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**AN EVALUATION OF THE 1992-94  
HONDURAS TITLE III PROGRAM**

September, 1994

**UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT**

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# EVALUATION OF THE FY92-94 TITLE III PROGRAM IN HONDURAS

## EXECUTIVE SUMMARY

### A. Introduction

During presentation of its 1994 Action Plan, USAID/Honduras was asked to complete its planned evaluation of the 1992-94 PL-480 Title III program prior to submitting a proposal for a follow-on program. USAID undertook this evaluation during the Summer of 1994. The evaluation and its findings are presented in the following chapters.

Honduras, with per capita GDP of \$634, is the third poorest country in the Western Hemisphere. Although policy makers often lump Honduras with its wealthier Central American neighbors - Costa Rica, Guatemala and El Salvador - it is more accurately compared with its economic peers, Haiti and Nicaragua. The idyllic Honduran countryside masks crushing poverty which is chronic and widespread, particularly in the rural hinterland.

Honduran population and poverty is concentrated in rural areas. Of the 5.3 million total population of Honduras, 3.2 million (57 percent) live in the rural areas. According to the World Bank, the chances of being poor in Honduras - unable to buy a basic basket of food and other necessities - are three time greater for rural than for urban residents. While seven percent of the very poor - unable to buy even a basic food basket - live in the capital areas and 15 percent live in other urban areas, 78 percent of the very poor live in rural areas.

Rural poverty quickly translates into inadequate caloric intake and malnutrition. When the 1992-94 Title III program was designed, USAID estimated that 87 percent of the rural population (2.8 million persons) received less than 1700 calories per day. A 1991 USAID study found 47.2 percent of rural children were chronically malnourished (stunted) versus 23.1 percent in urban areas. Moreover, negative impacts of malnutrition in the rural poor are exacerbated by a chronic lack of public services such as health facilities, potable water, electricity, and sanitation in rural areas.

Solutions to rural poverty and improved food security are inextricably linked to raising farm incomes and developing rural, non-farm job opportunities. Seventy-six percent of rural poor families subsist through agriculture. The heads of these households are self-employed farmers or landless agricultural workers. Nine percent of these families are headed by women. Most small farm families, whether they rent or own their land, farm properties characterized by poor soil quality, moderate-to-steep slopes, and high soil losses. In spite of the poverty in which these farm families live, they supply the nation with almost 70 percent of the corn and 80 percent of the beans - staples of the popular diet - consumed in Honduras. It is ironic that national food security rests on those households which least enjoy it.

For almost a decade, agricultural growth lagged national economic growth by 5 percent and could not maintain pace with population increases. Real prices received and per capita volumes produced by farmers, especially small grain farmers, steadily eroded. As prices and production fell, food security dwindled. Throughout most of the 1980's, every measure taken indicated that food security in Honduras was declining. Poverty – both rural and urban, agricultural and non-agricultural – increased.

A 1988 USAID study identified agricultural pricing policies as the major cause of the declining food availability in Honduras. Economic opportunities declined in rural areas due to macroeconomic policies which favored industry and urban laborers. Poor policies yielded poor performance and profitability fell. Investment and employment in agriculture declined as a result. Government intervention in commodity, credit and land markets further distorted prices of agricultural inputs and outputs. Agricultural research and extension efforts were ineffective.

In 1990 USAID developed an Agricultural Sector Strategy Paper which emphasizes improving food security through reform of the misguided policy environment constraining agricultural growth. Public and private sector interests were enlisted to modernize the agricultural sector through policy reform and institutional strengthening. By 1992, USAID's agricultural sector strategy became the sector's reality when the Government of Honduras (GOH) passed the Agricultural Modernization and Development Law (AMDL). Since its passage, consolidation and initial implementation of AMDL reforms have been financed largely through the FY92–94 Title III program, and local currency financed activities have indirectly supported the reforms, as well as obviated negative impacts of the structural reform program on the poor.

The FY92–94 Title III program in Honduras combines policy reform with local currency funded activities to achieve its goal of improved food security for the Honduran population. The findings of this evaluation support the program's design. The program cannot be evaluated in isolation. It successfully builds upon a base of macroeconomic reforms supported by prior ESF, Development Assistance and PL–480 programs. It is an essential extension of these development investments.

## **B. Summary Findings**

The evaluation finds that *the FY92–94 Title III program has been successful in improving food security for the most vulnerable population in Honduras*. Despite an overall increase in poverty during the program period, standards of living among the target population – poor rural families – increased due to policy reforms and specific local currency funded activities.

The evaluation finds that as a result of Title III program policy reforms:

- » **In the first year of economic reforms, the real producer price index (prices paid to farmers adjusted for inflation) rose 38 percent after a decade long decline.**

- » By 1993, agricultural producer prices as a whole, as well as for basic grains and traditional exports, were substantially higher than those received by producers during the 1980s.
- » The area planted in basic grains increased 13 percent and the area planted in the leading non-traditional crop, melons, increased 200 percent in the first year of the reforms.
- » Agricultural production (measured by 25 crop and livestock products) increased 6.9 percent in the first year of reform and has increased by an annual average of 3.7 percent during the program period.
- » The quantity of basic grains, produced largely by poor rural families on parcels of less than five hectares, increased 10 percent during the first two years of the reforms.
- » Rural households in the bottom 20 percent of income distribution declined by 12.8 percent from 1989 to 1993, faster than any other segment of the population.
- » The proportion of poor in rural areas was 23 percent lower in 1993 than in 1991, while urban poverty increased 18 percent over the same period.

As a result of Title III local currency funded activities which improve household access to food, the evaluation finds that:

- » One project assisted the creation of 42,000 jobs, 70 percent of which went to women, and over \$500 million in foreign exchange was earned.
- » In 1993 alone, locally owned credit unions assisted by the Small Farmer Organization Strengthening Project (SFOS) made over \$28 million available to small farmers in 45,600 production loans.
- » Approximately 1,200 households now produce 150,000 metric tons of food annually on 160 small irrigation systems covering 5,258 hectares.
- » Over 6,000 small farm families have improved management practices on 10,000 hectares of marginal hillside land, increasing production by 50 percent and incomes even more.
- » A targeted food coupon program has benefited over 600,000 poor children and almost 70,000 poor, pregnant or lactating mothers through 1993.
- » Benefits of a Title III financed agricultural research program produced over \$8.3 million in foreign exchange and created 6,375 jobs in 1993 alone.

» **10,000 farm families using improved production technology have increased incomes by more than 25 percent.**

The evaluation found there were other benefits of the program as well. The Title III program leveraged a \$110 million agricultural sector adjustment credit from the World Bank and InterAmerican Development Bank (IDB). Most directly, it has provided over 200,000 metric tons of wheat to an increasingly food deficit population.

These are only some of the impacts of the Title III policy reforms and local currency financed activities. The expected and actual impacts are explained in more detail in Sections V, Impact of the Policy Reform Component of the FY92-94 Title III Program, and Section VI, Impact of the Local Currency Funded Activities Component of the FY92-94 Title III Program.

The evaluation also demonstrates that, to a great extent, the primary benefits derived from the initial reforms and activities financed under the FY92-94 program have run their course. While these reforms must be kept in place, additional ones are needed to ensure that the growth path is maintained and benefits are distributed to the poorest of the poor.

### **C. Conclusions**

The evaluation concludes that **Title III supported policy reforms and local currency funded activities made significant and measurable impacts on availability and access to food within Honduras, especially among the rural poor.**

It also concludes that **continued reform is necessary, as is effective implementation of the reforms.** In some cases, reforms have been only partially implemented, reducing their impacts or preventing them from reaching all intended beneficiaries. Institutions in the midst of reform will need continued local currency support to maintain their momentum of change. In a few cases, the evaluation documented backsliding on reforms by the GOH which, unless checked, threatens the increased food security and household incomes achieved so far under the program.

The evaluation notes that Honduras is at a watershed in the process of institutionalizing economic and social change. The GOH faces an unprecedented foreign exchange crisis, a drought that threatens agricultural growth and food supplies, and a chronic energy shortage that eliminates off-farm job opportunities daily. Difficult policy measures must be taken in order to restore the conditions for economic growth.

### **D. Recommendations**

The evaluation recommends that a subsequent Title III program be developed to **continue the progress made under the FY92-94 program. Like the subject program, it should continue efforts to increase food availability and improve food access by the poor, as well as contribute to effective food utilization.**

**The evaluation recommends sustained support for policy reforms that improve food security for the rural poor through increased production and incomes; and it recommends funding local currency activities which are consistent with policy reforms and obviate negative impacts of reform on the poor.**

In the face of a critical economic and social situation within Honduras, the GOH is under pressure to revert to the statist "solutions" of the past. The reforms and local currency activities attainable through a subsequent Title III program will ensure that prior reforms are maintained and that additional reforms broaden benefits. The policy dialogue made possible by a subsequent Title III program will ensure that measures taken by the GOH to confront the current crisis are supportive of a sustainable growth model. The program will continue to leverage other donor assistance. **A FY95-97 Title III program is both necessary and desirable.**

#### **E. Lessons Learned**

The principal lessons learned and highlighted by the evaluation of the FY92-94 Title III program are:

- ◆ **The balance of payment component of the Title III program is an effective means of securing significant policy changes which enhance food security, particularly when local currency generated from sale of commodities is programmed to activities which support implementation of the reforms.**
- ◆ **Program success was enhanced by integration with several of the Mission's DA-funded activities and close coordination with programs of other major donors in the agricultural sector, particularly the World Bank and InterAmerican Development Bank.**
- ◆ **The impact on improved food security is enhanced when the policy reform agenda is comprehensive. In the case of the FY92-94 program, the primary emphasis was on price incentives and trade liberalization which had demonstrable effects on agricultural production and rural incomes. However, without concurrent improvement in access to agricultural inputs such as credit, market information, and land, small farmers would not have been able to respond as fully to market incentives.**
- ◆ **Policy reforms have limited effectiveness if not maintained and fully implemented, and in many cases, deepened. While the FY92-94 program benefitted from policy groundwork laid in preceding programs, to achieve sustainable food security, additional Title III support will be needed.**

# THE USAID/HONDURAS FY92-94 TITLE III PROGRAM EVALUATION

## I. Organization of the Evaluation

The following sections present the evaluation of the FY92-94 PL-480 Title III program for Honduras. They are organized as follows:

Section II presents the Methodology followed to organize, undertake, and conduct the evaluation.

Section III is a Description of the FY92-94 Title III program itself.

Section IV describes the program's Implementation, showing how execution of the program itself is consistent with the policies it is reforming, as well as how the program has adjusted to the changing wheat market in Honduras.

Section V discusses the Impact of the Policy Reform Component of the program.

Section VI discusses the Impact of the Local Currency Funded Activities Component undertaken with support of the program.

Section VII discusses the Conclusions.

Section VIII discusses the Recommendations.

Section IX discusses the Lessons Learned.

Appendices follow the above sections.

## II. Evaluation Methodology

In response to USAID Title III Guidance for periodic reporting on progress toward achieving food security, the Mission contracted for a one year household survey of almost 3,000 rural and urban households. The purpose of the survey is: (A) to evaluate the impacts of social compensation programs financed by PL-480; (B) to obtain indicators that will evaluate the socio-economic condition of the Honduran population, especially health and nutrition indicators; and (C) to establish a data bank of evaluation information. Results from the study will be available for analysis in November, and a clearer picture of the impact of the PL-480 program will become available then. In the meantime, the Mission has combined and reported data from a variety of sources to compile this evaluation of its Title III program's impact.

An evaluation team, chaired by the Deputy Mission Director, was formed with representation from the appropriate offices and organizations. USAID officers, contractors, host government officials and employees of NGO's were involved and included. A guide was developed to insure that all aspects, levels and timeframes of food security could be consistently investigated (Annex

A). A basic framework for food security analysis was written and distributed to each team member (Annex B). The evaluation team developed a logframe for the program which guided the research and writing (Annex C).

For two months, outlines of the evaluation were developed and discussed. Data were compiled and compared. Preliminary analytical and writing responsibilities were assigned. Once the basic analytical pieces of the evaluation were assembled and rough drafts of the various sections were written, technical assistance was obtained from the LAC/RSD LACTECH project. Using this assistance, all preliminary analyses were reviewed and final analyses were completed. The parts of the evaluation were assembled into a draft which underwent several reviews and modifications. In September 1994, the final draft was accepted by the Mission and sent to Washington.

### **III. FY92-94 PL-480 Title III Program Description**

The FY92-94 Title III agreement covers three years and totaled \$38 million. Under the program, 205,000 metric tons of wheat have been imported into Honduras. The program was designed to increase food security of the Honduran population by removing constraints to domestic food production and increasing foreign exchange to make possible adequate food imports. It proposed to maintain production increases by preserving the natural resource base upon which production depends. It was to accomplish these tasks through policy reforms and support to specific sector activities with direct links to improved food security.

The FY92-94 program was not implemented in isolation, rather it built on the success of previous PL-480 programs, economic reforms gained under ESF programs, and DA-funded project activities. An essential prerequisite to success of the Title III program was an improved macroeconomic framework achieved during 1990 and 1991. The current Title III program was designed to support extension of these reforms into the agricultural and natural resource sectors. It assisted passage of Agricultural Modernization and Development Law (AMDL), the most comprehensive legislative reform of agriculture in Central America; and it continues to help implement many of the AMDL's initial reforms and institutional changes.

