause us to classify the entire group as "not extremely poor," when some individuals in the group would be extremely poor. To get around this problem, we assumed that individual values of the poverty index were distributed around the average value of the index for each group, as given by the left-hand side of the inequality in equation 2.1. That is, we computed the following probability:

$$\text{Prob}\{[0.7(YPC_{ijk})]/C_1 < 1\} = P(I_{ijk} < 1) \quad (2.2)$$

where  $I_{ijk}$  is assumed to have a logarithmic normal distribution with mean given by the left-hand side of the inequality in 2.2 and standard deviation equal to one-third of the mean. The lognormal distribution has been found to be a good characterization of the distribution of low incomes (Cramér, 1971). It captures the skewness of income distribution in poor countries and can be described with a few parameters; the mean and the variance are sufficient. In the future SECPLAN could use direct estimates and actually count the number of households that fall below the income criteria with household data available every six months from the EPIIPM.

In the final stage of the analysis, the number of people in each group who were likely to be extremely poor was calculated by multiplying the group's probability by its population.

At this stage, cells that were sparse in size were eliminated from the analysis. Only groups which had more than 5,000 people in extreme poverty were retained.

## **2.2 Classification Results for 1988**

The results of applying the classification methodology to the September 1988, EPHPM data are presented in Tables 3, 4, 5, 6 and 7. In the rural areas, 13 groups contained a total of 2.04 million extremely poor people. Three of these groups were related directly to the agricultural sector representing 1.7 million people or 83.5% of the rural people in extreme poverty. The prevalence of extreme poverty in the agricultural groups exceeded 80 percent (average probability of being poor in the three groups). Seventy-seven percent (77.1%) of the total rural population was estimated to be living in extreme poverty. The over 2 million people living in rural poverty represented 46.7% of the 1988 population of Honduras.

In the urban areas, 17 groups contained 254 thousand extremely poor people. This represented 5.8% of the national population in 1988. About 22 percent of the urban population was living in conditions of extreme poverty. The bulk (58.6%) of the urban poor were located in the urban areas other than Tegucigalpa and San Pedro Sula.

Poverty groups in Tegucigalpa were workers in construction, services and industry, or were merchants. Most of poor merchants are probably characterized by the small size of their operation and their mobility (i.e. "vendedores ambulantes"). In Tegucigalpa 79,000 people were estimated to be extremely poor, this represents 14.3 percent of Tegucigalpa's 551,606 residence. Poverty Groups in San Pedro Sula were composed of people dependent on service workers, about 9000 skilled industrial sector workers and a small group of service providers. A smaller percentage of people were classified as extremely poor in San Pedro Sula than any other region. Only 9.3 percent of San Pedro Sula's population was extremely poor. To target aid to any group in San Pedro Sula it will be necessary to develop some kind of income criteria and other measures of deprivation such as a lack of a combination of public services.

In the other urban areas of Honduras, merchants represented the biggest single group of poor people, followed by service workers, more skilled construction workers and industrial workers. Approximately 17 percent of the 896,347 people who lived in the urban areas other than Tegucigalpa and San Pedro Sula were classified as extremely poor.

Table 3. Estimates of Extreme Poverty: Honduras 1988.

Tegucigalpa					
Economic Sector	Occupational Group	Group Population 1988	Probability of Being Extremely Poor	Probable Number of Extremely Poor People	POVERTY INDEX 1988
Construction	Workers (Trade)	42,480	.59	25,000	0.98
Services	Services	43,848	.32	14,000	1.22
Industry	Workers (Craft)	27,479	.48	13,000	1.08
Industry	Workers (Trade)	29,280	.40	12,000	1.14
Commerce	Merchants	63,895	.14	9,000	1.50
Financial	Services	6,720	.91	6,000	0.69
		-----		-----	
		213,702	.37	79,000	

Table 4. Estimates of Extreme Poverty: Honduras 1988.

San Pedro Sula					
Economic Sector	Occupational Group	Group Population 1988	Probability of Being Extremely Poor	Probable Number of Extremely Poor People	POVERTY INDEX 1988
Services	Services	17,054	.64	11,000	0.94
Industry	Workers (Trade)	29,611	.32	9,000	1.23
Commerce	Services	7,825	.71	6,000	0.88
		-----		-----	
AREA		54,490	.48	26,000	

Based on cost of a basic food basket and 70% of expenditures on food.

