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TELEGRAM

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	FROM AMEMBASSY TEGUCIGALPA	CLASSIFICATION UNCLASSIFIED
12065 E.O. XXXXX TAGS: SUBJECT: ACTION: INFO:	N/A GOH REQUEST FOR TITLE I FINANCING, 1981 U.S. DEPARTMENT OF AGRICULTURE SECSTATE WASHDC AMEMBASSY GUATEMALA	CN 1665 PRIORITY

AMB UNCLASSIFIED TEGUCIGALPA 1665
DCM
ECCOM AIDAC
AID-6 USDA FOR OFFICE OF GENERAL SALES MANAGER
MD/DMD
AG* GUATEMALA FOR AGATT
PCR
ERD
CHRON
READER

1. GOE has requested financing under PL 480 Title I for importation of wheat for FY81. Total wheat requirement according to GOE is 20,708 MT. The requested is based on the following GOH estimates:

	MT
a. Total domestic demand, CY1981	88,000
b. Less commercial imports (equal USG Usual Marketing Requirement)	<u>51,400</u>
c. Balance needed	36,600
d. Less current Title I/III imports	

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which arrived in October-December	
1980 (\$1,983,347 ÷ FOB price U.S.	
ports xxxxx , \$190.84/MT	-10,392
Balance needed	26,208
Less estimated donations from EEC and	
France	<u>5,500</u>
Balance to be imported under Title I	
<u>Agreement</u>	20,708

2. USAID/H estimates the average cost of wheat per MT FOB Gulf Ports in the July-December 1981 period will be \$221.88 ~~xx~~ based on average Chicago Board of Trade future prices for ~~xx~~ July, September, and December deliveries, as of February 11, 1981. That is \$188.38 per MT FOB Chicago plus \$33.50 freight and handling. Thus, to meet the GOH request will require \$4,594,691 (20,708 MT x \$221.88 per MT).

3. GOH has requested financing under Title I rather than Title III due to more flexible use of funds and speed of processing the request. Time is an urgent consideration if the USG wishes to provide the requested level of support.

Background

4. The GOH has requested a total of 27,000 MT of wheat under the PL 480 Title I/III Program agreement signed February 24, 1979, as amended July 18, 1980. All deliveries were made by December 31, 1980, at an ~~estimated~~ estimated

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CCC total cost of \$4,000,000.

Rationale for Request

5. The GOH request is justified on the following grounds
- a. Honduras wheat imports are growing rapidly due to increasing consumption, estimated at 9, 12.6 and 10 per cent per annum for 1978, 1979 and 1980 respectively, and expanding processing capacity. The August 1979 USDA Estimate of Honduran Grain and Feed Situation Report noted that Honduras has all but stopped wheat production due to geographic and climatic unsuitability of land for the crop. Consequently, Honduras must purchase nearly all wheat on the international market. This represents a significant, growing demand on its balance of payments.
 - b. PL 480 Title I financing will make a small but important contribution to Honduras' increasingly difficult macro-economic situation. In the last year, the balance of payments has deteriorated as a result of disappointing export performance; ~~the~~ quantities exported for the four major export commodities (bananas, coffee, meat and wood) all declined and total export earnings rose only 10 per cent. Continued strong import demand (up 22.5 per cent) and some capital flight caused by unsettled

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political conditions in ~~XXXX~~ nearby countries resulted in a loss of one-third of the country's net holdings of foreign exchange -- or \$66 million -- in 1980. Growth of GDP slowed ~~xx~~ markedly, to 2 per cent in 1980, and will be close to zero -- at best -- in 1981, resulting in per capita declines in income. The GOH, because of the slow growth in GDP and because it is transitioning to democratic government, is unwilling and unable to increase its budget to meet the financial needs of an aggressive agricultural development program. With the PL 480 financing of this ~~xx~~ wheat, the foreign exchange loss will be mitigated and the GOH budget available for the agriculture sector will be increased by the equivalent of \$4.6 million.

c. Third, Honduras has undertaken an impressive commitment to agricultural development. As reported earlier, total expenditure^S for the agricultural sector under the GOH 1979-83, Five Year Plan are \$934 million, or 42 per cent of the total public sector program. Total GOH financing of agricultural development was 85 per cent higher in 1980 than for the 1975-79 average.

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It is also important to note that a significant portion of the GOH agricultural sector budget represents counterpart requirements. The GOH projects a budget deficit of \$119 million in 1981 despite efforts to raise taxes, improve tax collections, control expenditures and increase surpluses from state enterprises.

This level of commitment represents a tremendous drain on scarce resources; and the GOH is requesting PL 480 Title I financing to help with the effort.

- d. Fourth, the GOH wishes to substantially increase the level of 1981 resources going ~~xx~~ into activities with direct impact on the welfare of the mass of the people in order to reinforce the positive ~~xx~~ attitude of the population regarding efforts the GOH is making in providing a constitutional government. It needs continued external assistance to be able to do so.

Supply and Distribution Projection

6. The following is the supply and distribution for wheat for FY1981. Figures are based on those gathered from millers by the assistant agricultural attache. No wheat is imported which is not handled by these millers.

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	MT
Stocks, October 1, 1980	7,700
Estimated Imports, FY81	
PL 480	31,100
Other Donors (EEC & France)	5,500
Commercial Commercial (USA)	<u>51,400</u>
	88,000
Total Supply	95,700
<u>Consumption</u>	<u>88,000</u>
Estimated Stocks, September 30, 1981	7,700

The millers have indicated that stocks will be maintained at a slightly lower level than in previous years because of strong demand and favorable prices. The millers have storage capacity for approximately 28,000 MT, and the GOH has total storage capacity for all grains of 80,927 MT. Port capacity is approximately 900 MT per-day. Consumption continues to increase with increasing per capita income and growing demand for wheat based bread products and pastas. The UMR level, as reported by the Export Credits Office of FAS/USDA is 51,400 MT for FY81.

Self-Help Measures

7. The following self-help measures are considered appropriate responsibilities of the Government of Honduras:
 - a. Increase the number and improve the quality of.

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trained professionals working in the agricultural sector through both participant and in-service training.

- b. Strengthen the Honduran agricultural university and increase the quantity of graduates of that university.
- c. Establish an effective sector-wide system for policy analysis, planning, budgeting, coordination, ~~operations follow-up and evaluation at central~~ and regional levels.
- d. Restructure the extension service, incorporating community leader paratechnicians into the extension program and increasing the number of professional agronomists employed in extension.
- e. Reorient the agricultural research network to emphasize farm system research carried out on small farmers' land.
- f. Reorganize the National Development Bank into an agricultural development bank focusing on small farmer development.
- g. Finance small community infrastructure projects like roads, irrigation, drainage, ~~reforestation~~ reforestation, and storage structures.

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- h. Continue to provide assistance to agricultural cooperative associations.
- i. Take measures to improve the administrative efficiency of the public agricultural sector institutions.
- j. Undertake activities which will increase the efficiency and effectiveness of the land reform laws and regulations.
- k. Assure the timely execution of the activities
 contemplated under the Natural Resources ~~Management~~
 Management Project (522-0168).
8. We solicit Washington approval of this request, for \$4,600,000 of Title I funding for FY81. Letter from Minister of Finance requesting assistance has been received and will be hand carried to AID/W by USAID/H Deputy ADO on March 11.

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