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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

HONDURAS

PROJECT PAPER

POLICY ANALYSIS AND IMPLEMENTATION

Amendment No. 1

AID/LAC/P-507
CR P-386

Project Number: 522-0325

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APPENDIX 3A, Attachment 1
Chapter 3, Handbook 3 (TM 3:43)

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number
1

DOCUMENT CODE
3

COUNTRY/ENTITY
HONDURAS

3. PROJECT NUMBER
522-0325

4. BUREAU/OFFICE

LAC

03

5. PROJECT TITLE (maximum 40 characters)
POLICY ANALYSIS AND IMPLEMENTATION

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
08 31 94

7. ESTIMATED DATE OF OBLIGATION
(Under "B." below, enter 1, 2, 3, or 4)

A. Initial FY 87

B. Quarter

C. Final FY 92

8. COSTS (\$000 OR EQUIVALENT \$1 =)

A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(3,000)	(500)	(3,500)	(13,304)	(3,046)	(16,350)
(Loan)	()	()	()	()	()	(16,350)
Other U.S.						
1.						
2.						
Host Country		200	200		4,950	4,950
Other Donor(s)		150	100		950	950
TOTALS	3,000	850	3,800	13,304	8,946	22,250

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) ESF	910	710		\$7,000				\$7,000	
(2) SDA	760	720		\$4,000				\$4,000	
(3) ARDN	730			\$1,000		\$4,350		\$5,350	
(4)									
TOTALS				\$12,000		\$4,350		\$16,350	

10. SECONDARY TECHNICAL CODES (maximum 3 codes of 3 positions each)
930 650 920

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To strengthen the Honduran capacity to formulate and implement economic policies and administrative reform.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
09 89 11 91

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a 41 page PP Amendment)

The amendment increases the agricultural sector component and will seek to improve analytical skills of the public agricultural sector, increase awareness of problems, in this key sector and develop a consensus on proposals for change stemming from policy.

17. APPROVED BY

Signature: John Sanbrailo
Title: John A. Sanbrailo
Mission Director

Date Signed MM DD YY
03 05 90

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

PROJECT AUTHORIZATION

(Amendment No. 1)

Name of Country/Entity: Honduras/COHEP
Name of Project: Policy Analysis and
Implementation
Number of Project: 522-0325

1. Pursuant to Sections 103, 106, 531, and 534 of the Foreign Assistance Act of 1961, as amended, the Policy Analysis and Implementation Project for the Republic of Honduras was authorized on August 28, 1987. That authorization is hereby amended as follows:

a. Paragraph 1 of the authorization is deleted in its entirety, and the following substituted therefor:

1. Pursuant to Sections 103, 106, and 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Policy Analysis and Implementation Project for Honduras and the Honduran Council for Private Enterprise (COHEP) involving planned obligations of not to exceed Sixteen Million Three Hundred Fifty Thousand Dollars in grant funds ("Grant") over a six year period from the date of authorization, subject to the availability of funds in accordance with the AID OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of the Project is seven years from the date of initial obligation.

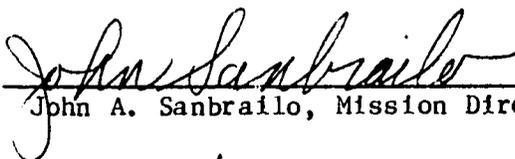
b. Paragraph 2 of the authorization is deleted in its entirety, and the following substituted therefor:

2. The Project includes a public sector component, a private sector component, and an agricultural sector component. It consists of providing technical assistance, commodities and training: (1) to the Government of Honduras represented by the Central Bank of Honduras, the Ministry of Finance and

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Public Credit, and other public sector institutions involved in the formation of economic policy; (2) to the Honduran Council for Private Enterprise; and (3) to the public agricultural sector represented by the Ministry of Natural Resources, the Agricultural Development Council, SECPLAN and other public sector institutions involved in the formation of agricultural policies.

2. The authorization cited above remains in force except as hereby amended.

Signature: 
John A. Sanbrailo, Mission Director

Date: 3/5/90

C.