Data Provided by SECPLAN Dept. Poblacion, from the Encuesta Permanente de Hogares de Propositos Multiples, September, 1988.

Table 5. Estimates of Extreme Poverty: Honduras 1988.

Other Urban Areas					
Economic Sector	Occupational Group	Group Population 1988	Probability of Being Extremely Poor	Probable Number of Extremely Poor People	POVERTY INDEX 1988
Commerce	Merchants	69,990	.50	35,000	1.05
Services	Services	34,539	.75	26,000	0.84
Construction	Workers (Trade)	35,696	.63	23,000	0.94
Industry	Workers (Craft)	26,288	.79	21,000	0.81
Industry	Workers (Trade)	24,203	.59	14,000	0.98
Agriculture	Farmers/Ranchers	15,571	.81	13,000	0.79
Commerce	Services	9,875	.95	9,000	0.62
Industry	Laborers	8,811	.94	8,000	0.64
		224,973	.66	149,000	
	AREA				

Based on cost of a basic food basket and 70% of expenditures on food.

Data Provided by SECPLAN Dept. Poblacion, from the Encuesta Permanente de Hogares de Propositos Multiples, September, 1988.

Table 6. Estimates of Extreme Poverty: Honduras 1988.

Rural Areas					
Economic Sector	Occupational Group	Group Population 1988	Probability of Being Extremely Poor	Probable Number of Extremely Poor People	POVERTY INDEX 1988
Agriculture	Farmers/Ranchers	2,047,538	.82	1,686,000	0.78
Commerce	Merchants	115,935	.94	109,000	0.64
Industry	Workers (Craft)	70,119	.95	67,000	0.61
Services	Services	61,172	.98	60,000	0.53
Construction	Workers (Trade)	52,652	.71	37,000	0.88
Industry	Workers (Trade)	28,906	.81	23,000	0.79
Commerce	Farmers/Ranchers	13,377	.98	13,000	0.53
Industry	Laborers	11,775	.95	11,000	0.63
Services	Workers (Trade)	17,204	.55	10,000	1.01
Industry	Farmers/Ranchers	13,219	.57	8,000	0.99
Commerce	Services	12,582	.63	8,000	0.94
Commerce	Workers (Craft)	6,324	.87	6,000	0.73
Transportation	Transport Workers	20,062	.31	6,000	1.23
	AREA	2,470,865	.83	2,044,000	

Based on cost of a basic food basket and 70% of expenditures on food.

Data Provided by SECPLAN Dept. Poblacion, from the Encuesta Permanente de Hogares de Propositos Multiples, September, 1988.

Table 7. Summary of the Distribution of Population in Extreme Poverty: Honduras, 1988.

Area	Population	Population in Extreme Poverty	Percent of Population in Extreme Poverty
Tegucigalpa	551,606	79,000	14.3%
San Pedro Sula	279,356	26,000	9.3%
Other Urban Areas	896,347	149,000	16.6%
Rural	<u>2,651,530</u>	<u>2,044,000</u>	<u>77.1%</u>
Total	4,378,839	2,298,000	52.5%

Based on cost of a basic food basket and 70% of expenditures on food.

Data Provided by SECPLAN Dept. Poblacion, from the Encuesta Permanente de Hogares de Propositos Multiples, September, 1988.

The pattern of poverty groups changes in each of the urban areas, this suggests that different kinds of programs will be needed in each area.

The prevalence of poverty in urban groups is much lower than the prevalence of poverty in rural groups. The percent of the population in extreme poverty by area of residence are: Tegucigalpa 14.3%, San Pedro Sula 9.3%, Other Urban Areas 16.6% and in the rural areas 77.1%. The relative difference between Tegucigalpa and the rural sector are in keeping with other data, such as data from National Health and Nutrition Survey of 1987 which suggest that the relative risk of being a malnourished child is four times higher in the rural areas than in Tegucigalpa (Franklin and Parillon, 1989).

It is important to take in to account the depth of poverty in different groups as well as there number. A good indicator of the degree of poverty for a group can be perceived through the probability of being poor (the greater the probability, the deeper the groups' poverty) and though the poverty index value, groups with lower index values are poorer. The index value represents the average number of basic baskets (70% food and 30% non-food) per capita on a daily basis the members of that group are able to purchase. Therefore, if a group had a small population with a low poverty index value, then the absolute number of persons in extreme poverty would be small despite being very poor. Whereas, groups that have large populations with lower prevalences of extreme poverty (higher index values) could have greater numbers of poor persons.