The policy reforms associated with the FY92-94 Title III program resulted in higher real prices paid to farmers; increased the per capita production, value, and value added of agricultural output; raised household incomes among the poorest of the poor; reduced poverty levels, and increased per capita caloric availability (Annex D - Policy Reform Matrix). Data are not currently available to demonstrate that it has stabilized consumer prices for basic grains, but this likely outcome has been demonstrated in neighboring Central American countries implementing policies similar to the Honduran reforms.

Through sector specific interventions, the program has improved availability of food at the national level by increasing production and foreign exchange earnings. A matrix to describe the relationship of local currency supported activities to program purposes was developed (Annex E). A second matrix demonstrates how local currency activities relate to the three key aspects of food security - availability, access and utilization (Annex F). At the household level,

activities funded with local currency have increased the access of family members to improved quantities and qualities of food. Program support to the natural resources sector has increased production, improved sustainability, and made food utilization more efficient through protection of land, forest, and water resources.

#### **IV. Implementation of the 1992-94 Title III Program**

Implementation of the FY92-94 Title III program serves as an example of how to manage a commodity import program in the least distortionary manner possible. Program implementation has been consistent with the policy reforms it engendered, and it has adapted to changing U.S. policies and commodity mixes over time.

The intent of the current Title III Agreement is that the cost of acquiring the wheat will not be subsidized in any manner. This principle eliminated a series of subsidies and marketing practices for PL-480 commodities that existed prior to the 1991 Title III program, such as: six month credit with subsidized interest, no collateral requirements, payments to the GOH based on an overvalued exchange rate, and rental of GOH storage facilities to buyers at below market rates.

The nature of the Honduran market for wheat has changed over the course of program implementation. For a decade prior to this program, Honduras depended on wheat exclusively for flour, and the flour market depended almost entirely on PL-480 shipments. Historical demand for wheat in Honduras has averaged about 120,000 metric tons per year, but during the course of this program, it increased to about 200,000 metric tons, largely because of increased imports of feed grade wheat (not financed by PL-480). Feed grade wheat sales increased as a result of the high world price of corn and a low Honduran tariff on wheat. The USDA's Export Enhancement Program (EEP) was begun in Honduras during the course of the 1992-94 program. The Title III program was adjusted to include this source of subsidized wheat.

During the course of the program about 205,000 metric tons of wheat will have been imported under Title III auspices. In both FY92 and FY93, approximately 75,000 metric tons were imported. Total estimated wheat demand for FY94, the last year of the program, is 135,000 metric tons for flour and 65,000 metric tons of feed grade wheat for growing poultry, livestock and shrimp industries. USAID Title III sales will provide approximately 55,000 metric tons of the flour wheat requirement. Another 60,000 metric tons will be supplied by the USDA's EEP, and the remainder will be supplied by commercial imports, other food donors, and the USAID Title II program.

## **V. Impact of the Policy Reform Component of the FY92-94 Title III Program in Honduras**

### **A. Introduction**

#### **1. The Title III Program as an Integral Part of the Mission's Overall Program**

The impact of the policy reform component of the FY92-94 PL-480 Title III program cannot be assessed in isolation from the rest of the Mission's activities. The Title III program is only one of the mechanisms, albeit a very important one, that the Mission has used to implement its Agricultural Sector Strategy. The 1989 and 1990 Title I programs, the 1991 Title III program, a series of ESF programs during these same years, and DA funded technical assistance projects – the Policy Analysis and Implementation Project (PAIP), in particular – all contributed to the successful implementation of the first stage of this Strategy.

#### **2. The Importance of the Mission's Agricultural Sector Strategy**

The Agricultural Sector Strategy is important because a concern with improving food security is at its core. The overall objective of the Strategy, to reduce the amount of malnutrition in the country, is consistent with improved food security. In fact, reducing the number of malnourished children in the country may well be the ultimate measure of improved food security. The Strategy is also important because it lays out a series of actions which need to be taken over the medium to longer-term to achieve this objective. By integrating these actions through successive Title III programs and other Mission activities, food security will be improved.

#### **3. The Role of the Agricultural Sector in Improving Food Security**

The Mission in Honduras has put a major emphasis on the agricultural sector because of the important role that it must play in the country's development. It is the major source of economic growth that is broad-based, poverty alleviating, and that improves food security. The reasons for agriculture's importance in Honduras are numerous. At the time the Title III program was designed, for example, the agricultural sector in Honduras accounted for 25 percent of the country's GDP, earned over 80 percent of the country's foreign exchange, and provided employment for almost 55 percent of the country's work force.

Since most of the country's poor and malnourished also live in rural areas, removing the constraints to agricultural sector growth is the quickest and most direct way to reduce poverty and food insecurity. Information available at the time the program was designed indicated that some 87 percent of rural dwellers fell into the income strata where nutrient availabilities were less than 1,700 calories per person per day, whereas only 4 percent of the urban population fell into this strata. Whereas in 1987, 46.5 percent of children living in rural areas were chronically malnourished (stunted), 23.1 percent of the children in urban areas suffered similarly.

#### 4. The Constraints to Increased Agricultural Sector Growth

Despite its potential, the agricultural sector in Honduras has not been able to play as important a role in helping the country achieve broad-based economic growth as it should have. Agricultural sector performance during the 1980s was particularly poor. Real agricultural sector GDP grew at only 1.8 percent per year between 1980 and 1989, 5 percent below the rate of growth for the economy as a whole and more than a full percentage point below the population growth rate.

Like elsewhere in the LAC region, the macroeconomic, trade and regulatory policies followed by a succession of Honduran governments were among the major constraints to faster agricultural sector growth. They discriminated against the agricultural sector, and in doing so, stifled agricultural prices, productivity and production and prevented increases in real incomes for agricultural households, including producers of basic foods.

The Agricultural Sector Strategy identified three major categories of constraints: (1) the price structure facing the sector, (2) the resource base, and (3) access to technologies and markets for inputs as well as final products. In terms of the order in which these constraints had to be dealt with, attention had to be given first to the constraints related to the price structure affecting the sector. That is, highest priority had to be given to changing those policies that were having a negative effect on the prices that farmers received for the crops and livestock that they produced.

These included an exchange rate policy that kept the lempira overvalued, a tariff structure that increased the prices that farmers had to pay for both domestically produced and imported industrial goods relative to the prices they received for the products they produced, a government monopoly on grain imports, quotas and bans on the import and export of food and other agricultural products, and retail price controls on food and other agricultural products. Changing these policies was top priority: first, to improve the incentives to domestic agricultural producers, and second, because, once changed, their impacts should show up relatively quickly in improved real prices to farmers. With a slightly longer lag-time, the impacts would result in increases in production.

Price policies were attacked principally through ESF conditionality and maintained with Title III support. Within the FY92-94 Title III program, reforms related to land tenure and land use were given highest priority, at least in terms of the number of reforms and the amount of time spent by the Mission in dialogues with the government on them. However, the impact of these reforms will not be seen during the life of 1992-94 Title III program because time was required to develop and pass the legislative framework for the necessary changes. Even more time was required for the legislation to be implemented and for the changes to demonstrate their impact. More than any other set of remaining policy changes, the clarification of land ownership and rental rights holds the highest potential over the medium to longer-term for (1) dramatically increasing agricultural investment, and (2) changing extensive low-value land use towards intensive, high value-added activities.

## **5. Specifics of the 1990 Economic Reforms and Price Policy Objectives of the FY92-94 Title III Program**

The Mission played a major role in convincing the new government which came to office in 1990 to initiate a major stabilization and structural reform program upon taking office. This program, initiated in 1990, reduced the distortions affecting the agricultural sector and improved the incentive structure for agricultural producers. Among the most important reforms affecting the agricultural sector were:

- Devaluation of the lempira;
- Reduction of import tariffs to a range of between 5 and 20 percent;
- Removal of price controls on almost all food and other agricultural products;
- Elimination of the state monopoly on the imports of basic grains.

So, by the time the FY92-94 Title III program was designed, many of the most important price related reforms were in the initial stages of implementation. Several steps remained to be taken to complete the market liberalization process, however. These were addressed in the policy reform agenda included in the FY92-94 Title III agreement (Annex D). Specifically, two benchmarks were included in the agreement:

- The first required the GOH "to eliminate all import/export controls on agricultural trade." The purpose of this benchmark was to remove one of the few remaining price distortions affecting the agricultural sector,
- The second required the GOH to "eliminate all tariffs on basic grains from Central American countries and Panama." Its purpose was to facilitate the implementation of a regional free trade agreement for agricultural products in Central America and Panama.

In addition to the price related reforms many other important policy changes were enacted with support from the FY92-94 Title III program (Annex D). The GOH has sold its dairy, seed production facilities, two sugar mills, and eight of its 15 grain storage silos. Sale of the remaining silos is in progress. A price band mechanism to stabilize basic grain prices was implemented and expanded to include corn, rice and sorghum. The GOH agreed to eliminate its physical reserve of corn, relying on a more cost-effective financial reserve to deal with national emergencies. Land tenure was made more secure. Restricted titles were converted to fee simple titles and the number of criteria for expropriation was reduced. Land market efficiency was increased by legalizing land rental, and women were given equal rights to land ownership. The National Agrarian Institute was reorganized, and an umbrella organization was authorized to coordinate and privatize agricultural technology transfer. An environmental strategy was written, an environmental fund was capitalized, and Central America's most progressive Environmental

Law was passed. Without the Title III program, passage of these and other policy reforms detailed in Annex D would have been much more difficult.

## **B. Expected Impacts of the Price Oriented Reforms**

Although the FY92–94 Title III program includes a number of important policy conditionalities, the reforms designed to remove price distortions affecting the agricultural sector are the only ones that could reasonably be expected to have a measurable impact at this point in the program's implementation. The impact of the policy reforms related to land tenure and land use are dependent upon a new legal framework passed in 1992. Regulations implementing the new law are still being finalized, and additional time is needed for people to act on these changes. These should be the subject of an impact evaluation conducted under the proposed FY95–97 Title III program. Additional reforms related to further actions and institutional changes needed to insure the full implementation of the legislated changes should be included in the proposed FY95–97 agreement.

The links that are expected between the policy changes and the outputs and purposes of the program are as follows:

- The exchange rate, trade policy and regulatory reforms are expected to increase real prices paid for food, as well as agricultural export, products.
- When prices increase, farmers are expected to increase the area planted to crops. Lags occur depending on the product and the timing of the price change relative to cropping season. The exact level and mix of changes in areas planted depends on changes in the relative profitability of particular crops.
- When area planted increases, production of food, as well as export crops, should also increase (assuming adequate weather).
- Increased producer prices, coupled with increased production, will result in an increase in value of the output from the agricultural sector.
- The volume of agricultural exports, as well as the value, should also be expected to increase as long as prices on the international market remain favorable. The lag for non-traditional exports is often significant as farmers must first learn to produce these new crops (at export quality levels) and then transport and market them internationally.
- An increase in the value of output of the agricultural sector is also expected to lead to an increase in the value added in the agricultural sector and in the incomes of rural households.

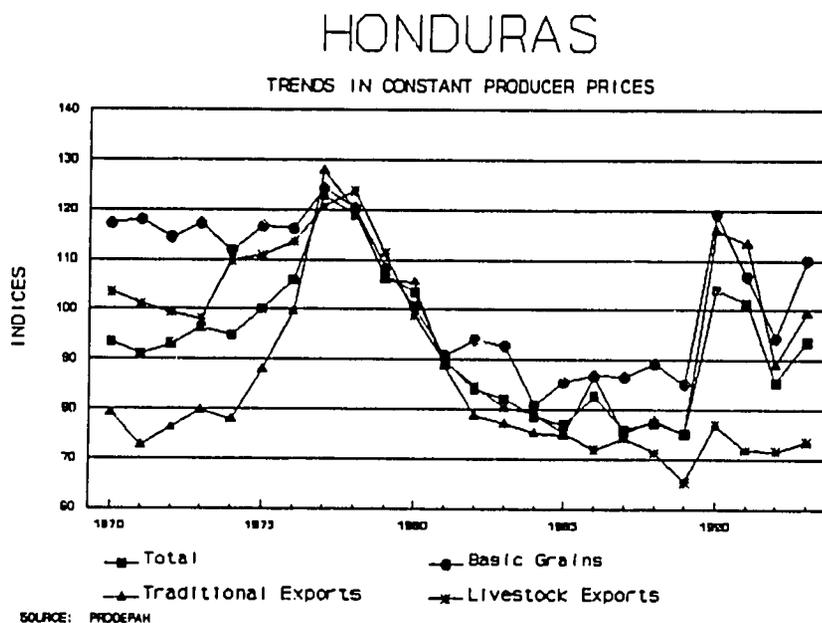
- The incomes of the smaller farmers, who make up the bulk of the poor in Honduras, are expected to increase as a result of improved agricultural incentives, as much as or more than larger farmers because they generally produce import substituting basic grains.
- With household incomes increasing, the percentage of rural households who cannot afford a nutritionally adequate diet should decrease.
- The amount of food available in the country is expected to increase directly, as a result of increases in domestic food production, and indirectly as a result of increases in the value of agricultural exports.
- More food available in the country and more households with enough money to purchase an adequate diet – together with local currency funded improvements in access – are expected to lead, over time, to a reduction in the percentage of malnourished children in the country.