LIST OF ACRONYMS

APAH	Análisis de la Política Agrícola de Honduras
ARDO	Agriculture, Rural Development Office
ASAP	Agricultural Structural Adjustment Program
BANADESA	Banco Nacional de Desarrollo Agrícola
BCH	Banco Central de Honduras
CETRA	Certificado Transferible a Opción de Divisas
CGR	Controller General of the Republic
CODA	Consejo de Desarrollo Agrícola
DGEC	General Directorate of Statistics and Censuses
EIRR	Economic Internal Rate of Return
ESF	Economic Support Funds
FEPROEXAAH	Federación de Productores y Exportadores Agrícolas y Agroindustriales de Honduras
FHIA	Fundación Hondureña de Investigación Agrícola
FX	Foreign Exchange
GOH	Government of Honduras
FY	Fiscal Year
HCOLC	Host Country Owned Local Currency
IBRD	International Bank for Reconstruction and Development (World Bank)
IEE	Initial Environmental Examination
IHMA	Instituto Hondureño de Mercadeo Agrícola
IHCAFE	Instituto Hondureño del Café
IICA	Instituto Interamericano de Ciencias Agrícolas
INA	Instituto Nacional Agrario
LC	Local Currency
LOE	Level of Effort
LOP	Life of Project
LUPE	Land Use and Productivity Enhancement
MHCP	Ministerio de Hacienda y Crédito Público
MRN	Ministerio de Recursos Naturales
PAIP	Policy Analysis and Implementation Project (being amended with this document)
PL	Public Law
PLO	Project Liaison Officer
PROAG	Project Agreement
SAL	Structural Adjustment Loan
SECPLAN	Secretaría de Coordinación, Planificación y Presupuesto
SFOS	Small Farmers Organization Strengthening
ST	Short Term
LT	Long Term
UPSA	Unidad de Planificación Sectorial Agrícola
USDH	United States Direct Hire

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Project Paper Supplement

Policy Analysis and Implementation Project

522-0325

I. PP SUPPLEMENT PURPOSE

The Policy Analysis and Implementation Project (PAIP) was authorized on August 28, 1987 for \$12.0 million in grant funds and a seven year period. The purpose of this project supplement is to expand the scope of agricultural policy activities contemplated under the original project paper and to strengthen the Honduran capacity to formulate and implement economic policies and administrative reforms. This PP Supplement provides the background and description of a project amendment that authorizes an additional \$4.35 million in grant funds for the analysis and implementation of policy reforms for the Honduran agricultural sector. The new authorized life-of-project funding will total \$16.35 million. The project will have three components; a public sector policy analysis and implementation component with the Central Bank (BCH) and Ministry of Hacienda (MHCP); a private sector policy analysis component with the Honduran Private Enterprise Council (COHEP); and a third component dealing with agricultural sector policy analysis and implementation, implemented through public sector institutions involved in agriculture.

II. PROJECT BACKGROUND

A. Overview of the Performance of the Agricultural Sector

After fairly rapid expansion in the 1970's, the Honduran economy's growth slowed markedly in the 1980's. From 1980 to 1987, the real GDP growth rate was only 1.5 percent per year, well below the population growth rate of 3.4 percent. One of the reasons was a drop in the export growth rate and another was the inability of the industrial sector to break out of highly protected, inefficient structures.

As a result of these trends, it appears that average nutrition levels are actually below their levels of 1970 (García et al., 1988). The average caloric deficit in rural areas is about 20 percent, and it appears from the 1987 National Nutrition Survey that 38% of the Honduran population under age 5 is experiencing some degree of malnutrition. Hence the negative trends in nutrition are a cause for concern.

The agricultural sector has performed better than the rest of the economy in recent years, registering higher growth rates of real GDP over the period 1975-87 and also over 1980-87. Agriculture also continues to provide eighty percent or more of export earnings and exports many times more than it imports. Agriculture, agroindustry and the agricultural

marketing sectors together provide about 48 percent of GDP and well over half of employment. Since the Honduran industrial sector is conceded to be the least efficient in Central America, a successful growth strategy in Honduras has to be based in significant measure on agriculture.

Yet in spite of its importance and some favorable recent developments, agriculture's growth rate also has slowed to less than the population growth rate in this decade. In addition, the purchasing power of rural households has been adversely affected by a substantial decline in agricultural prices relative to nonagricultural prices exacerbating the widespread poverty in rural areas.

There have been a number of bright spots in the agricultural sector's performance which offer promise for the future, even though the current trends are not as favorable as they might be. First, gross output in agriculture has continued to grow more rapidly than GDP in the sector, suggesting that farmers are indeed producing more and that the use of modern inputs is intensifying. Second, the growth of production of nontraditional exports has been very rapid, especially in pineapple (25% per year, 1975-86), (pineapple exports dropped in 1988 but show signs of recovery in 1989.), cantaloupe (23.5% per year, same period and even faster in 1987 and 1988), and seafood products (22% per year, 1974-87, export value). Third, other products have expanded very rapidly for the domestic market: palm oil (19% per year, 1975-86), plantain (9.3% per year, same period), poultry (8.4% per year, same period) and tomatoes (10.0% per year, same period). And fourth, corn yields have improved significantly; since 1981 they have averaged 1.4 tons per hectare, versus slightly over one ton throughout the 1970s.