Extreme poverty is concentrated in the agricultural sector. Most agricultural workers are judged to be in extreme poverty by the criterion used for this study. Indicators from other studies suggest similar regional patterns of poverty. Particularly data from the most recent Health and Nutrition survey (1987) which points out that the calorie deficits are not significantly lower in the rural areas in comparison to the metropolitan area but the levels of malnutrition are much higher. This suggests that the lack of access to public health services, poor access to safe drinking water, poor sanitary facilities, and poor education among other things may be just as severe a threat to the well-being of rural dwellers as inadequate food availability.

**Table 8. Nutritional and Socio-Economic Characteristics of Urban and Rural Households in Honduras.**

	National	Urban	Rural
<b>Child Malnutrition<sup>1 3</sup></b>			
Weight for Age <sup>2 3</sup>	38.0	13.5	42.0
Height for Age <sup>2 3</sup>	47.7	23.4	48.2
Weight for Height <sup>2 3</sup>	3.9	0.1	4.5
<b>Percentage of Families<sup>1 3</sup></b>			
with inadequate diets	62.7	59.8	64.5
<b>Poor Access to Health services<sup>1 3</sup></b>	34.3	9.2	38.4
<b>Percentage of women headed households<sup>4</sup></b>	21.5	26.9	18.7
<b>Percentage of households with illiterate heads of household<sup>4</sup></b>	33.8	15.8	43.1
<b>Average Household size<sup>4</sup></b>	5.5	5.2	5.6
<b>Percentage of Households without safe drinking water<sup>4</sup></b>	20.6	6.3	28.0
<b>Percentage of Households with inadequate sanitation facilities<sup>4</sup></b>	37.9	8.4	53.2
<b>Percentage of Households without electrical service<sup>4</sup></b>	56.8	10.4	80.9

<sup>1</sup> Urban data corresponds metropolitan health region and rural data corresponds to the rest of the country excluding the Metropolitan health district.

<sup>2</sup> Indicator corrected for Z-score categories

<sup>3</sup> Nacional Health and Nutrition Survey, 1987.

<sup>4</sup> Multiple Purpose Household Survey. April 1989.

### **3.0 Alternative Poverty Criteria Scenarios**

This section presents the estimates of extreme poverty based on applying various scenarios to the classification methodology described in Section 2.

#### **3.1 Minimum Food Basket Criteria**

Tables 9 and 10, present similar results as tables 3-6. The income criteria has been changed to the cost of a minimum basic food basket and the expenditure pattern remains the same at 70%. These tables represent a more strict poverty criteria which will be called "very extreme" poverty for convenience. This criteria changes the extreme poverty line in the urban areas from L/. 111.15 to L/. 99.78 per capita per month and for the rural areas from L/. 78.21 to L/. 70.40 per capita per month. The effect of this change reduces the number of people classified as poor in Tegucigalpa by 22 thousand to 57 thousand (down 27.8%); San Pedro Sula down 11 thousand to 15 thousand (or down 42.3%); the other urban areas down 27 thousand to 123 thousand (or down 17.4%); and for the rural areas down 235 thousand people to 1.809 million (or down 13.0%). This implies that there may be a deeper core of poverty in the other urban areas and in the rural areas than in San Pedro Sula and Tegucigalpa. Summary Table 11 presents the estimated total number of people in very extreme poverty and their relative share of the population for each of the four areas of Honduras.

Table 9. Estimates of Very Extreme Poverty : Honduras 1988

Tegucigalpa						
Economic Sector	Occupation Group	Group Population 1988	Probability of Being Extremely Poor	Probable Number of Extremely Poor People	Poverty Index	
Construction	Workers (Trade)	42,480	.45	19,000	1.09	
Industry	Workers (Craft)	27,479	.35	10,000	1.20	
Services	Services	43,848	.21	9,000	1.36	
Industry	Workers (Trade)	29,280	.28	8,000	1.28	
Financial	Services	6,720	.84	6,000	0.77	
Commerce	Merchants	63,895	.08	5,000	1.67	
AREA		213,702		57,000		

Table 10. Estimates of Very Extreme Poverty : Honduras 1988

San Pedro Sula						
Economic Sector	Occupational Group	Group Population 1988	Probability of Being Extremely Poor	Probable Number of Extremely Poor People	Poverty Index	
Services	Services	17,054	.51	9,000	1.05	
Industry	Workers (Trade)	29,611	.21	6,000	1.37	
AREA		46,665		15,000		

Based on cost of a minimum basic food basket and 70% of expenditures on food.