This logic is reflected in the logical framework (Annex C) developed for the program – in the goal, purpose and outputs and in the indicators developed for each of these levels. Output indicators include, for example, changes in the area planted and production of basic grains and key non-traditional agricultural exports, and volume and value of traditional and non-traditional agricultural exports. Purpose indicators include changes in per capita calorie availabilities, rural household incomes and percentage of rural households living in poverty.

### C. Actual Impacts of the Price Oriented Reforms

#### 1. Increases in Real Prices Paid to Producers

As expected, real prices paid to farmers increased dramatically in 1990 after the major structural reforms began to be implemented. The most important reforms affecting prices were the devaluation of the exchange rate and the reduction in the level and range of import tariffs.



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The real producer price index (the prices received by farmers deflated by the consumer price index) had declined substantially during the 1980s from 103.5 in 1980 to 75.2 in 1989, a decline of 27 percent. In the next year after the major reforms were implemented, however, the index of real prices paid to farmers jumped to 104.1, which meant that farmers gained back, in terms of real agricultural prices, almost all the ground they had lost since the end of the 1970s. In other words, in one year, 1989 to 1990, the index of real prices paid to agricultural producers increased over 38 percent.

The impact of the policy changes were felt broadly across the agricultural sector, with prices increasing in 1990 for all product groups except fruit. For some product groups, the increases were even more dramatic – over 40 percent for basic grains, as expected, and almost 55 percent for traditional exports.

The index of real prices paid to producers fell in 1991 (to 101.4) and again in 1992 (to 85.5) as liberalized tariffs spurred imports and good weather produced record crops throughout Central America. While the drop demonstrates the limits of policy prescriptions, it also underscores the importance of not only maintaining but deepening the reforms. Reforms related to land tenure and land use are particularly important if the country is to solidify the gains it initially made through price and tariff policy corrections.

Preliminary figures available for 1993 suggest that prices have started up again in 1993 (the overall index rose from 85.5 to 93.6). Record prices are being forecast for 1994. These improvements likely stem from increased and more uniform application of the Central American price band system which has reduced the price variability related to imports. Producer prices as a whole, as well as for prices of basic grains and traditional agricultural exports, were still substantially higher in 1993 than during the decade of the 1980s.

## **2. Increases in Area Planted**

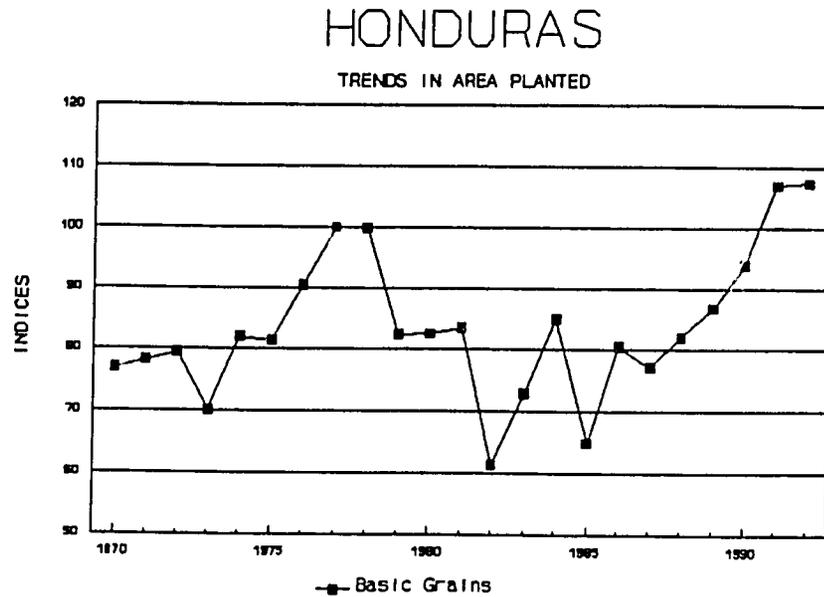
The next indicator is changes in the area planted to different crops. Farmers respond to improved incentives for a crop primarily by increasing the area that they plant to that crop. Area planted is probably the most reliable indicator of the impact of policy changes. It reflects producers' responses to the economic conditions they perceive. Total production or yield indicators, on the other hand, are more responsive to other variables such as weather which is beyond the producer's control.

Basic grains farmers responded particularly strongly to the price increases in 1990 by increasing the area planted to basic grains by almost 13 percent per year between 1989 and 1990. All indications are that the increases are continuing, although hard data are not yet available.

The areas planted to other crops also responded positively during these years. The area planted to melons, for example, increased 200 percent between 1988 and 1989 exactly at the time the government established an export certificate program designed to return more of the export value to producers of both traditional and non-traditional agricultural exports. Since the value of these

certificates was determined by the value of the dollar in the parallel market, they in fact constituted a preferential exchange rate for exporters. The area planted to coffee also increased at a much faster rate (over 13 percent) than normal between 1988 and 1989.

### 3. Increases in Production and in the Value of the Output of the Agricultural Sector



SOURCE: PROCEPAH

Agricultural production responded very positively to these price changes, with total production (based on an analysis of 25 crop and livestock products) growing at a rate of 6.9 percent per year between 1989 and 1990 and 3.7 percent per year between 1991 and 1993. This was faster than the rate of increase during the 1980-89 period (2.2 percent per year) and the 1970s (2.7 percent per year), neither of which kept up with population growth.

Most sub-sectors participated in this growth, especially the producers of basic grains and livestock products. The production of basic grains increased by 11.2 percent between 1989 and 1990, beef production by 7.3 percent and the production of livestock for export 10.9 percent. Basic grains production continued to increase between 1990 and 1991, but fell 8.9 percent in 1992 due to poor weather.

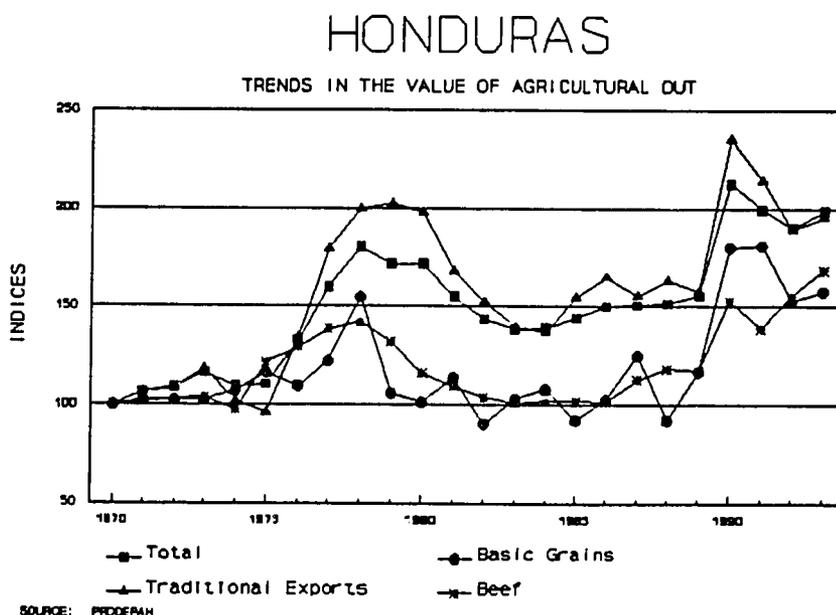
With prices and production both increasing, the total value of the output of the agricultural sector also increased dramatically as a result of the 1990 policy changes (37 percent between 1989 and 1990 compared to -1.1 percent per year for the period from 1980 to 1989). The value of grain production jumped by over 54 percent between 1989 and 1990, the value of traditional exports increased by almost 50 percent and the value of beef production by over 30 percent. Basic grain value continued to increase from 1990 to 1991, and although it slumped in 1992, it regained some lost ground in 1993. Expected higher prices in 1994 will likely increase the value of grain production in the current year, although a drought threatens production. The real value of beef production has increased steadily since 1991.

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Despite the vagaries of weather, the real value of total production, as well as of grains, traditional exports, and beef, was significantly higher in 1993 than it was in 1989 before the price reforms were implemented.

#### 4. Value Added in Agriculture

To understand how much the agricultural sector contributed to the economy as a whole or how much of the value produced by the sector is likely to be available to those working in the sector (farmers, land owners, agricultural laborers) one has to look at another measure – the value added by the agricultural sector (or agricultural GDP). This is estimated by subtracting all costs of inputs from outside the sector from the value of all the output of the sector. Costs outside the sector include items such as manufactured fertilizers, pesticides, agricultural machinery. The number that is left represents the total value that the agricultural sector, itself, contributed to the economy. This value is available to pay the factors of production within the agricultural sector – land, labor, capital, management.



The value added measure has shortcomings. It is a much more difficult number to estimate than the value of agricultural output. Since some of the value added may go as payments to the owners of land who live in urban areas, it is not a perfect measure of the income available to rural people. It provides no information as to how the value returning to the agricultural sector is distributed among households. Much of this type of data will be collected in the on going household survey. It is, however, useful as a first approximation of changes in the value of the agricultural sector's output that is available to those working in the sector.

According to estimates of value added in agriculture that are available for Honduras, total value added by the agricultural sector, in real terms, has increased fairly steadily since 1975 with an extra spurt of growth in 1990.

The index of real value added in agriculture increased from 100 in 1975 to 189.9 in 1993, but approximately 20 percent of that increase occurred in the three years following the 1990 reforms. When one looks at per capita income distribution, however, one gets a different picture. In per capita terms, the real value added by the agricultural sector appears, over the

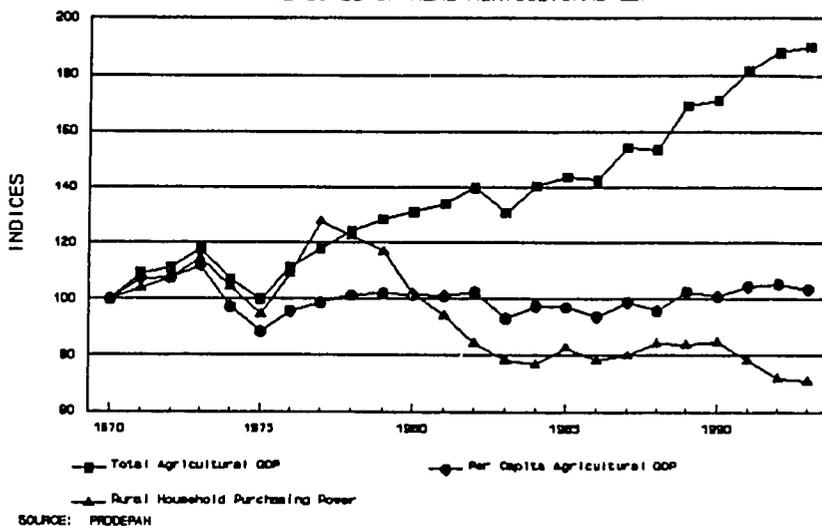
longer-term, just to be managing to keep even with population growth. If one looks more closely, however, one can see that per capita agricultural GDP was below par during the 1980s and has been above par since the 1990 price reforms.

### 5. Increases in Household Incomes

Actual change in household incomes is the best indicator for overall increases in food security. The Honduras Mission has been able to assess the impact of the policy changes on households directly, using data from a multi-purpose household survey that the GOH has conducted twice a year since 1989.

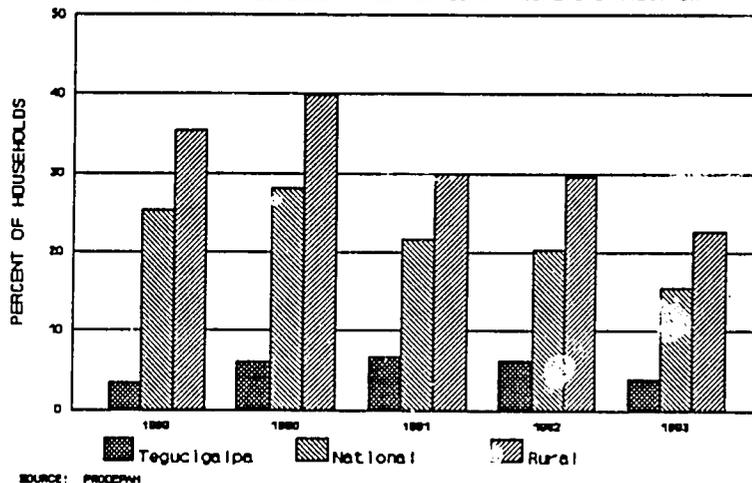
## HONDURAS

MEASURES OF REAL AGRICULTURAL GDP



## HONDURAS

PERCENT HOUSEHOLDS IN BOTTOM 20% INCOME DISTRIBUTION



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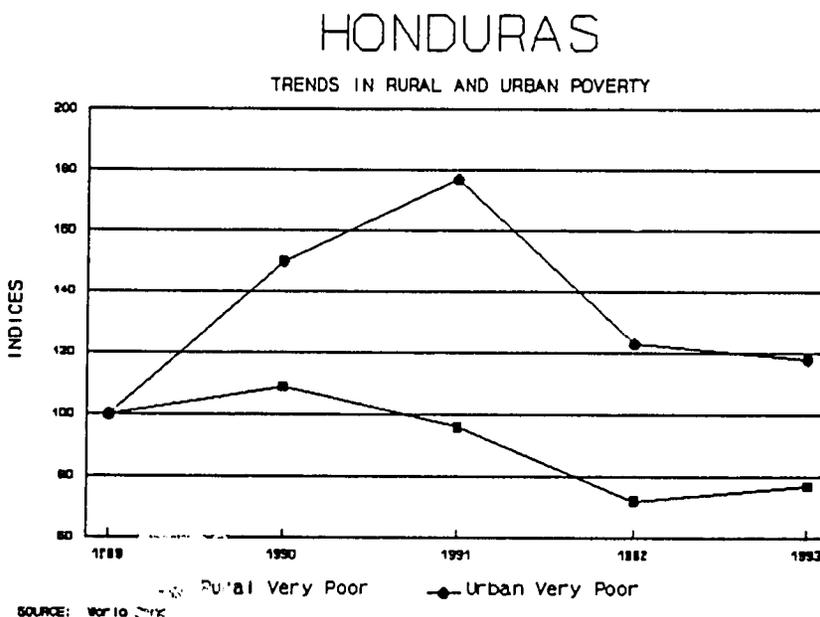
Interpreting from the data from this survey, one can infer the impact of the policy changes on the households for the nation as a whole; on urban versus rural households; and within the rural areas, on households at the lower level of the income distribution versus those at the higher level.