In reviewing the sector's performance, the one factor that stands out most clearly is the continuing contribution of the coffee subsector. From 1970 to 1987, coffee accounted for 37 percent of the growth in the current value of the sector's output, more than twice the contribution of any other product. Coffee is a labor-intensive crop, with over 90 percent of the producers holding less than seven hectares of land that generally lacks more profitable and sustainable production alternatives. The world coffee market has changed recently, with the collapse of the international coffee agreement, but Honduras remains in a competitive position vis-a-vis other producing countries. In addition, there are reasonable prospects for achieving a new coffee agreement, in which case Honduras' coffee export quota would be likely to increase.

However, the overall agricultural growth rate has been pulled down by declines in crops such as cotton, tobacco, sorghum and cassava that are subject to unfavorable world market conditions, poor government policies or other special circumstances. Also a major concern from a viewpoint of nutrition for the poor has been the lack of increase in bean production. Physical production levels of beans in 1985 and 1986 were below the levels of 1970 and 1971, resulting in a 66 percent decline in the per capita availability, without a significant increase in bean imports to make up the shortfall.

Effectively, the agricultural sector has been going through a process of adjustment and reallocation of its resources. If the products with declining prospects eventually "bottom out" and the others keep their dynamism -- which will require some policy changes, the sector's prospects are reasonably bright, as discussed in the constraints section.

Land distribution in Honduras remains highly unequal. The agrarian reform has only marginally influenced it, and most of the agrarian reform cooperatives have not turned out to be very productive. The cultivable land constraint is an important limiting factor for the sector's growth, and consequently increased attention is being given to mechanisms in addition to the agrarian reform for raising the efficiency of land use.

One of the most serious adverse factors in the sector is the continuing erosion of soils and loss of forest resources and watershed resources which drastically limits sustainable agriculture and forestry. Under current trends, the forest resources will be exhausted in about a generation and the soils are being lost at a rate of more than 10,000 hectares per year. This is particularly unfortunate in light of the fact that Honduras is preeminently a forest country, with two-thirds of its land being forest land. Programs are underway to arrest these trends. It is clear from the seriousness of the problem that much more needs to be done and that additional coordinated initiatives in both forestry and smallholder agriculture will be needed.

B. Principal Constraints to Agricultural Development

Extensive previous reviews of Honduran agriculture have suggested that the principal policy technical and economic constraints to more rapid development lie in three areas:

1. The price structures facing the sector;
2. The sector's resource base;
3. The structures for access to technologies and markets, including access to both inputs and output markets for producers, credit and access to food for low-income consumers.

A fourth constraint which magnifies the effect of the three others lies in the institutions charged with managing and serving the sector. This constraint merits special attention and is the focus of this project component.

For substantial agricultural development to take place the public agricultural sector must have: the ability to analyze the policy and practical constraints agriculture faces; the means and the will to increase public awareness of those problems; and an effective lobbying effort to influence decision makers. This project amendment will specifically address the institutional constraint in the context of the major technical and economic constraints facing the sector.

1. Price Structures

The question of price structures has two dimensions: the intersectoral and the intrasectoral. The first refers to the cited decline in real agricultural prices, and the second refers to inefficiencies within the pricing structure of the sector, such as the unduly high price of sugar and the unduly low price of raw milk to dairy producers. Remedying the first problem is largely a matter of macroeconomic policies, and remedying the second one is in the hands of sectoral policies.

In this decade both macro and sectoral pricing policies have created disincentives for agricultural production and investment. And they have reduced the real purchasing power of rural households, thus contributing to a prolongation of rural poverty and to a decline in average nutrient availability in Honduras. Imported agricultural inputs have been made relatively cheap to a limited number of importers by the trade and exchange rate policies, but this effect has been very small in magnitude compared to the effect on output prices. Imported inputs account for only 16 percent of the value of corn production, for example, under a moderately improved technology.

These considerations suggest that the structure of prices has become a major constraint to the development of the agricultural sector. Therefore a major thrust of an appropriate strategy will involve policy analysis, policy seminars and other policy work designed to rectify the existing biases in pricing policies. There has been some movement toward removing the disequilibria in exchange rate policies, via the implementation of the CETRA system, a positive development which should be continued. In the meantime, the disequilibria in pricing and trade policies within the agricultural sector should be addressed.

2. The Resource Base Constraint

At an aggregate level, expansion of agricultural sector output is determined by two factors: the land under cultivation and productivity. Agricultural production growth rates can be disaggregated exactly into the two components of growth in the cultivated area and growth in yields per hectare.