Data Provided by SECPLAN Departamento de Población., from the Encuesta Permanente de Hogares de Propósitos Múltiples, September, 1988.

Table 11. Estimates of Very Extreme Poverty : Honduras 1988

Other Urban Areas					
Economic Sector	Occupational Group	Group Population 1988	Probability of Being Extremely Poor	Probable Number of Extremely Poor People	Poverty Index
Commerce	Merchants	69,990	.37	26,000	1.17
Services	Services	34,539	.64	22,000	0.94
Industry	Workers (Craft)	26,288	.68	18,000	0.90
Construction	Workers (Trade)	35,696	.50	18,000	1.05
Agriculture	Farmers/Ranchers	15,571	.71	11,000	0.88
Industry	Workers (Trade)	24,203	.46	11,000	1.09
Commerce	Services	9,875	.90	9,000	0.69
Industry	Laborers	8,811	.88	8,000	0.72
AREA		224,973		123,000	

Table 12. Estimates of Very Extreme Poverty : Honduras 1988

Rural Areas					
Economic Sector	Occupational Group	Group Population 1988	Probable Probability of Being Extremely Poor	Number of Extremely Poor People	Poverty Index
Agriculture	Farmers/Ranchers	2,047,538	.73	1,489,000	0.87
Commerce	Merchants	115,935	.89	103,000	0.71
Industry	Workers (Craft)	70,119	.91	64,000	0.68
Services	Services	61,172	.96	59,000	0.59
Construction	Workers (Trade)	52,652	.59	31,000	0.98
Industry	Workers (Trade)	28,906	.71	20,000	0.88
Commerce	Farmers/Ranchers	13,377	.96	13,000	0.59
Industry	Laborers	11,775	.90	11,000	0.70
Services	Workers (Trade)	17,204	.43	7,000	1.12
Industry	Farmers/Ranchers	13,219	.44	6,000	1.10
Commerce	Services	12,582	.51	6,000	1.05
AREA		2,444,479		1,809,000	

Based on cost of a minimum basic food basket and 70% of expenditures on food.

Data Provided by SECPLAN Dept. Poblacion., from the Encuesta Permanente de Hogares de Propositos Multiples, September, 1988.

Table 13. Summary of the Distribution of Population in Very Extreme Poverty: Honduras, 1988.

Area	Population	Population in Very Extreme Poverty	Percent of Population in Very Extreme Poverty
Tegucigalpa	551,606	57,000	10.3%
San Pedro Sula	279,356	15,000	5.3%
Other Urban Areas	896,347	123,000	13.7%
Rural Areas	2,651,530 -----	1,809,000 -----	68.2% -----
Total	4,378,839	2,004,000	45.8%

Based on cost of a minimum basic food basket and 70% of expenditures on food.

Data Provided by SECPLAN Dept. Poblacion, from the Encuesta Permanente de Hogares de Propositos Multiples, September, 1988.

### **3.2 Basic Food Basket Scenario with 25% increase in Agricultural Wages**

Tables 12 and 13, correspond to a rough simulation of what might happen with policy reform. This exercise examines what might happen with an eventual real increase in rural incomes of 25%. This scenario uses the criteria used for tables 3 through 6, (i.e. based on a basic basket with 70% of expenditure on food) and an increase in agricultural incomes of 25%. This exercise holding all else constant, shows a decrease in rural poverty on the order of 467 thousand people with a slight decrease in poverty (4,000 people) for the other urban areas of Honduras. An important limitation of this scenario is the fact that no change in the relative price of food is carried through to the Urban population. Tables for Tegucigalpa and San Pedro Sula are not presented since they show no change from tables 3 and 4. This implies that if the reforms are successful their could be some major improvements in rural poverty. This mechanism is not the correct tool for measuring changes such as who would gain and who would hurt but it does serve to highlight the impact in a general sense.