These data make clear that poverty is much more pervasive in the rural areas of the country than in urban areas. In 1989, for example, only 3.5 percent of households living in Tegucigalpa, the capital of the country, were in the bottom 20 percent of the income distribution compared to 35 percent of rural households. It is significant that although the percentage of households found in the lowest 20 percent of the income distribution increased between 1989 and 1990 (the first year of the reforms), the percentage decreased each year thereafter. This trend holds true for the country as a whole, for households living in rural areas of the country, and for those living in urban areas other than Tegucigalpa. In Tegucigalpa the percent of households in the bottom 20 percent of the income distribution increased by 0.6 percent between 1990 and 1991 and began declining thereafter. The most important finding is that rural households appear to have made the most progress. That is, the percentage of rural households in the bottom 20 percent of the income distribution declined by 12.8 percentage points between 1989 and 1993, compared to a decline of 9.7 for the country as a whole and an increase of 0.4 percentage points for Tegucigalpa.

## 6. Reductions in Poverty Levels

Recent calculations of the trends in poverty in Honduras using the same household survey data base also indicates that the poor in rural areas have benefitted, as expected, from the policy changes that took place in the early 1990s. These findings are important from a food security perspective because

they compare household incomes to the cost of a nutritionally adequate diet, with households that are too poor to be able to afford a nutritionally adequate diet classified as "very poor."



The rural population, according to these estimates, suffered less during the initial years of the adjustment period as incomes in the lower strata rose substantially in 1991 and 1992 and brought poverty levels down. The percentage of the rural population living in poverty increased by only 9 percent between 1989 and 1990, for example, compared with a 50 percent increase for the

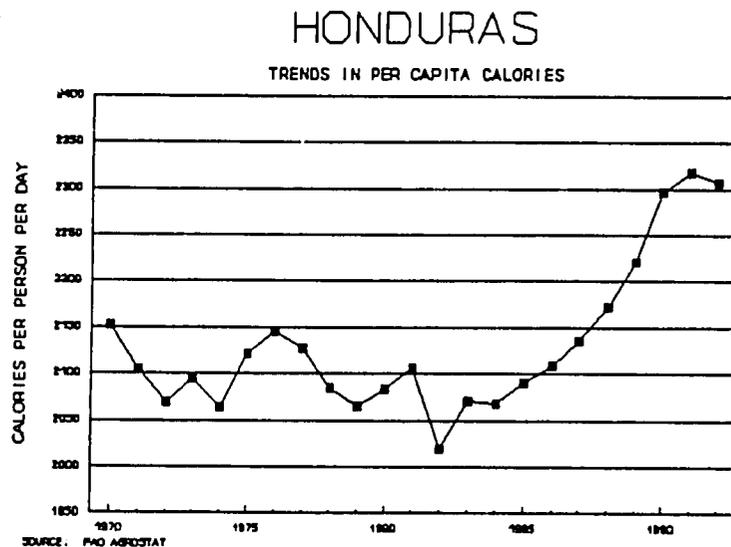
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urban population. Furthermore, the proportion of poor in the rural areas started to decline in 1991, and by early 1993 was substantially lower than at the beginning of the adjustment period -- 23 percent lower, in fact. The urban poor, on the other hand, fared worse. The index for urban poverty was 77 percent higher in 1991 than in 1989, for example, and despite a sharp reduction in urban poverty later in the period, poverty levels among the urban populations remained 18 percent higher in 1993 than their 1989 level.

In other words, these price policy changes have had a dramatic and positive effect on reducing poverty in rural areas. Efforts at reforming the agricultural sector cannot stop here, however. Despite these improvements, the rural poor continue to constitute the majority of the poor in Honduras. Seventy-eight percent of the households in the poorest 30 percent of the income distribution in 1992 were rural. And the poor are also still concentrated in agriculture, with 76 percent of poor households classified as self-employed in agriculture, i.e. primarily campesino families.

### 7. Increases in Per Capita Calorie Availabilities --

Data from FAO's food balance sheets indicates that per capita calories have increased dramatically since the mid-1980s, from 2068 calories per person per day in 1984 to a high of 2318 calories per person per day in 1991, although the per capita calorie availability dropped in 1992, to 2306 calories. The Mission believes that per capita caloric availability has continued to decline in 1993 and 1994.



The major issue is with respect to the sustainability of the production increases, especially if the policy reforms are not maintained and deepened. The question is whether the fairly steady and overall dramatic increases that have taken place in calorie availabilities since the mid-1980s can be sustained. This is a particularly important question for USAID, given the important role that PL-480 wheat imports have played in enabling these increases to have occurred.

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## 8. Increases in Non-Traditional Agricultural Exports

As stated above, it is difficult to attribute impacts of policy reform to increases in the volume and value of exports, especially over a short period of time. There are many factors which influence the export of Honduran traditional export crops, primarily international prices. In addition, the predominant traditional Honduran exports are bananas and coffee. These are plantation crops and unless one chooses to simply not harvest the crop, there is little one can do in the short-term to greatly influence production. These crops have also been subject to recent changes in international marketing agreements. Coffee quotas were first suspended and then revived, and banana exports from the Americas to the large European market were reduced by the Lomé Convention.

Non-traditional crops are even slower to respond, primarily because there is a "learning curve" associated with their successful production, processing, and marketing. It often takes 3-5 years under the best circumstances to identify a potentially profitable crop, establish the agronomic protocols required to successfully produce it, and then be in position to penetrate an established market.

Nevertheless, the data indicate that Honduras has been relatively successful in increasing exports since the 1990s. Although traditional crop export volumes have increased since 1991, their values have decreased due to falling world commodity prices. In non-traditional crops, which have been the focus of many of the local currency funded activities aimed at raising rural household incomes and foreign exchange, the picture is brighter.

Since 1990, the volume of non-traditional exports has increased from 120,000 metric tons to over 204,000 metric tons, a more than 70 percent increase. Cultivated shrimp and melons have each more than doubled in volume during the period. Total value of non-traditional export crops has increased from \$45 million in 1990 to \$103 million in 1993. During the first year of the program alone, the increase in value exported was 26 percent. These data are particularly impressive considering that during the 1980s the export of non-traditional products remained relatively steady or, in some cases, actually declined. Both the policy changes and the local currency funded activity components of the Title III program merit credit for reversing the trends of the 1980's.

NOTE: The analysis in this section draws heavily on data made available from the PRODEPAH (the USAID supported Agricultural Policy Analysis and Implementation Project) as well as a prior analysis of the results of the structural adjustment program by Magdalena Garcia and Dean Schreiner ("Principales Resultados de los Programas de Ajuste Structural en Honduras," Tegucigalpa, Honduras, June 1993.)

## VI. IMPACT OF THE LOCAL CURRENCY FUNDED ACTIVITIES SUPPORTED UNDER THE FY92-94 TITLE III PROGRAM IN HONDURAS

The FY92-94 Title III program in Honduras was designed with two components. The first is a policy reform component as explained above. The second component, the subject of this section, is support to specific and sectoral local currency funded activities which are consistent and complementary to the policy reform program. Again, these activities emphasize improving food security through improving the availability, access, and/or utilization of food, especially among the rural poor. Some of these programs are short-term and temporary, while others are medium- or long-term and are aimed at reaching sustainable improvements in food security.

Through sector specific interventions, the Title III program has been particularly successful at improving availability of food at the national level by increasing production and foreign exchange earnings. A listing of local currency activities and amounts, as well as a matrix to describe their relationship to program purposes is developed in Annex E. A second matrix demonstrates how local currency activities relate to the three key aspects of food security - availability, access and utilization (Annex F). At the household level, activities funded with local currency have increased the access of family members to improved quantities and qualities of food. Program support to the natural resources sector has increased production, improved sustainability, and enhanced food utilization through protection of land, forest, and water resources.

### A. Specific Sector Support

#### 1. Projects GOH/USAID

##### a. Export Development and Services (522-0207)

The purpose of the EDS Project is to increase nontraditional exports. The project has two components, both of which involve support of NGOs created by the private sector to develop export markets and increase domestic and foreign investment in both the agricultural and manufacturing sectors. The project contributes to Mission Strategic Objective No. 1, Enhanced Economic Participation and Increased Incomes of the Poor.

The Foundation for Investment and Development of Exports (FIDE) activity directly contributed to enhanced food *availability* at the *national level* through increasing non-agricultural exports, leading to increased availability of foreign exchange which could be used to import basic food or feeds not produced in Honduras. Food security was enhanced over the *medium-term* through increasing the ability of Honduras to import food commercially. The activity contributed to the creation of 99 new commercial investments worth approximately \$195.4 million, generating approximately \$150 million in foreign exchange on an annual basis. The activity also contributed to enhanced food *access* through increasing employment/incomes at the *household* level. Approximately 42,000 jobs were created, held primarily by women (70%) from poor households. A mid-1992 survey of the area where the investments are located found that the average monthly income of households (aver. 5.4 members) with workers was L.671, well above the L.300 per

month poverty level threshold which limits eligibility for the GOH's food coupon program in urban areas (see Section 'D', below). The survey also found that households with a worker spent L.40 more on food per month than households without workers.

The Honduran Agricultural Producers for Export (FPX) activity directly contributed to enhanced food *availability* at the *national level* through increasing non-traditional agricultural exports, leading to increased availability of foreign exchange which could be used to import basic food or feeds not produced in Honduras. Food security was enhanced over the *medium-term* through increasing the ability of Honduras to import food commercially. The generation of foreign exchange from the annual export of melons (primarily cantaloupes) is more than \$20 million, and from cultivated shrimp \$63 million – up 99 per cent between 1989 and 1992. The sale of cultivated shrimp (one of the FPX's priority products) is now the third largest source of foreign exchange in the Honduran economy. The activity also contributed to enhanced food *access* through increasing employment/incomes at the *household level*. The recent final evaluation of the activity noted that approximately 10,000 jobs were created through FPX's activities, of which roughly 3,600 employed women. Additional food *access* is provided when export crops are produced because a percentage of production – sometimes a large percentage – is unsuitable (or unprofitable) for export and is sold on the domestic market. This is especially true of perishable and price volatile fruits and vegetables which, when sold locally, often add diversity in nutrients to the household's traditional diet. Non-traditional crops that are being promoted by FPX and that may have an eventual significant impact on export earning and direct employment are: cocoa, onion, brambles, litchi, tilapia, mango, watermelon, ginger and asparagus.

#### **b. Forestry Development (522-0246)**

The purpose of the Forestry Development project is to improve the management and sustainable productivity of commercial pine forests. Through promoting and implementing efficient and rationale pine forest management, the project contributes to Mission Strategic Objective No. 2, Effective Stewardship of Key Natural Resources for Sustainable Economic Growth.

This activity directly contributes to enhanced food *availability* at the *national level* through helping to preserve and encourage sustainable management of natural resources which make up the productive base necessary to sustain food production over the *medium- to long-term*. The activity has assisted the GOH in increasing the area under comprehensive forest management programs. Besides underlying the sustainable use of an important natural resource, proper forest management contributes to improved soil and water conservation. Under the planned amendment to the activity, assistance will be offered in developing an effective program of protected areas, most of which are watersheds crucial to agricultural production. The activity also contributes to enhanced food *access* over the *medium-term* through raising incomes at the *household level*. Improved farming and agroforestry techniques have been introduced to over 1,000 households living inside the project's "model unit." The activity has not had a direct impact on job creation. In fact, the number of forestry jobs (around 750) in the model unit probably would have been higher without the activity, since the annual timber harvest would have been higher due to the lack of management plans which regulate, i.e., limit, annual cuts to a sustainable basis. Thus,

the project impact is not so much about creating jobs, as in sustainably managing resources so that rural farm and non-farm job opportunities are long-term.