The quantitative contribution of expansion in the cultivated area can be seen in the following figures for the period 1970-83: out of a 3.7 percent annual rate of increase in agricultural production, 0.7 percentage points were accounted for by increases in the area under cultivation including the opening of previously forested valley lands as well as a movement by the poor to unsustainable hillside farming, and 3.0 percentage points by increases in the overall economic yield. This last factor includes shifts toward higher-valued crops as well as increases in physical yields. Since 1980, the contribution of all these factors has been smaller.

In the long run, sustaining even a 3.0 percent average increase in economic yields (over all crops) is a challenge. Therefore an appropriate strategy should have two primary pillars in the resource area: increasing productivity, or the efficiency of land use, and preventing the further degradation of the resource base.

The productivity component has several facets, including improving the price incentives for using more productive technologies; improving farmers' access to inputs including knowledge of technologies; and improving their access to output markets. Also, in the context of the resource base, the main concern is how to shift the land use patterns toward more sustainable productive uses.

Preventing further degradation of the resource base is directly linked to increasing productivity. In fact, if Honduras cannot arrest deforestation and soil erosion any increase in productivity will be extremely problematic. Honduras is the most forested country in Central America, but this resource is being degraded at an alarming rate. And under current trends, the pine and hardwood forests will essentially disappear in a generation, representing a further loss of soil and water resources for crop agriculture. Encouraging more intensive use of existing valley croplands, thus creating more income and employment, would help remove some of the pressure on the forest lands.

3. The Access Constraint

The access constraint takes many forms:

- 1) Costly access to domestic and international markets because of trade policies and inadequate transport and storage facilities.
- 2) Inadequate access to inputs because of insufficient credit, extension work, or input delivery systems.
- 3) Inadequate access on the part of low-income consumers to effective, targeted food assistance programs.

Some of these constraints are being partially addressed with present USAID projects, particularly in the area of access to appropriate technologies and credit on the part of low-income, hillside farmers (through LUPE, the coffee project, and SFOS), the stock of available technologies for nontraditional export products (FHIA), access to export markets (FEPROEXAAH) and the adequacy of domestic transport (through feeder roads). Also, several agricultural projects have a credit component, in recognition of the inadequacy of the existing channels for agricultural credit. Nevertheless, reform of policies presenting these constraints in a general sense is the most effective means of improving agricultural development prospects.

Another aspect of the access constraint concerns the economic access of poor consumers, especially in urban areas, to basic foods. This need is great, and it will be greater if economic policy succeeds in improving farmer incentives via higher real farmgate prices. There exist programs of food assistance now, but they are not well targeted on the most needy groups and hence are too costly for the benefits they deliver.

4. Institutional Constraints

The public agricultural sector must assume a leadership role to bring about positive change through policy reform. However, the Ministry of Natural Resources (MRN) lacks the professional and organizational capacity to identify the key medium-term policy issues and the ability to conduct economic analysis of alternative policy options. Consequently, MRN is ineffective in dealing with the other participants in the policy process, (e.g., the BCH and the MHCP). The result is a lack of coherence between sectoral and macro policies and an inability to form an interinstitutional consensus on agricultural policy issues. Given this failure, implementation of policy reforms, which require concerted efforts, is stymied.

In Honduras, the public agricultural sector has been pushing hard to increase its access to forums of macroeconomic policy decision. Unless it has solid technical analysis to underpin its arguments, however, it could wind up winning the battle of gaining entrance but losing the war of exercising influence. Within the sector as well, the need for sounder information and analysis is becoming more and more apparent. Until now, sector agencies have relied heavily on informal analyses to address many of the policy questions Ministers have raised, with a consequent loss of influence in higher economic councils. In the future, the need for documentation focused on well defined policy issues will become even more necessary as Honduras experiences a process of economic adjustment.

One recent and very encouraging move on the Honduran side regarding agricultural sector reforms was the promulgation in 1986 by the National Congress of a Planning Law which enabled the President to define planning "sectors" and entities responsible for planning sectoral policies on behalf of the government. This law was followed up in mid-1988 with a presidential "decree" which established an integrated framework for functional organization and planning responsibilities for the public agricultural sector. Accord No. 177-88 defined the public agricultural sector, and designated the Secretary of State for Natural Resources as coordinator of the sector.

Still, it is clear that the functions of programming and budgeting have been of primary concern to the GOH. Less attention, however, has been accorded to broader policy questions and, particularly, to those policies -- trade, price, resource use, and marketing policies, for example -- that do not translate directly into investment budget allocations. However, the agricultural sector will have a unit explicitly directed to work on agricultural policy issues. This is the first time such a unit has been given formal status in the Honduran Government.