Table 14. Estimates of Extreme Poverty with a 25% Increase Agricultural Sector Incomes, Honduras

Other Urban Areas					
Economic Sector	Occupational Group	Group Population 1988	Probability of Being Extremely Poor	Probable Number of Extremely Poor People	POVERTY INDEX 1988
Commerce	Merchants	69,990	.50	35,000	1.05
Services	Services	34,539	.75	26,000	0.84
Construction	Workers (Trade)	35,696	.63	23,000	0.94
Industry	Workers (Craft)	26,288	.79	21,000	0.81
Industry	Workers (Trade)	24,203	.59	14,000	0.98
Agriculture	Farmers/Ranchers	15,571	.58	9,000	0.99
Commerce	Services	9,875	.95	9,000	0.62
Industry	Laborers	8,811	.94	8,000	0.64
AREA		224,973		145,000	

Table 15. Estimates of Extreme Poverty with a 25% Increase Agricultural Sector Incomes, Honduras

Rural Areas					
Economic Sector	Occupational Group	Group Population 1988	Probability of Being Extremely Poor	Probable Number of Extremely Poor People	POVERTY INDEX 1988
Agriculture	Farmers/Ranchers	2,047,538	.60	1,219,000	0.97
Commerce	Merchants	115,935	.94	109,000	0.64
Industry	Workers (Craft)	70,119	.95	67,000	0.61
Services	Services	61,172	.98	60,000	0.53
Construction	Workers (Trade)	52,652	.71	37,000	0.88
Industry	Workers (Trade)	28,906	.81	23,000	0.79
Commerce	Farmers/Ranchers	13,377	.98	13,000	0.53
Industry	Laborers	11,775	.95	11,000	0.63
Services	Workers (Trade)	17,204	.55	10,000	1.01
Industry	Farmers/Ranchers	13,219	.57	8,000	0.99
Commerce	Services	12,582	.63	8,000	0.94
Commerce	Workers (Craft)	6,324	.87	6,000	0.73
Transportation	Transport Workers	20,062	.31	6,000	1.23
AREA		2,470,865		1,577,000	

Based on the cost of a basic food basket and 70% of total expenditures on food and agricultural sector incomes increased 25%  
 Data Provided by SECPLAN Departamento de Población., from the Encuesta Permanente de Hogares de Propósitos Múltiples Sept., 1988.

### **3.3 Basic Food Basket Criteria Estimated for 1990**

One last simulation was carried out to update the 1988 data. The procedure followed was to estimate the increase in the cost of the basic food basket by taking into account the consumer price index for food through march 1990 (Banco Central de Honduras, 1990a). For this the food price index for first quarter 1988 through first quarter 1990 was used to inflated the cost of the food basket. In order to estimate average wages for 1990 wages were inflated by the general consumer price index and then any real sectoral GDP growth was factored in based on twice the real sectoral growth for 1988-1989 (i.e., assume 1989-1990 same as 1988-89). In order to capture any price effects for the agricultural sector the nominal income was increased by the nominal increase in the food consumer price index plus twice the 1988-1989 real sectoral growth. Population increase was factored in at the average growth rate that held between the 1974 and 1988 censuses of 3.64% (SECPLAN/DGCE, 1988). The estimates suggest that poverty in Tegucigalpa may have increased from 14.3% of the city's population to 15.5% or 13 thousand additional poor people. In San Pedro Sula, relative poverty held constant at 9.3% but the number of people living in extreme poverty increased by about 2,000 persons. In the other urban areas like San Pedro Sula relative poverty may have held constant but there was a slight increase in the absolute number of people living in extreme poverty of 11 thousand people. Under this scenario, relative poverty in the rural areas would have decreased from 77.1% of the rural population to 74.4% of the rural population. Despite the relative gain there would have been a net increase in the number of poor people by 77 thousand.

Table 16. Estimates of Extreme Poverty, Honduras 1990.

Tegucigalpa					
Economic Sector	Occupational Group	Group Population 1990	Probability of Being Extremely Poor	Probable Number of Extremely Poor People	Poverty Index 1990 (est.)
Construction	Workers (Trade)	45,624	.59	27,000	0.98
Services	Services	47,093	.33	16,000	1.21
Industry	Workers (Craft)	29,512	.48	14,000	1.07
Industry	Workers (Trade)	31,447	.41	13,000	1.14
Commerce	Merchants	68,623	.14	10,000	1.49
Financial	Services	7,217	.91	7,000	0.69
Services	Workers (Trade)	26,290	.19	5,000	1.40
AREA		255,806		92,000	

Table 17. Estimates of Extreme Poverty, Honduras 1990.