**c. Small Farmer Organization Strengthening (522-0252)**

The purpose of the SFOS project is to establish a viable system for delivering productive inputs (credit, technology, market services and management skills) to growers in order to increase agricultural productivity and diversify the production base. SFOS works primarily with agricultural cooperatives and credit unions with largely poor and rural memberships. The project contributes to Mission Strategic Objective No. 1, Enhanced Economic Participation and Increased Incomes of the Poor.

This activity directly contributes to enhanced food *availability* through improving the availability of and access to agricultural production credit which directly contributes over the *medium-term* to increased production of basic foods at a *national level*. Of the over 300 million lempiras in loans, over 13% were loaned for direct agricultural production purposes. Savings generated under the activity have provided capital to small and medium sized agricultural producers: 45,600 small loans (\$615 average) were disbursed in 1993, totaling \$28 million. Both the number and overall size of the loan portfolio are expected to increase by 30 per cent during 1994. The activity also likely contributes to enhanced food *access* over the *medium-term* through raising incomes at the *household* level. Although precise income figures are not available, 43% of the loans are made to commerce (largely microenterprise), small industry and transport. These activities provide not only income for owners and employees, they are the forward and backward linkages between agricultural production and household food consumption.

**d. Irrigation Development (522-0268)**

The purpose of the Irrigation Development project, which ended 9/30/93, was to improve farmer productivity and production by providing irrigation technology and on-farm technical assistance for improved agricultural production. The project contributed to Mission Strategic Objective No. 1, Enhanced Economic Participation and Increased Incomes of the Poor.

This activity directly contributed to enhanced food *availability* at the *national level* through increasing traditional and non-traditional agricultural exports, leading to increased availability of foreign exchange and domestic food supplies which could be used to import basic food or feeds not produced in Honduras. Indeed, export earnings from just the irrigation projects constructed under this project were expected to be four to five percent of the Honduran total. Food security was enhanced over the *short- and medium-term* through increasing the ability of Honduras to import food commercially and providing non-traditional dietary additions. The project also increased production of traditional basic grains through irrigation of rice and corn crops. The activity has constructed 160 irrigation projects on 5,258 hectares, resulting, on an annual basis, in over 150,000 metric tons of food and export crop production. The activity also likely contributed over the *medium-term* to enhanced food *access* through raising incomes at the *household* level. Approximately 1,200 households directly benefited from the activity.

**e. Land Use Productivity Enhancement (LUPE) (522-0292)**

The purpose of the LUPE project is to increase hillside agricultural production and productivity on a sustainable basis, including improved management of natural resources on which productivity depends. The project focus is on central and southern Honduras, where environmental degradation from unsustainable hillside agricultural practices is most severe. The project contributes primarily to Mission Strategic Objective No. 2, Effective Stewardship of Key Natural Resources for Sustainable Economic Growth.

This activity contributes to enhanced food *availability* at the *national level* through preserving and encouraging sustainable management of natural resources which make up the productive base necessary to sustain food production over the *medium- to long-term*. Nearly 10,000 hectares of marginal hillside land are under improved management. Nearly 6,000 small hillside farm households have adopted at least two sustainable agricultural technologies. The activity contributes to enhanced food *access* over the *medium-term* by increasing food production/incomes at the *household* level. These same 6,000 households have benefitted from an estimated 50% increase in production, and even greater increases in overall income. More than 3,800 home and school gardens have been planted. Enhanced food *utilization* is addressed at the *individual* level by the activity over the *medium-term* through its encouragement of improved dietary habits and household sanitation practices. Over 500 households are home processing fruits and vegetables, while over 2,000 have developed an improved storage capacity for basic grains.

**f. Policy Analysis and Implementation Project (PAIP) (522-0325.2)**

The purpose of the agricultural component of PAIP is to strengthen the Honduran capacity to formulate and implement agricultural and natural resource management policies and administrative reforms. Long- and short-term technical assistance have been provided by the project to the Ministry of Natural Resources Agricultural Sectoral Planning Unit (UPSA). The project contributes to Mission Strategic Objective No. 1, Enhanced Economic Participation and Increased Incomes of the Poor.

This multi-faceted activity has contributed in a number of ways at the *national level* to improved food *availability* over the *medium-term*. It contributes through improving the investment environment, leading to increased investment in the production of basic food and non-traditional crops. The GOH removed price controls on almost all foodstuffs and other agricultural products, contributing to a 20 per cent growth rate in the agricultural sector between 1989 and 1992. PAIP also enhances availability through the removal of barriers to trade that prevent the free flow of food products into Honduras at reasonable prices, while providing reasonable protection to local producers from subsidized agricultural products in the world and/or regional markets. In late 1992, tariffs on basic grains imported from Central American countries and Panama were significantly reduced. The GOH has since established a program for lowering them even further in the near future and has joined GATT. Food availability is also enhanced through the

reduction/removal of trade and price distortions from trade in agricultural/food products in the Central American region which result in a scarcity of food products on the local market. The GOH made significant adjustments to the exchange rate, making Honduran exports competitive in the agricultural sector. Terms of agricultural trade initially improved by 30 per cent. Finally, this activity contributes to enhanced food availability over the *long-term* through helping to preserve and encourage the sustainable management of natural resources which make up the productive base necessary to sustain food production, through resource management policy work undertaken both by UPSA and the Pan American School of Agriculture in Honduras (Zamarano).

PAIP contributes to enhanced food *access* over the *medium-term* through increasing food production/incomes at the *household* level. According to the GOH's Household Survey results, agricultural production grew between 1990-92 at 5.4 per cent after the reforms supported by this activity were introduced, compared with 2.2 per cent during the seven years preceding 1990, while rural households increased their incomes by 14.7 per cent over the 1989-92 period.

**g. Small Farmer Agribusiness Development (SFAD) (522-0383)**

The purpose of this activity is to increase agricultural production, value-added processing and agricultural exports of participating farmer-owned businesses (FOBs). SFAD continues and expands upon the FOB strengthening activities begun under the SFOS project. The focus is on FOBs with the potential to make significant contributions to agricultural production, value-added processing, and foreign exchange earnings. The project contributes to Mission Strategic Objective No. 1, Enhanced Economic Participation and Increased Incomes of the Poor.

SFAD directly contributes to enhanced food *availability* through increasing agricultural exports, leading to increased availability of foreign exchange which could be used to import basic food or feeds not produced in Honduras. Food security is enhanced over the *medium-term* at the *national level* through increasing the ability of Honduras to import food commercially. Annual foreign exchange earnings for the FOBs are planned to increase by approximately \$15 million. SFAD directly contributes to enhanced availability through improving the availability of and access to agricultural production inputs (credit and technology) which directly contributes to increased production of basic foods and export crops. Average production gains of 30 - 40 per cent for FOBs are projected. The activity also likely contributes to enhanced food *access* over the *short- to medium-term* through raising incomes at the *household* level and providing non-traditional foods which don't meet export standards, although precise figures are not yet available.

**h. Honduran Environmental Protection Fund (522-0385)**

The project purpose is to strengthen and expand environmental protection and natural resource management activities carried out by NGOs in Honduras. Funding priority is given to activities, implemented by partnerships of U.S. and Honduran NGOs, supporting sustainable management of watersheds, and conservation of ecosystems and biodiversity. The project contributes primarily to Mission Strategic Objective No. 2, Effective Stewardship of Key Natural Resources for Sustainable Economic Growth.



This activity directly contributes to enhanced food *availability* at the *national level* through helping to preserve and encourage sustainable management of natural resources which make up the productive base necessary to sustain food production over the *medium- to long-term*. One of the two priority areas of this activity – management of watersheds – is crucial to sustainable food production. Within this context, the activity supports efforts to promote sustainable agricultural practices, and to manage protected areas, particularly key watersheds. The activity will also contribute to *medium-term* sustained food *access* at the *household* level by maintaining, if not increasing, household production through the use of sustainable agricultural practices. For example, the activity supports the use of fruit trees in reforestation buffer zones of protected areas comprising important watersheds. Lastly, the activity will support enhanced food *utilization* at the *individual* level by increasing the supply of potable water sources, as well as other activities related to food utilization. A sustainable agriculture training center supported by the activity will, for example, offer education to improve the dietary habits of small farm households.

#### **B. GOH Counterpart to the USDA Screwworm Eradication Program**

Screwworms are a leading source of cattle disease, death and decreased milk and meat production in Honduras. It strikes particularly hard at poor farmers who have less access to animal health services due to their isolated location or financial constraints. The USDA implemented activity is effectively eradicating the screwworm from Honduras and the region, replicating the program's success in the Southern and Western U.S.

The activity contributes to enhanced food *availability* at the *national level* through improving the availability and access to appropriate animal health technology which directly contributes over the *medium-term* to increased production (screwworm eradication improves livestock weight gain) of a basic food in Honduras. Food availability is enhanced by increasing agricultural exports, leading to increased availability of foreign exchange which can be used to import basic food or feeds not produced in Honduras. Livestock is a broad-based industry in Honduras, with both small- and large-scale livestock owners. Food *access* at the *household* level is enhanced through the activity's contribution to increasing the incomes and food for own consumption of small-scale livestock owners.

#### **C. GOH Counterpart to USAID CRSP Programs**

The Collaborative Research and Support Program (CRSP) is a joint undertaking between U.S. research institutions and host country counterparts to address commonly held agricultural research priorities. The CRSP is, by most accounts, a cost effective method of gaining valuable and otherwise unavailable research expertise. The PL-480 Title III program provided partial funding for four CRSP activities: Bean/Cowpea, Sorghum/Millet, Pond Dynamics and Tropical Soils Management. Each is supportive of improved food security. The achievements attained during 1992-94 under these four activities are the result of close collaboration between U.S. and Honduran researchers, as well as a modicum of support from USAID's Title III program.

The CRSP activity enhances food *availability* at the *national level* through improving the availability and access to agricultural production technology which directly contributes over the *medium-term* to increased production of basic foods in Honduras. For example, the Bean/Cowpea and Sorghum/Millet CRSPs have trained Honduran agronomic scientists, developed disease and drought resistant varieties of important food and feed grains, and promoted their adoption through test plots, trials and on-farm demonstrations. The activity improved food availability by increasing non-traditional agricultural exports which provided foreign exchange to import basic food or feeds not produced in Honduras. The Aquaculture (Pond Dynamics) CRSP has contributed to fresh and saltwater culture of food products for both domestic and export markets. The activity contributes to enhanced food availability by preserving and encouraging sustainable management of natural resources which make up the productive base necessary to sustain food production over the *medium- to long-term*. The Soils Management CRSP has, for example, taught Honduran soil scientists to quantify the impacts of soil conservation interventions employed by thousands of households farming environmentally sensitive hillside lands. This has increased *access* at the *household level* in the *short- to medium-term* by increasing yields and family incomes.

#### D. PRAF

This activity directly increases food *access* at the *household level* on the part of poor urban and rural mothers and children through *short-term* targeted subsidies. The GOH created the Family Allotment Program (PRAF) in 1990 with the primary objective of "providing special protection to children at nutritional risk." The program aims at protecting vulnerable populations groups who suffer the special burden of an economic structural adjustment program.

Title III resources support two of PRAF's four subprograms. The first is the "Women Head-of-Household Coupon Project," which aims to cushion households where the mother provides the family's sole economic support. A monthly 20 lempira food coupon is provided to each child registered in a primary school during 10 months of the year. There is a limit of three coupons per month per family. Through 1993, this subprogram had benefited nearly 513,000 school children. The second subprogram, the "Mother-Child Coupon Project," partially subsidizes (again using a 20 lempira monthly food coupon) the food requirements of poor pregnant and lactating mothers, and children under five years of age. Over 68,000 mothers and 109,000 children had benefited through 1993. The second subprogram also contributes to improved food *utilization* at the *individual level* by encouraging exclusive breastfeeding, weaning and improved dietary habits. Since mothers are required to bring their children into a health center on a monthly basis in order to receive their coupons, where the children are given a checkup and can receive early treatment for diarrhea and acute respiratory infections, be vaccinated, and have their growth monitored, improved health and food utilization is further encouraged.

## **E. Honduran Agricultural Research Foundation (FHIA)**

The purpose of this project is to establish a private, non-profit and financially viable agricultural research organization to expand and improve the agricultural research system in Honduras. FHIA's research is oriented toward adapting technologies and crops to benefit small- and medium-scale farmers.

This activity directly contributed to enhanced food *availability* through increasing traditional and non-traditional agricultural exports, leading to increased availability of foreign exchange which could be used to import basic food or feeds not produced in Honduras. Food security was enhanced over the *medium-term* at the *national level* through increasing the ability of Honduras to import food commercially. The recent final evaluation of the activity noted that roughly \$8.3 million in foreign exchange resulted from FHIA's activities in 1993 alone, and that earnings over the life of the activity exceeded \$150 million. The activity contributes to enhanced food availability through improving the availability and access to agricultural production technology which directly increases production of basic foods in Honduras, particularly bananas and plantains. The activity enhanced food *access* by increasing employment/incomes at the *household* level. Over 6,375 jobs were generated by the activity in 1993 alone. The evaluation also found that the over 10,000 farm households benefiting from the activity saw their incomes by more than 25 per cent in real terms during the life of the project.