This project component addresses the critical need for the GOH to strengthen its policy formulation and implementation capabilities to remove the constraints now hobbling the growth of this potentially dynamic sector of the country's economy. Price disincentives and distortions, inefficient use of the land and the human resource base, and lack of access by farmers to technology, credit, inputs and markets are symptomatic of the policy environment that faces agricultural development. The component will support analyses of necessary structural reforms in these and other areas of concern, and will assist in planning for the implementation of reforms in these areas.

In response to this interrelated set of constraints, an objective of the Project is to develop within the public agricultural sector a cadre of professionals trained in the application of policy analysis methodologies in key policy issues. This will be accomplished through combining training and policy analysis on a few key issues related to the price, resource base and access constraints.

In conjunction with AID, the GOH will identify a set of key policy issues for analysis (which could include, for example, effect of exchange rate on agricultural sector, policy alternatives for land tenure, and the costs and benefits of subsidies). The focus will be on medium-term issues, not fire-fighting daily issues. The methodology will focus on economic impact and the distribution of costs and benefits. Joint working group of four to six professionals will be established for each study, consisting of representatives from the public agricultural institutions, the private agricultural sector, the Central Bank, MHCP, and from SECPLAN. The principal findings and recommendations will be reviewed through a series of seminars. This approach, will result in a greater understanding of agricultural policy issues and in the formulation of specific proposals for addressing the issues analyzed.

III. PROGRAM FACTORS

A. Conformity with Recipient Country Programs

The Honduran Government recognizes the need for structural reforms if the agriculture sector is to realize its potential. The 1987-90 National Development Plan places a high priority on the analysis of alternatives designed to increase agricultural production, and on the execution of policies and reforms contributing to economic development of that sector. As discussed above, the Planning Law of 1986 and Accord No. 177-88 called for the establishment of an Agricultural Development Council (CODA) for the purpose of overseeing policy planning, implementation, evaluation and intergovernmental coordination processes, and to assure complementarity between agricultural and overall development objectives. Represented on the Council are the Ministry of Natural Resources (MRN), SECPLAN and the public sector agricultural institutions. The Council is now in operation.

As indicated under "Other Donor Activities," the GOH is cooperating closely with the World Bank and USAID/Honduras in preparation for a large agriculture sector loan scheduled for negotiation in early 1990. In anticipation of this, the GOH signed a memo of understanding on February 16, 1989 with the World Bank for the establishment of a number of working groups drawn from and formed by government personnel currently involved in agricultural planning activities. These working groups have been tasked with the responsibility of analyzing and defining areas of agricultural policy reform which the World Bank wishes to address in what will be the conditionality of a new sector loan. Agreed upon areas of concern between the World Bank and the GOH involve incentives and disincentives to agricultural production and export, targeted food subsidies, issues related to land tenancy, reorganization of BANADESA and constraints to efficient investment in the agricultural sector. These areas of study represent a clear convergence with those policy areas which will be addressed under this project component.

B. Relationship to USAID Country Strategy

The component is supportive of USAID/Honduras' Action Plan goal of achieving basic structural reforms leading to rapid and sustained economic growth. It forms a key part of our agriculture sector strategy aimed at increasing production, productivity and export earnings, expanding employment, and raising income and nutrition levels.

This component complements and reinforces other efforts by the Mission to stimulate policy reforms. They include the other public and private sector components of the Policy Analysis and Implementation Project, and the planned Agricultural Structural Adjustment Program (ASAP) of FY 1991, both of which will help to promote the reforms identified by this agricultural component.

The USAID/Honduras Agricultural Development Strategy provides the framework for such interventions in the agricultural sector. The strategy involves actions on both policy and projects. It implies a high degree of emphasis on the policy area, with project and program (ESF and PL-480) support linked to policy conditionality. It recognizes the importance of macroeconomic policies, in determining the sector's performance, and sectoral interventions that can lead to productivity increases and higher living standards, namely in the areas of price structures, management of the natural resource base, and access to inputs and markets.

The approach of the agricultural strategy is to work toward selective improvements in the public sector such as the rationalization of policy orientation and activities of the agricultural parastatals. In pace with the Government's demonstrated willingness to make reforms, supporting program and project assistance will be contemplated.

Specific facets of several additional USAID/Honduras activities contribute to the achievement of the objectives. These include the PL-480 Program's emphasis on grain marketing and food subsidy policy reforms; the Small Farmer Coffee Project's focus on coffee as an earner of foreign exchange and a source of employment; the role of the Small Farmer Titling Project in laying the foundations for reforms in land use policies; and the component of the Strengthening Democratic Institutions Project that enhances the planning and analytical capabilities of the Honduran Congress.