San Pedro Sula					
Economic Sector	Occupational Group	Group Population 1990	Probability of Being Extremely Poor	Probable Number of Extremely Poor People	Poverty Index 1990 (est.)
Services	Services	18,316	.65	12,000	0.93
Industry	Workers (Trade)	31,802	.32	10,000	1.22
Commerce	Services	8,404	.72	6,000	0.87
AREA		58,522		28,000	

Based on the Cost of a Basic Food Basket increased by change in the CPI for food (QTR 1, 1988 to QTR 1, 1990) and 70% of Total Expenditures on Food. Income is increased by nominal sectoral GDP. Data Provided by SECPLAN Departamento de Población., from the Encuesta Permanente de Hogares de Propósitos Múltiples Sept., 1988.

Table 18. Estimates of Extreme Poverty, Honduras 1990.

Other Urban Areas					
Economic Sector	Occupational Group	Group Population 1990	Probability of Being Extremely Poor	Probable Number of Extremely Poor People	Poverty Index 1990 (est.)
Commerce Services	Merchants Services	75,169	.51	38,000	1.05
Construction Industry	Workers (Trade) Workers (Craft)	38,338	.64	24,000	0.94
Industry	Workers (Trade)	28,233	.80	22,000	0.81
Agriculture	Farmers/Ranchers	25,994	.60	16,000	0.97
Commerce	Services	16,723	.78	13,000	0.82
Industry	Laborers	10,606	.95	10,000	0.62
		9,463	.94	9,000	0.64
AREA		241,621		160,000	

Table 19. Estimates of Extreme Poverty, Honduras 1990.

Rural Areas					
Economic Sector	Occupational Group	Group Population 1990	Probability of Being Extremely Poor	Probable Number of Extremely Poor People	Poverty Index 1990 (est.)
Agriculture	Farmers/Ranchers	2,199,056	.79	1,735,000	0.81
Commerce	Merchants	124,514	.94	117,000	0.64
Industry	Workers (Craft)	75,308	.96	72,000	0.60
Services	Services	65,699	.98	65,000	0.53
Construction	Workers (Trade)	56,548	.71	40,000	0.88
Industry	Workers (Trade)	31,045	.81	25,000	0.79
Commerce	Farmers/Ranchers	14,367	.98	14,000	0.53
Industry	Laborers	12,646	.95	12,000	0.62
Services	Workers (Trade)	18,477	.56	10,000	1.00
Commerce	Services	13,513	.64	9,000	0.94
Industry	Farmers/Ranchers	14,197	.58	8,000	0.99
Transportation	Transport Workers	21,547	.32	7,000	1.23
Commerce	Workers (Craft)	6,792	.87	6,000	0.73
AREA		2,653,709		2,120,000	

Based on the Cost of a Basic Food Basket increased by change in the CPI for food (QTR 1, 1988 to QTR 1, 1990) and 70% of Total Expenditures on Food. Wages increased by estimated rate of nominal sectoral GDP growth.

Data Provided by SECPLAN Departamento de Población., from the Encuesta Permanente de Hogares de Propósitos Múltiples Sept., 1988.

**Table 20. Summary of the Distribution of Estimated Population in Extreme Poverty: Honduras, 1990.**

Area	Estimated Population	Population in Extreme Poverty	Percent of Population in Extreme Poverty
Tegucigalpa	592,493	92,000	15.5%
San Pedro Suŕa	300,063	28,000	9.3%
Other Urban Areas	962,788	160,000	16.6%
Rural	<u>2,848,074</u>	<u>2,120,000</u>	<u>74.4%</u>
Total	4,703,418	2,400,000	51.0%

Based on the Cost of a Basic Food Basket increased by change in the CPI for food (QTR 1, 1988 to QTR 1, 1990) and 70% of Total Expenditures on Food. Wages increased by estimated rate of nominal sectoral GDP growth.  
 Data Provided by SECPLAN Departamento de Poblaci3n., from the Encuesta Permanente de Hogares de Propositos Múltiples Sept.,1988.