## **G. GENERAL SECTOR SUPPORT**

### **1. GOH Environment Ministry (SEDA)**

This activity contributes to enhanced food *availability* at the *national level* through helping to preserve and encourage the sustainable management of natural resources which make up the productive base necessary to sustain food production over the *long-term*. SEDA has primary responsibility for ensuring the proper application of the Honduran Environmental Law, passed in June 1993. One of the key principles underlying the Law is the sustainable management of natural resources. SEDA is working with other GOH institutions to enhance long-term food security through the promotion of sustainable agriculture practices.

### **2. Natural Resources Ministry/Pan American School of Agriculture in Honduras (EAP/Zamorano)**

This activity directly enhances food *availability* at a *national level* by improving access to agricultural production technologies which contribute over the *medium-term* to increased production of traditional and non-traditional basic foods. The EAP graduates approximately 120 students per year as agricultural technicians with a variety of food production, processing and marketing skills. The MNR's promotion of improved sorghum varieties developed largely at Zamorano (with assistance from the CRSP) increased from commercial sorghum production from 50,000 MT to 90,000 MT. Moreover, the MNR has been the main vehicle for implementing many of the policy reforms attributable to the FY92-94 PL-480 Title III program (see Policy

Matrix). This activity contributes over the *medium-term* to enhanced food *access* through raising food production/incomes at the *household* level. Subsistence farmers have been provided a technological package that increases their average yield from 22 units/Ha to 48 units/Ha. More than 100 demonstration plots per year have been planted and monitored since 1992.

## VII. Conclusions

The evaluation shows that **Title III supported policy reforms and local currency funded activities made significant and measurable impacts on availability and access to food within Honduras, especially among the rural poor.**

It also demonstrates that **continued reform is necessary, as is effective implementation of the reforms.** In some cases, reforms have been only partially implemented, reducing their impacts or preventing them from reaching all intended beneficiaries. Institutions in the midst of reform will need continued local currency support to maintain their momentum of change. In a few cases, the evaluation documented backsliding on reforms by the GOH which, unless checked, threatens the increased food security and household incomes achieved so far under the program.

Honduras is at a watershed in the process of institutionalizing economic and social change. The new GOH faces an unprecedented foreign exchange crisis, a drought that threatens agricultural growth and food supplies, and a chronic energy shortage that eliminates off-farm job opportunities daily. Difficult policy measures must be taken in order to restore the conditions for economic growth.

## VIII. Recommendations

The evaluation team recommends that a subsequent Title III program be developed to continue the progress made under the FY92-94 program. Like the subject program, it should continue efforts to increase food availability and improve food access by the poor, as well as contribute to effective food utilization.

The team also recommends sustained support for policy reforms that improve food security for the rural poor through increased production and incomes; and it recommends funding local currency activities which are consistent with policy reforms and obviate negative impacts of reform on the poor.

In the face of a critical economic and social situation within Honduras, the GOH is under pressure to revert to the centrist, statist "solutions" of the past. The reforms and local currency activities attainable through a subsequent Title III program will ensure that prior reforms are maintained and that additional reforms broaden benefits. The policy dialogue made possible by a subsequent Title III program will ensure that measures taken by the GOH to confront the current crisis are supportive of a sustainable growth model. The program will continue to leverage other donor assistance. A FY95-97 Title III program is both necessary and desirable.

## **IX. Lessons Learned**

The principal lessons learned and highlighted by the evaluation of the FY92-94 Title III program are:

- ◆ **The balance of payment component of the Title III program is an effective means of securing significant policy changes which enhance food security, particularly when local currency generated from sale of commodities is programmed to activities which support implementation of the reforms.**
- ◆ **Program success was enhanced by integration with several of the Mission's DA-funded activities and close coordination with programs of other major donors in the agricultural sector, particularly the World Bank and InterAmerican Development Bank.**
- ◆ **The impact on improved food security is enhanced when the policy reform agenda is comprehensive. In the case of the FY92-94 program, the primary emphasis was on price incentives and trade liberalization which had demonstrable effects on agricultural production and rural incomes. However, without concurrent improvement in access to agricultural inputs such as credit, market information, and land, small farmers would not have been able to respond as fully to market incentives.**
- ◆ **Policy reforms have limited effectiveness if not maintained and fully implemented, and in many cases, deepened. While the FY92-94 program benefitted from policy groundwork laid in preceding programs, to achieve sustainable food security, additional Title III support will be needed.**

## Food Security Involves the Following Three Interrelated Components:

### **Aspects of Food Security:**

Availability: Food availability is achieved when sufficient quantities of appropriate, necessary types of food are consistently available – through domestic production, commercial imports, or donors – to individuals within a country.

Access: Food access is ensured when households and all individuals within them have adequate resources, e.g., income, home production, functional market and transport systems, to obtain appropriate foods for an adequate nutritious diet.

Utilization: Appropriate food processing and storage, adequate knowledge of nutrition/child care, and health, potable water, and sanitation services to ensure that the food eaten is utilized effectively by the body, thus resulting in nutritional benefit.

### **Levels of Food Security:**

National: Enhancing food security at this level involves maximizing efficient domestic production and building the ability to import commercially, i.e., increasing food *availability*, and/or improving food *access* through better functioning market and transport systems.

Household: At the household level, the focus is on improved food *access* through increased home production and/or monetary income or other resources with which to obtain it.

Individual: As well as households having access to food, concern must be given to *utilization* by individuals. Health services, potable water and sanitary living conditions are key factors.

### **Food Security Timeframe:**

Long-term: Addressing food security over this timeframe usually involves food *availability* through ensuring the sustainability of agricultural production and other natural resource use.

Medium-term: All three aspects of food security are typically addressed during this timeframe: enhanced *availability* through efforts to increase domestic agricultural production, and by strengthening a country's ability to commercially import food; enhancing food *access* through increasing incomes, decreasing food prices, and improving market and transportation systems; improved food *utilization* is addressed through improvements in primary health care, potable water and sanitation, as well as education improving dietary habits.

Short-term: Short-term interventions address transitory food insecurity, particularly where famine, disaster and civil strife create food emergencies. Direct feeding programs can also address food insecurity caused by economic crisis, e.g., very high inflation, or exacerbated by economic adjustment programs.

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## PL 480 Title III: Food Security Analytical Framework

The following questions should be used in analyzing the impact or potential impact of projects supported by PL 480 Title III local currency on food security. We should apply these questions to the past performance of activities (i.e. has it ...?), and to the future (is it likely to...?), as well as to the present (does it ....?) In each case, evidence should be provided.

Availability

- Does the activity improve availability or access to agricultural production inputs (land, credit, water, technology) which directly contribute to increased production of basic foods in Honduras?

- Does the activity improve the investment environment leading to increased investment in production of basic food or feed crops in Honduras? (tariffs, prices, market mechanisms or access, infrastructure, etc.)

- Does the activity directly contribute to increasing non-traditional agricultural or non-agricultural exports, leading to increased availability of foreign exchange which can be used to import basic food or feeds not produced in Honduras?

- Does the activity remove barriers to trade that prevent the free flow of food products into the country at reasonable prices while providing reasonable protection to local producers from subsidized agricultural products on the world or regional markets?

- Does the activity help remove trade and price distortions from trade in agricultural/food products in the Central American region which result in serious scarcity of food products on the local market?

- Does the activity help preserve and encourage the sustainable management of natural resources (land, water, fish/aquatic animals, trees) which make up the productive base necessary to sustain food production over the long term?

Access

- Does the activity help increase employment and/or incomes of the poor?

- Does the activity help increase food production or reduce food losses in poor households - over both the short and long term?

- Does the activity help increase access to food or the purchasing power of poor urban or rural households through targeted subsidies?

- Does the activity help reduce inflation significantly - particularly of the basic food basket?

- Does the activity help provide the necessary infrastructure or transportation networks to connect isolated areas with markets?

Utilization

- Does the activity help reduce the incidence and duration of

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disease - particularly diarrheal, respiratory and vector borne diseases?

- Does the activity make safe water readily available to households?

- Does the activity improve sanitation particularly at the household level?

- Does the activity encourage adequate breastfeeding, weaning and sound dietary habits (particularly in women and children)?

- Does the activity teach both mothers and the medical community how to adequately manage diarrheal and respiratory diseases and malnutrition in children?

## LOGICAL FRAMEWORK FOR THE HONDURAS 1992-94 TITLE III PROGRAM

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><u>PROGRAM GOAL:</u></p> <p>To improve the food security of the Honduras population.</p>	<p>Reduction in child malnutrition from 20.2 percent of children aged 12 to 23 months malnourished (weight-for-age at minus two standard deviations or worse) to 18 percent in 1994.</p>	<p>Base-line data on child malnutrition is available from the 1987 DHS survey; this survey will be repeated in 1995, at which time one will be able to assess changes using a comparable indicator.</p>	<p><u>GOAL TO SUPERGOAL.</u></p>
<p><u>PROGRAM PURPOSE:</u></p> <p>1. To increase overall food availability in the country, directly through increases in food production and indirectly through increases in foreign exchange earned through increased agricultural exports.</p> <p>2. To improve the access of the rural poor to better diets.</p> <p>3. To maintain the natural resource base so that increases in food and agricultural production can be sustained.</p>	<p>1. Increase in per capita calorie availability from 2221 in 1989 to 2300 in 1994.</p> <p>2a. Increase in real agricultural GDP, total and per capita.</p> <p>2b. Increase rural household incomes, especially in the lowest quintile; increase incomes and/or food produced for own consumption of households receiving assistance under Title III local currency financed activities, especially under PRAF and LUPE.</p> <p>2c. Decrease in the percentage of rural households below the poverty line.</p> <p>3a. Increase in number of households using environmentally sound agricultural practices, particularly small farmers participating in LUPE.</p> <p>3b. Increase in the area of pine forest under effective forest management programs.</p>	<p>1. Food balance sheets from FAO and PRODEPAH.</p> <p>2a. Estimates of changes in real agricultural GDP from PRODEPAH.</p> <p>2b. Estimates of changes in rural household incomes are available from PRODEPAH, based on a GOH household survey that is conducted every year beginning in 1989.</p> <p>2c. Estimates of changes in the percentage of rural households living in poverty are available from the World Bank based on data from the GOH's annual household survey.</p> <p>3a. Estimates of area under environmentally sound agricultural practices from the LUPE project M&amp;E system.</p> <p>3b. Estimates from the Forestry Development project M&amp;E system.</p>	<p><u>PURPOSE TO GOAL</u></p> <p>1. Poor households will spend a proportion of their increased incomes to improve family diets.</p> <p>2. Some of the increased food available will be fed to children.</p> <p>3. Poor households whose incomes have increased will also have access to improved primary health care services, including nutritional information, as a result of other Mission and other donor funded programs.</p> <p>4. Poor mothers will take advantage of the increased availability of preventative care services and adhere to the recommendations.</p> <p>5. Access of rural households to potable water and sanitation facilities will improve as a result of other programs funded by the Mission and other donors.</p> <p>6. Other activities of the Mission, other donors and the GOH will complement and reinforce the activities supported under this program.</p>

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><u>PROGRAM OUTPUTS: POLICY REFORMS</u></p> <p>1. Price distortions in the agricultural sector reduced and incentives for agricultural production improved.</p> <p>2. Investment in the agricultural sector increases.</p> <p>3. Production of basic grains increases, as does the area planted and production and sale of non-traditional agricultural products produced by small farmers.</p> <p>4. Value of traditional and non-traditional agricultural exports increases.</p> <p>5. The policy reforms are also outputs of the project, intermediate to those above. The specific benchmarks (outputs), and their indicators and means of verification, are laid out in detail in the policy reform matrix</p>	<p>1. Degree of price distortions affecting a range of key agricultural products.</p> <p>2a. Investment in the agricultural sector in real terms.</p> <p>2b. Amount of land area under irrigation</p> <p>3. Area planted and production of basic grains and key non-traditional agricultural exports.</p> <p>4. Volume and value of traditional and non-traditional agricultural exports by year.</p> <p>5. See policy reform matrix.</p>	<p>1. Annual analysis of nominal and effective protection coefficients for key agricultural products by PRODEPAH.</p> <p>2a. Estimates of the value of investment in the agricultural sector are available by year from the Central Bank.</p> <p>2b. Data on land area under irrigation from the Irrigation project M&amp;E system.</p> <p>3. Data on basic grains production from the annual basic grains survey; data on production of non-traditional agricultural exports from the Agricultural Research Foundation project and the Export Development and Services project.</p> <p>4. Estimates of the annual volume and value of traditional and non-traditional agricultural exports from PRODEPAH.</p> <p>5. See policy reform matrix</p>	<p><u>OUTPUTS TO PURPOSE</u></p> <p>1. CACM countries maintain free market policies.</p> <p>2. Farmers respond positively to improved incentives.</p> <p>4. Increased private sector role in marketing will lead to reduced marketing margins and higher farm-gate prices.</p> <p>5. The lack of technology is not an immediate constraint to increased agricultural production.</p>
<p><u>PROGRAM OUTPUTS: LOCAL CURRENCY USES</u></p> <p>Each project that receives local currency financing has its own set of purposes and outputs which are laid out in detail in their respective project documentation.</p>	<p>Each project also has its own set of indicators. Those relevant to the Title III program will be identified and reported on in a consolidated fashion.</p>	<p>Information will be collected from individual project M&amp;E systems and reported on in a consolidated format.</p>	