C. Other Donor Activities

The World Bank is considering an agricultural sector loan for 1990 which focuses on the resolution of structural problems similar to those identified by USAID/Honduras. As part of its loan planning process, the Bank has established counterpart working groups for the following problem areas:

- a) incentives for production, exports, and the role of taxation policy;
- b) food subsidies;
- c) land tenure;
- d) reorganization of the National Agricultural Development Bank (BANADESA);
- e) reorganization of the Ministry of Natural Resources (MRN);
- f) improvement of the Honduran Agricultural Investments Program.

The Mission is supporting analytical work of this counterpart structure, thereby leveraging USAID grant resources for obtaining the Bank's loan funds, and improving overall coordination of donor assistance in the agricultural sector.

In an effort to firmly establish the framework for a coordinated public sector, the Interamerican Institute for Agricultural Science (IICA) is providing technical assistance to the MRN and SECPLAN. Other donors render financial and technical assistance to the Honduran agricultural sector, but are not extensively engaged in structural adjustment or policy reform efforts.

IV. SUMMARY PROBLEM STATEMENT AND PROJECT AMENDMENT RATIONALE

The specific problem to be addressed in the original project design was how to stimulate the savings and investment required to move Honduras out of economic stagnation and to improve standards of living in a sustainable fashion. While progress has been made during the last several years in achieving growth (albeit limited), checking inflation, and improving or maintaining other economic aggregates, the Honduran economy continues to be affected by macroeconomic and structural problems which continue to hinder the prospects for long-term, sustainable growth. These problems particularly affect the agricultural sector.

A coordinated, sustained effort is needed on the important issues of price incentives, land use incentives and restrictions, and market access. While the original project paper did not take a comprehensive view of the policy constraints in agriculture, it did give attention to agricultural issues and it contemplated support for policy activities.

This project paper amendment builds upon this base, develops it further given the latest institutional and technical policy developments, and provides additional support to plan sustainable and growth-oriented agriculture activities. The original design contemplated one long term agricultural policy advisor with limited short term support. The amendment will increase the long term assistance to two policy external policy advisors who will work directly with the MNR policy group and be supported by local technical personnel and short term external technical assistance.

This amendment of the Policy Analysis and Implementation project is a key step towards relaxing the key agricultural policy constraints described above. It will support Honduran capabilities with the provision of training, limited commodities and technical assistance. While changes to key policies will not be an objective of this component, project activities will provide the analytical and informational underpinnings for policy reform.

A series of collaborative policy studies, training inputs, and workshops will be channeled towards identifying feasible and equitable structural reform measures in areas such as agricultural pricing, targeted food programs, production incentives, land use, foreign exchange generation, and marketing. An important output of the amended project will be the identification of policy reforms to be included in the conditionality requirements for sector loans, grants, and project funding.

V. THE AGRICULTURAL COMPONENT OF THE POLICY ANALYSIS AND IMPLEMENTATION PROJECT

A. Goal and Purpose

This additional project component for the agricultural sector will contribute to the overall project goal of promoting sustained economic growth and stability. The efforts shall lead to higher real incomes, higher nutrition levels, and higher levels of employment and investment in the economy as a whole. The purpose of the project is to strengthen Honduran capacity to formulate and implement economic policy and administrative reforms. This project component will support Honduran capability in the analysis of policies for the agricultural sector, and in the planning of reforms stemming from the analysis. It will collaborate in the development of policy reform proposals in important areas for the sector.

Key assumptions linking the purpose and goal statements are: (1) a political climate favorable to private sector investment, (2) that the GOH will have sustained interest in formulating and executing policy and administrative reforms for the agricultural sector, and (3) that a productive policy dialogue between AID and the GOH continues.

The objective of this Project component will be pursued against the backdrop of an institutional, legal and political framework which appears to be one of the most propitious in years for achieving genuine policy reforms in the agricultural sector. This framework was not fully present at the time of the original project paper in 1987. Coupled with this is continuing and encouraging dialogue between the IBRD and the GOH on the terms of a new structural adjustment loan.

The new planning law discussed above is an important step in assigning policy making authority to the sectoral level, and the implementation of this law in the agricultural sector is auspicious for planned project activities. The law indicates that in addition to his responsibilities as Secretary of State for Natural Resources and specific programs in agriculture and livestock, the Minister of Natural Resources is to:

- a) coordinate the public agricultural sector;
- b) preside over an Agricultural Development Council (Consejo de Desarrollo Agrícola, CODA) comprised of the directors of the public agricultural entities;
- c) present to CODA for its consideration and opinions the plans and budgets for the sector, as well as proposals for policy, planning, and studies proposed by sectoral institutions;
- d) harmonize and submit sectoral budgets to the Secretary of Planning, Coordination and Budget (SECPLAN);
- e) name working groups and commissions for the study of specific problems;
- f) encourage and strengthen interinstitutional coordination in program implementation.