## 5.0 Recommendations

The principal question this study addresses centered on examining the location and extent of poverty in Honduras using data from the National Multi-purpose Household Survey. It is clear that the recurring survey can be used for more than just measuring unemployment and under employment in Honduras. The numbers generated from the survey seem consistent with other data collected on similar topics. SECPLAN/OIT/PNUD and the Direccion General de Censo y Estadistica need to be commended for carrying out these recurrent surveys. Continued refinement of the methodology, deeper analysis of the data sets, and further training of SECPLAN staff to carry out such work needs to be supported. The survey system could be used to monitor gross poverty conditions in the country. It would be beneficial to include in future rounds other more specific modules or subsamples for tracking issues which the government of Honduras deems to be of importance. One recommendation would be to further strengthen the system to provide faster data turnaround. Increased the access to the data should also be promoted. The system also should also use a multidisiplinary approach toward measuring the socioeconomic conditions like the poverty study currently being undertaken. To complement the survey system, support needs to be given to developing a basic food basket which more accuratly reflects the consumption pattern in Honduras. This should be done through direct mesurement of household expenditures and food intakes. The prices of the goods in the basket should be collected monthly in an unbiased and consistant manner.

The results of this analysis point to a need to focus resources on rural development activities which will enhance the productivity of rural dwellers, an important component would be an unbiased agricultural market price and quantity information system that would increase the information available to rural households. This would facilitate thier response to the newly emerging opportunities in agriculture. This should have the additional benefit of enhancing a supply response from the agriculture and livestock sector and promote increasing domestic food supplies for both the rural and urban areas. The use of food aid needs to be measured very carefully against potential negative effects on the reactivation of the single largest sector of employment: Agriculture.

There also seems to be some scope for highly targeted urban assistance activities. Care needs to be taken to distinguish between temporary programs and "entitlement" programs.

Employment generation and useful public works programs seem to be reasonable candidates. There should be a focus on local administration and participation with clear and simple guidelines. These activities should not be undertaken directly by the central government. The program could work through a system of community/organization grants and loans that have to follow clearly established but simple procedures.

In the haste to "do something" in light of the reform program, care needs to be taken not to create new programs which once implemented cannot be terminated if they prove too costly or difficult to manage. Many ideas proposed, like the Fondo Hondureño de Inversión Social, are new mechanisms for delivering public goods. These new programs are likely to generate some mistakes, by keeping these programs small and flexible until activities which are proven effective, can be expanded, the cost of mistakes could be minimized. The emphasis should be on small pilot programs. In many respects like the first run trials of the food coupon system which is being tested. There should be a strong evaluation component to these pilot programs with an eye towards cost and benefits of program expansion under likely budget constraints. One important caveat, the extent and intensity of rural poverty in Honduras is so severe that most of the rural population and people employed in the agricultural sector will remain in conditions of extreme poverty despite the structural reforms.

Additionally, it should be recognized that poor households are poor not only because they cannot purchase adequate diets, but also because they are unable to purchase other basic necessities such as health care, education, clothing, adequate housing and transportation to work and to market places. These areas present opportunities for assisting the extremely poor at solving their problems of poverty.

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Appendix A. Codes for Economic Sectors and Occupation Groups.

RAMA DE ACTIVIDAD ECONOMICA

<u>CODIGO</u>	<u>DESCRIPCION</u>
0	Actividades no bien especificadas
1	Agricultura, caza, silvicultura y pesca
2	Explotación de minas y canteras
3	Industrias manufactureras
4	Electricidad, gas y agua
5	Construcción
6	Comercio al por mayor y menor, restaurantes y hoteles
7	Transporte, almacenamiento y comunicaciones
8	Establecimientos financieros, seguros, bienes inmuebles y servicios a las empresas
9	Servicios comunales, sociales y personales

GRUPOS DE OCUPACION

<u>CODIGO</u>	<u>DESCRIPCION</u>
0	Profesionales, técnicos y P.E.O.A.
1	Directivos, gerentes y administradores generales
2	Empleados de oficinas del Estado, organismos autónomos y empresa privada
3	Comerciantes y vendedores
4	Agricultores, ganaderos y trabajadores agropecuarios
5	Conductores de medios de comunicación
6	Trabajadores de industria textil, albañilería, mecánica, electricidad, etc.
7	Trabajadores en el área gráfica, química, alimentos, cuero, tabaco, cerámica, etc.
8	Operación de carga, almacenaje y bodegaje
9	Ocupaciones de los servicios