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NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>INPUTS:</p> <hr/> <ol style="list-style-type: none"> <li>1. Wheat</li> <li>2. Local currency expenditures</li> <li>3. Technical assistance (considerable non-Title III funded technical assistance has also been used to support Title III policy reform and local currency funded activities)</li> </ol>	<ol style="list-style-type: none"> <li>1. Annual tonnage by type of wheat</li> <li>2. Amount of local currency generated</li> </ol>	<ol style="list-style-type: none"> <li>1. Shipping records.</li> <li>2. Local currency record</li> </ol>	<p>INPUTS TO OUTPUTS:</p> <hr/> <p>Commodity levels and size of overall Title III program sufficient to encourage GOH to adopt policy reforms.</p> <p>Local currencies generated by the sale of the commodities are programmed well and that the projects financed achieve their objectives.</p>

ISSUES	OBJECTIVES	BASELINE STATUS	PROGRAM CONDITIONS TO BE MET DURING:			CURRENT STATUS
			1ST YEAR (1992)	2ND YEAR (1993)	3RD YEAR (1994)	
<p>1 <u>Distortions Affecting Agriculture</u></p> <p>1.1 Price Distortions</p>						
<p>Honduras maintained an overvalued exchange rate, trade restrictions, and a protective tariff regime which favored import substitution industries and discriminated against productive investment in the agricultural sector</p>	<p>Increase investment in agriculture and the production of tradables such as export crops and basic grains by eliminating exchange rate, tariff, and trade distortions</p>	<p>In 1990 the new GOH took important steps to restore investment in agriculture. These steps included (1) Devaluing the exchange rate, and (2) reducing import tariffs to a range between 5-20 percent</p>	<p>a.1 The GOH will eliminate all import and export controls (except certain phytosanitary and animal health measures) on agricultural trade by June 1992</p>	<p>THE FOLLOWING IS IMPLIED BUT NOT STATED IN THE AGREEMENT</p> <p><i>The GOH will continue to maintain a liberalized pricing and trade regime for the agricultural sector</i></p>	<p>THE FOLLOWING IS IMPLIED BUT NOT STATED IN THE AGREEMENT</p> <p><i>The GOH will continue to maintain a liberalized pricing and trade regime for the agricultural sector.</i></p>	<p>a.1 Import/export controls were nominally lifted on all agricultural products except beans and sugar. In 1993 a bean shortage led Honduras to impose an existing ban on the export of beans, and inappropriate and discriminatory phytosanitary criteria still impede trade in corn and rice.</p> <p>In July 1994 the GOH began to ration foreign exchange through a daily auction within a narrow band of acceptable prices, and multiple exchange rates exist.</p>
<p>During 1980's GOH distorted CACM trade and maintained direct price controls on almost all foodstuffs, especially basic grains of which 60% are produced by small farmers who have limited short-run options for diversification or off-farm employment.</p>	<p>Increase the incomes of domestic producers, especially small farm families which produce basic grains, by freeing trade and eliminating price controls on most foodstuffs and basic grains</p>	<p>The 1991 PL 480 Program included Self-Help measures addressing traditional issues constraining domestic producer incomes. These and other measures were eventually incorporated into the Agricultural Modernization and Development Law (AMDL) which passed in March 1992.</p>	<p>b.1. The GOH will eliminate tariffs on basic grain imports from CACM countries and Panama by December 1992</p>			<p>b.1. Tariffs were eliminated on all CACM agricultural goods except sugar, although Custom's Offices collect 5% <i>ad valorem</i> processing charges which are considered tariffs by some CACM trading partners.</p> <p>No price controls have been imposed on agricultural products since 1992 AMDL, although the current economic crisis has led the GOH to "discourage" through negotiations any price increases on basic necessities.</p>

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ISSUES	OBJECTIVES	BASELINE STATUS	PROGRAM CONDITIONS TO BE MET DURING:			CURRENT STATUS
			1ST YEAR (1992)	2ND YEAR (1993)	3RD YEAR (1994)	
1.2 Government Direct Interventions in Agricultural Production and Markets						
<p>A number of GOH policies reduced food security through direct state intervention in food production, import, storage, and marketing. These included:</p> <p>Reduced food security due to direct state intervention in domestic storage and distribution of basic grains and other foodstuffs which discouraged private sector participation.</p> <p>Reduced food security and food price stability due to a state monopoly on the import of basic grains which was unresponsive to domestic and international market conditions.</p> <p>Although the GOH did not maintain a strategic grain reserve its dominance in the grain market and monopoly import powers served to control the domestic grain market</p>	<p>Improve food security by increasing private sector participation in food production</p> <p>Transfer state owned storage, production and marketing infrastructure to the private sector in order to increase efficiency and reduce fiscal costs</p> <p>Increase food supplies and stabilize domestic grain prices for consumers by permitting private sector imports of basic grains to complement domestic production</p> <p>Improve food security and price stability while minimizing GOH interference in grain marketing</p>	<p>GOH ownership and operation of production and processing facilities</p> <p>GOH owned 15 grain storage facilities built to implement the former policy of government control of grain marketing</p> <p>In 1992 the GOH eliminated the state monopoly on importing basic grains</p> <p>GOH insistence on maintaining some grain reserves</p>	<p>a.1. The GOH will sell or transfer the following agricultural production and processing facilities to the private sector: (1) The Sula Dairy by March 1992, and (2) the Ministry of Natural Resources Seed Production Facilities by May 1992.</p> <p>b.1 The GOH will permit private trade in corn under a 1992 Central American price band system which stabilizes domestic prices through imports</p>	<p>THE FOLLOWING IS IMPLIED BUT NOT STATED IN THE AGREEMENT</p> <p><i>The GOH will continue to implement the price band system for corn</i></p>	<p>a.2. The GOH will sell or transfer the two state owned sugar mills to the private sector by June 1994.</p> <p>The GOH will sell or transfer the 15 IHMA grain storage silos to the private sector by December 1994.</p> <p>THE FOLLOWING IS IMPLIED BUT NOT STATED IN THE AGREEMENT</p> <p><i>The GOH will continue to implement the price band system for corn</i></p> <p>b.2. The GOH agrees that any grain reserves created will be limited to a physical reserve for beans and a financial reserve for corn. GOH will present USAID a management plan for these reserves no later than August 1994. (This is a 1994 Agreement amendment )</p>	<p>a.1. GOH has sold the Sula Dairy and the MNR Seed Production Facilities to the private sector, increasing private opportunities for dairy production and decentralizing production of certified seed.</p> <p>a.2. The GOH has sold its two sugar mills. It has also sold 8 of the 15 IHMA silos to the private sector, although these represent only 35% of IHMA's total storage capacity. There are no plans to sell the largest silo, but the second and third largest are in the process of privatization. Four small silos are pending privatization because the IDB, as the original financier of them, must approve their sale.</p> <p>b.1. Honduras implemented price band systems on corn, rice and sorghum as part of a CACM regional trade harmonization policy. They are viewed as temporary measures while the region coordinates its policies and negotiates other trade agreements. USG policy encourages countries operating price band systems to do so in a transparent manner and to phase them out as quickly as possible.</p> <p>b.2. GOH agreed as part of 1992 AMDL to cease actively marketing grain. Reserves for beans and corn have not been established yet, and USAID is not promoting them. Drafts of a management plan have been submitted. The GOH still lacks confidence that private sector will be able to supply the country's grain requirements in years of shortages. GOH concern over this year's drought combined with the existence of still unsold IHMA silos makes establishment of GOH reserves a continuing possibility.</p>

ISSUES	OBJECTIVES	BASELINE STATUS	PROGRAM CONDITIONS TO BE MET DURING:			CURRENT STATUS
			1ST YEAR (1992)	2ND YEAR (1993)	3RD YEAR (1994)	
2 Land Tenure Security and Land Markets						
<p>The original Agrarian Reform Law (ARL) severely curtailed private property rights and induced inefficient land use. Under the original ARL:</p> <p>(1) Land owners were at permanent risk of expropriation.</p> <p>(2) Land rental was illegal and the cause of expropriation.</p> <p>(3) Farm units of less than five hectares could not be titled.</p> <p>(4) Farmers had to occupy the land for more than 30 years to be titled.</p> <p>(5) Tilling discriminated against women</p>	<p>Intensify land use and increase investment in land by establishing a new legal framework which guaranteed greater tenure security, established a basis for land rentals and improved land markets</p>	<p>Agricultural land was dedicated to extensive uses and forests were converted to pasture to avoid expropriation</p> <p>Rental was grounds for expropriation</p> <p>Small farmers were unable to obtain clear title or to use restricted titles as loan collateral</p> <p>Many small farmers illegally occupied land without benefit of title</p> <p>Women and children were unable to inherit land or gain clear title</p>	<p>a 1 By March 1992, the GOH will adopt legislation that will</p> <p>b 1 Reduce land expropriation criteria from seven to two (1) Landholding above the legal ceiling, and (2) permitting land to lie idle for 18 months or more</p> <p>c 1 Legalize land rentals</p> <p>d 1 Convert existing restricted land titles to fee simple titles</p> <p>e 1 Reduce the time one must occupy property before being eligible for tiling</p> <p>f 1 Provide women and children equitable treatment under the law</p>			<p>a 1. In March 1992, the GOH passed the Agricultural Modernization and Development Law (AMD) which was landmark legislation in the nation's agricultural development</p> <p>b 1. The AMDL reduced the criteria for expropriation to the two cases specified in the conditionality. There is no longer an incentive to maintain land in extensive uses, and the impact of intensification should be seen in the medium term.</p> <p>c 1. Farmers, especially young and part-time farmers have increased access to land through legalized rental contracts. These increase mobility into and out of the agricultural sector.</p> <p>d.1. Since March 1992, over 4,600 small farmers have received secure titles to the land they farm and, as such, improved access to credit. The five hectare limit was abolished, and they own an average of 7.2 hectares each.</p> <p>e.1. Previously farmers had to occupy land ten years before obtaining the right to purchase it. This limit was reduced to three years, and thousands more farmers have the right to legalize their status. In the medium term, legal titles provide incentives to invest in soil and water conservation, farm improvements and permanent crops</p> <p>d 1. Women and children enjoy equal protection and rights to land under the AMDL, however field work to issue titles has been delayed and cultural resistance is evident.</p>

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ISSUES	OBJECTIVES	BASELINE STATUS	PROGRAM CONDITIONS TO BE MET DURING:			CURRENT STATUS
			1ST YEAR (1992)	2ND YEAR (1993)	3RD YEAR (1994)	
Improve the adjudication of occupancy on lands with undivided rights.	The ownership of land with undivided rights is unclear, frequently contested and a constraint to productive investment			a 2. The GOH will develop a global strategy for the adjudication of competing claims by March 1993, and it will initiate the adjudication program in one department by July 1993	a 3. The GOH will initiate an adjudication program in a second department by January 1994  The GOH will initiate an adjudication program in a third department by July 1994  The GOH will initiate an adjudication program in a fourth department by December 1994.	a 2. & a 3. The GOH has not complied with these policy measures. They are intended to resolve ownership issues among successive heirs where inheritance is unclear or disputed. This issue is not contemplated in the AMDL because the amount of land subject to these disputes is relatively small in comparison to the larger land tenure issues addressed above.
Develop land financing mechanisms to serve the landless and land poor	Few lenders will provide long term financing for land purchase by small farmers and the landless poor who cannot provide commercial loan guarantees, and land which is offered for sale is often invaded			b 2. The GOH will develop a land financing strategy which includes appropriate public and private sector mechanisms by July 1993, and it will begin implementation of market oriented land financing mechanisms by December 1993		b 2. The GOH has not complied with this policy measure. In August 1993 it passed a Land Fund Law, but it is not consistent with the market principles of the PL-480 policy measure. USAID is assisting in the revision of the law, and it is pressuring the GOH to implement complementary measures such as a system of land market information and guarantees that land put up for sale is not invaded.
Support continuation of complete municipal and departmental cadastral inventories	Only two of Honduras' 18 departments have cadastral inventories. Without these inventories, land titling is difficult and open to dispute		g 1 The GOH will support this activity within the national budget at levels equal to or greater than FY91 levels in real terms	<u>Same as FY92</u>	<u>Same as FY92</u>	g.1. The GOH has complied with this policy measure by providing an average of 1.8 million lempiras per year since FY91. Unfortunately, this level of support is inadequate to meet the demand for cadastral surveys. This constraint to the titling process must be addressed in the FY95-97 Program.
Restructure the National Agrarian Institute (INA) in order to increase its efficiency and effectiveness.	INA had become large, inefficient and focused on activities other than its principal function of titling			c 2 The GOH will complete the organizational restructuring of the National Agrarian Institute (INA) by June 1993.		c.2. INA was restructured in conformance with this policy measure, however it is still not emphasizing the titling process at a satisfactory rate and is distracted by other activities. Orienting INA even more toward titling must be addressed in the FY95-97 Program.