To help the Minister of Natural Resources comply with these responsibilities a sectoral planning unit, UPSA, has been established. This unit is comprised of an information center, and departments of international cooperation, evaluation, programming and budgeting, and policy analysis and studies. The unit is financed by contributions from the seven public agricultural sector entities, and it is staffed by personnel from the planning departments of the public agricultural sector entities.

CODA and UPSA were firmly embedded in law in April of 1989 via implementing legislation for the 1986 planning law. This framework is the firmest legal basis for agricultural policy making that has existed in Honduras in more than 30 years. Also, the creation of the CODA and the UPSA means that agriculture is the first sector to have implemented the provisions of the 1986 planning law.

In the course of strengthening the capability for agricultural policy analysis, the project aims to gradually foster a new vision of the role of the public sector, a role which liberates the dynamism of the private sector, orients the development of the sector indirectly through strategic investments, and establishes clear rules of the game and market price

signals. For example, instead of trying to market grains directly, the Government has other options for raising producer incentives more effectively by exchange rate and tariff reforms. At present, while IHMA attempts to raise producer prices through higher "guaranteed" prices, it lowers them by permitting imported grains to enter duty free and at the lowest exchange rate. As another example, the existing management of the agrarian reform process may create continuing uncertainty of tenure and thus discourage investment in agriculture. It could also be inhibiting medium and large producers, whose holdings are under the ceilings on farm size, from going into the production of basic grains or short-cycle fruits and vegetables. In contrast, security of land tenure, combined with fiscal incentives and more efficient transfer mechanisms would tend to redistribute land through market signals, because on average smaller farms in Honduras make more efficient use of the land per hectare than larger farms do. It is precisely these types of policy constraints which will be analyzed under this project component through UPSA and CODA.

B. Project Activities

The Component will have the following activities: i) supporting the capability for agricultural policy analysis, mainly in public sector organizations with technical and training assistance, but also with selected private-sector organizations, and through an improved base of agricultural statistics; and ii) carrying out activities to increase public knowledge, consensus and the will to put the necessary reforms into effect.

During the life of the Project, the Mission will be implementing complementary measures through its Agricultural Structural Adjustment Program (ASAP) which will attempt to link policy reforms and funding for specific activities. Other donors, and of course, the Honduran government, will be in search of policies and programs that will reactivate the agricultural sector. Therefore a major role of this agricultural component will be to develop the required understanding of the policy framework and to provide technical expertise for developing Honduras' own position on policy conditionality for assuring the effectiveness of the ASAP, other donor sectoral assistance, and GOH agricultural programs. In this respect, the project will work to reach a consensus with the Government on the specified policy measures, so that they can be more effectively implemented after the ASAP and other program accords are reached.

In effect, the project will formulate the policy conditionality necessary for the ASAP and other programs, and will be the policy monitoring vehicle for issues that arise during the lifetime of the project.

The philosophy of the PAI Project is that design and implementation are inextricably linked. A principal output of this component will be GOH acceptance of the need for policy change. Implementation cannot proceed unless a convincing policy document is on the desk of the Minister or other decision maker. At the same time, such a document provides a basis for seminars, workshops and other activities to help raise the awareness of the need for policy reform. Thus, the Project includes a mix of activities oriented toward promoting the whole policy formulation and consensus building process.

The Project's principal but not exclusive client will be CODA. CODA, as the official policy making body for the agricultural sector, will carry the policy agenda forward in the Government and will address immediate policy issues. The principal counterpart for the agricultural component will be a Project Committee comprised of the Minister of Natural Resources, or his designate, the Executive Secretary of UPSA, and the Technical Secretary of UPSA. The Committee will function as a clearinghouse for specific requests for technical assistance and training, and will coordinate project activities. The project team, working jointly with the UPSA staff and other institutional representatives, will develop the analyses needed to support the policy design and implementation process.

1. Supporting the Policy Analysis Capability

The aim of this activity of the Project component is to support Honduran capabilities for carrying out policy analyses for agriculture, via cooperative undertakings, seminars and workshops, and an improved agricultural statistics base. Both short-term and long-term external assistance will be utilized, and specialized Honduran expertise also will be brought to bear on the issues. Short-term training, specifically as it supports the analytical capability of the Honduran counterparts, will be stressed as well. The approach involves forming teams on a problem by problem basis, teams which are composed in varying proportions of Hondurans and external advisors. The contribution of the latter will be in the areas of: i) methodologies for policy analysis and/or interpretation of the analysis; and ii) presentation of alternative approaches to policy that have been tried in other countries. By working in teams, the learning-by-doing can be maximized and at the same time the approaches offered by the outside experts can be suitably modified to fit Honduran realities. Learning-by-doing, will support the institutional capacity objective of the project and will complement the equally important purpose of developing proposals for policy reform.