ISSUES	OBJECTIVES	BASELINE STATUS	PROGRAM CONDITIONS TO BE MET DURING:			CURRENT STATUS
			1ST YEAR (1992)	2ND YEAR (1993)	3RD YEAR (1994)	
<p>3</p> <p><u>Environment and Natural Resource</u></p> <p>3.1 Environmental Protection</p> <p>The rich Honduran natural resource base is endangered by irrational and uncontrolled exploitation, diminishing its contribution to sustainable economic growth.</p>	<p>Increase effective stewardship of key natural resources for sustainable economic growth</p>	<p>The Honduras National Environmental Commission (CONAMA) prepared a document which lays out "An Environmental Agenda for Honduras "</p>	<p>a 1 The GOH will develop a natural resource conservation and environmental protection strategy based on the CONAMA "Agenda " The strategy should establish priorities for natural resource conservation and environmental protection with short, intermediate and long-term goals by June 1992</p>	<p>a 2. The GOH will implement a Presidential pledge to capitalize an environmental fund by December 1993. The fund will be administered by a private sector board and will support activities to achieve the goals developed in the Strategy</p>	<p>a.1. &amp; a.2. The GOH has complied with these policy measures. An environmental strategy, called the National Environmental Action Plan, was developed by CONAMA with assistance from the World Bank. This Action Plan forms the basis for GOH policy on the environment, coordinated by the Ministry of Environment (SEDA), and was developed jointly with the Environmental Law passed in June 1993. The Environmental Fund is currently operational with 11.5 million lempiras of a pledged 30 million lempiras (60 million per year for five years). The fund is managed by the Honduran Foundation for Development and Environment (VIDA).</p>	

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ISSUES	OBJECTIVES	BASELINE STATUS	PROGRAM CONDITIONS TO BE MET DURING:			CURRENT STATUS
			1ST YEAR (1992)	2ND YEAR (1993)	3RD YEAR (1994)	
3.2 Forestry Resources						
<p>The Honduran Forestry Corporation (COHDEFOR) is ineffective in exercising its responsibilities to manage and market public forest and associated resources and to supervise the management of private forests</p>	<p>To improve COHDEFOR's ability to manage public forests and protected areas within Honduras so as to contribute to sustainable economic growth and conservation of unique resources</p>	<p>COHDEFOR was an organization which had lost the confidence of the GOH, USAID, and other donors</p>		<p>b.2. The GOH will complete the organizational restructuring of COHDEFOR by June 1993</p>		<p>b.2. The GOH has met this condition although the current COHDEFOR restructuring plan requires some minor revisions. Although COHDEFOR has formally adopted the new structure, some departments continue to operate with the same functions as under the old structure. USAID will continue to move COHDEFOR toward operations consistent with the new structure.</p>
4 <u>Agricultural Research and Extension</u>						
<p>The agricultural research and extension services provided by the GOH Ministry of Natural Resources (MNR) have been ineffective in reaching target clientele, promoting new technology and improving efficiency while simultaneously costing the GOH an average 120 million lempiras annually</p>	<p>To decrease the direct role of the public sector in generating and disseminating agricultural technology and promote the development of semi-autonomous and private sector agricultural research and extension services</p>	<p>MNR research and extension were centralized in large, expensive and ineffective bureaucracies</p>	<p>a.1. The GOH will develop a plan for the decentralizing and/or privatizing the MNR's agricultural research and extension services by December 1992</p>	<p>a.2. The GOH will establish models for a semi-autonomous agricultural extension service (DICTA/SRN) by June 1993</p> <p>b.2. The GOH will establish mechanisms for providing technical assistance to the private agricultural sector through private organizations (e.g. FENAGH, FPX, FHIA, cooperatives, etc.) by June 1993.</p>		<p>a.1. &amp; a.2. The GOH is in the process of compliance with this condition. The 1992 AMDL establishes the legal basis for decentralization and/or privatization of the MNR's agricultural research and extension services. The MNR is attempting to privatize extension services, but current budget constraints have slowed the process.</p> <p>b.2. The GOH has complied with this condition. Private organizations (e.g. FENAGH, FPX, FHIA, cooperatives, etc.) exist and provide varying levels of extension services. For instance, FHIA, is an independent, sustainable research and technology transfer organization. It has an endowment of 100 million lempiras, and it works with large and small producers to increase exports and incomes. The GOH includes models such as these in its plan for decentralization and privatization of MNR's extension services.</p>

## RELATIONSHIP OF LC SUPPORTED ACTIVITIES TO PROGRAM PURPOSES

PROGRAM OUTPUTS ACTIVITY	1) To increase overall food availability, directly through increases in food production and indirectly through increases in foreign exchange.	2) To improve the access of the rural poor to better diets.	3) To maintain the natural resource base so that increases in food and agricultural production can be sustained.	EXAMPLE OF LC ACTIVITY ACHIEVEMENTS
<b>I. SPECIFIC SECTOR SUPPORT</b>				
A. Projects GOH/USAID:				
Investment/Export Dev.				
- FIDE	x			
- FPX	x			
Forestry Development				
Small Farmer Org. Dev.	x	x	x	
Irrigation Development	x	x		
LUPE	x	x		
Policy Analysis & Implement.	x	x	x	
- UPSA				
- Censo Nacional Agropecuario				
- Home Surveys				
- Agricultural Surveys				
- Policy Studies/EAP				
- Rep. Org. Private Sec.				
Small Farmer Agribus. Dev.	x	x		
Honduran Environmental Prot. Fund			x	
B. GOH Counterpart "Screwworm Prog.	x			
C. GOH Counterp. CRSA Programs	x			
D. PRAF		x		
E. FHIA	x			
<b>II. GENERAL SECTOR SUPPORT</b>				
A. Environment Ministry SEDA				
B. Nat. Resources Ministry/EAP	x		x	

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**FOOD FOR DEVELOPMENT PROGRAM**

**PL-480 TITLE III - MULTI-YEAR AGREEMENT**

**CY 1993 THROUGH CY 1995**

**LOCAL CURRENCY PROGRAMMING  
(LEMPIRAS)**

PROJECT/DESCRIPTION	AMOUNT PROGRAMMED			TOTAL
<b>STRATEGIC OBJECTIVE NO. 1: Enhanced Economic Participation and Increased Incomes of the Poor</b>				
	<u>CY93</u>	<u>CY94</u>	<u>CY95*</u>	<u>Total</u>
	(Sub-Total):	(Sub-Total):	(Sub-Total):	(Sub-Total):
Investment/Export Development				
-FIDE	3,240,000	0	0	3,240,000
-FPX	3,780,000	2,100,000	0	5,880,000
Small Farmer Org. Dev.	3,572,262	0	0	3,572,262
Irrigation Development	1,272,420	0	0	1,272,420
Policy Analysis & Implementation	13,254,800	5,368,762	6,267,627	24,891,189
-UPSA	1,138,640	1,138,640	1,138,640	3,415,920
-Censo Nac. Agrop.	10,484,160	1,321,759	0	11,805,919
-Home Surveys	732,000	1,108,363	1,887,768	3,728,131
-Agricultural Surveys	900,000	1,100,000	2,441,219	4,441,219
-Policy Studies/EAP	0	500,000	500,000	1,000,000
-Rep. Org. Private Sec.	0	200,000	300,000	500,000
Small Farmer Agribus. Dev.	1,629,562	6,500,000	12,500,000	20,629,562
Honduran Pri. Environment Fund	1,000,000	2,500,000	5,529,200	9,029,200
<b>SUBTOTAL</b>	<b>27,749,044</b>	<b>16,468,762</b>	<b>24,296,827</b>	<b>68,514,633</b>
Forestry Development	1,466,410	5,858,254	7,521,885	14,846,549
LUPE	2,203,555	5,377,664	5,219,354	12,800,573
B. GOH Counterp. Screworm Prog.	7,500,000	10,000,000	10,000,000	27,500,000
C. Endowment Fund FHIA	25,000,000	0	0	25,000,000
D. GOH Counterp. CRSP Programs	540,000	419,500	0	959,500
E. PRAF	8,100,000	3,400,000	5,000,000	16,500,000
F. PL TITLE II	0	0	3,144,900	3,144,900
<b>II. GENERAL SECTOR SUPPORT</b>				
A. Environment Ministry SEDA	0	467,400	0	467,400
B. Nat. Resourc. Ministry/EAP	0	699,000	0	699,000
<b>SUBTOTAL</b>	<b>0</b>	<b>1,166,400</b>	<b>0</b>	<b>1,166,400</b>
<b>III. OTHER</b>				
A. Monitoring & Evaluation	270,000	540,000	540,000	1,350,000
B. Reserve Fund	669,182	45,390,616	43,277,034	89,336,832
	939,182	45,930,616	43,817,034	90,686,832
<b>TOTAL</b>	<b>73,498,191</b>	<b>88,621,196</b>	<b>99,000,000</b>	<b>261,119,387</b>

Current Exchange Rate = \$1.00/L.9.00

\* Proposed

File: T3LCUSB

ACTIVITY	ASPECTS OF FS			LEVELS OF FS			FS TIMEFRAME			EXAMPLE OF ACTIVITY CONTRIBUTION TO FOOD SECURITY	
	AVAIL.	ACCESS	UTIL.	NAT.	HOUSE	INDIV.	LT	MT	ST		
<b>I. SPECIFIC SECTOR SUPPORT</b>											
<b>A. Projects GOH/USAID:</b>											
Investment/Export Dev.											<p>Contributed to the creation of 42,000 jobs held primarily by women (70%) from poor households.                      Contributed to the creation of 10,000 jobs, and the generation of over \$80 million per year in foreign exchange.                      Promotes sustainable use of resources &amp; agricultural production.                      Promotes increased agricultural production &amp; incomes.                      Benefitted 1,200 households directly and increased annual crop production by 15,000 MT.                      Over 6,000 marginal farm families assisted resulting in significant increases in production and income.                      Improved agricultural policies contributing to 5.4% per year increase in ag. production and 14.7% increase in rural household incomes.</p> <p>Promotes increased agricultural production &amp; incomes.                      Promotes sustainable use of resources &amp; agricultural production.</p> <p>Promotes increased agricultural production &amp; incomes.                      Promotes increased agricultural production &amp; incomes.                      Provides food to children under 5, and pregnant and lactating women. Nutritional education is also provided.                      Contributed to the creation of over 6,375 farm jobs and over \$8,300,000 in foreign exchange in 1993 alone.</p> <p>Promotes sustainable use of resources &amp; agricultural production.                      Subsistence farmers have more than doubled their yield of sorghum.</p>
- FIDE	xxx	xx		x	x						
- FFX	xxx	xx		x	x			x			
Forestry Development	xx	x		x	x		x	x			
Small Farmer Org. Dev.	xx	x		x	x			x			
Irrigation Development	xx	x		x	x			x			
LUPE	xx	xxx	x	x	x	x	x	x			
Policy Analysis & Implement.	xx	xx		x	x		x	x			
- UPSA				x	x		x	x			
- Ceaso Nacional Agropecuario											
- Home Surveys											
- Agricultural Surveys											
- Policy Studies/EAP											
- Rep. Org. Private Sec.											
Small Farmer Agribus. Dev.	xx	xx		x	x						
Honduras Environmental Prot. Fund	x	x	x	x	x	x	x	x			
B. GOH Counterpart Screwworm Prog.	xx	xx		x	x		x				
C. GOH Counterp. CRSP Programs	xx	xx		x	x		x				
D. PRAF		xxx	xx					x			
E. FIDA	xx	xx		x	x	x			x		
<b>II. GENERAL SECTOR SUPPORT</b>											
<b>A. Environment Ministry SEDA</b>											
B. Nat. Resources Ministry/EAP	xx	xx		x	x		x				

NOTE: Multiple marking in the "Aspects of Food Security" columns indicates degree of impact.

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## Acronyms

AMDL	Agricultural Modernization and Development Law
BANADESA	National Agricultural Bank
BCH	Central Bank of Honduras
CRSPs	Collaborative Research and Support Programs
DA	Development Assistance (Funds)
EAP	Pan American School of Agriculture at Zamorano
EEP	Export Enhancement Program
EFHS	Epidemiology and Family Health Survey
ESF	Economic Support Funds
FAO	U.N. Food and Agriculture Organization
FFP	USAID/W Food for Peace Office
FHIA	Honduran Agricultural Research Foundation
FY	Fiscal Year
GDP	Gross Domestic Product
GOH	Government of Honduras
HEPF	Honduran Environmental Protection Fund Project
IBRD	International Bank for Reconstruction and Development (World Bank)
IDB	InterAmerican Development Bank
IFI	International Financial Institution
IHMA	Honduran Institute for Agricultural Marketing
IMF	International Monetary Fund

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INA	National Agrarian Institute
L	Lempira (Honduran currency)
LUPE	Land Use and Productivity Enhancement Project
MT	Metric Tonne
NGO	Non-Governmental Organization
PAIP	Policy Analysis and Implementation Project
PRAF	GOH Family Allotment Program
PRODEPAH	PAIP/AG Technical Assistance Office in Honduras
PVO	Private Voluntary Organization
RW&S	Rural Water & Sanitation
SANAA	National Water and Sanitation Service
SECPLAN	National Planning Secretariat
UNICEF	United Nations Children's Fund
USDA	U.S. Department of Agriculture
WFP	U.N. World Food Programme