With CODA, UPSA, and other public and private sector agricultural sector groups, a major aim will be to introduce economic policy concepts, such as the effects of trade and exchange rate policies on real agricultural prices, into public debate in which policy in the past has meant only budgeting. Throughout, an underlying theme of the work will be training in appropriate methods for analyzing and understanding the multiple consequences, positive and negative, of each policy option. The key issues emphasized in this component will be selected from the following agricultural policy agenda which has been developed in conjunction with the GOH:

SUMMARY OF AN AGRICULTURAL POLICY AGENDA FOR HONDURAS

1. HIGHER REAL PRODUCER PRICES
 - o EQUAL EXCHANGE RATES FOR ALL COMMODITIES
 - o MORE EQUAL TARIFF RATES ACROSS SECTORS AND COMMODITIES
 - o ELIMINATION OF PRICE CONTROLS
 - o REDUCTION OF EXPORT TAXES
2. MORE EFFICIENT USE OF THE LAND BASE
 - o GREATER SECURITY OF LAND TENURE
 - o IMPROVED LAND MARKETS
 - o FISCAL INCENTIVES FOR MORE INTENSIVE LAND USE
 - o IMPROVED MANAGEMENT IN AGRARIAN REFORM AND PRIVATE COOPS
3. IMPROVED NATURAL RESOURCE MANAGEMENT
 - o IMPROVED FOREST, WATERSHED, AND COASTAL MANAGEMENT
 - o IMPROVED WATER MANAGEMENT
4. MORE EFFICIENT FINANCIAL INTERMEDIATION IN AGRICULTURE
 - o AN AUTONOMOUS BANADESA SERVING SMALL FARMERS
 - o PHASING OUT SUBSIDIZED CREDIT LINES FOR AGRICULTURE, AS REAL PRODUCER PRICES IMPROVE
5. IMPROVED AGRICULTURAL MARKETING
 - o REDUCED STATE ROLE IN IMPORTING AND MARKETING OF INPUTS AND OUTPUTS
 - o IMPROVED INFRASTRUCTURE FOR AGRICULTURAL EXPORTS AND DOMESTIC MARKETS

(continued)
SUMMARY OF AN AGRICULTURAL POLICY AGENDA FOR HONDURAS (cont.)

- o TARGETED FOOD ASSISTANCE PROGRAMS FOR THE POOR
- 6. IMPROVED TECHNOLOGY GENERATION AND TRANSFER
 - o IN BASIC GRAINS
 - o IN EXPORT CROPS
- 7. IMPROVED INSTITUTIONAL PERFORMANCE
 - o IN THE MINISTRY OF NATURAL RESOURCES
 - o IN THE NATIONAL AGRARIAN INSTITUTE
 - o IN BANADESA, AND OTHER AGRICULTURAL SECTOR INSTITUTIONS
 - o IN THE PRIVATE AGRICULTURAL SECTOR

Policy analysis is a vital link to policy decisions. With analysis of specific issues as the base, an actionable reform agenda will emerge; some elements of it already have emerged in initial agricultural sector work under the Policy Analysis and Implementation Project. Not only will the Project prepare the analyses (with counterparts), but it will provide short-term technical assistance support to implementing institutions with their reform planning and monitoring activities.

Specific analyses to be undertaken during the project might include:

- Updated Domestic Resource Cost/Protection Coefficients
- Policy Incidence and Effects on Commodity and Input Prices
- Agricultural Market Assessments
- Land Tenure and Use Patterns and Related Policies
- Land Transactions and Financing Practices
- Assessment and Impacts of Domestic and International Marketing Policies for Agricultural Inputs and Outputs
- Assessment of IHMA Operations
- Assessment and Analysis of Food Assistance Policies
- Evaluation of Honduran Land Tax System

- Policy Options for Stimulating Land Markets
- Environmental Impacts of Land Use Policies
- Legal and Administrative Analysis of Agrarian Reform Law
- Alternative Land Management Models Under Agrarian Reform
- Agrarian Reform Land Management Models

Honduran involvement in the analytical process will be a key element in successful completion and acceptance of the proposed policy initiatives. To ensure that analysts have the necessary skills to carry out the studies, short term training will be provided on topics and methods related to the areas for study identified above. Training will be completed through specific courses in the U.S. or third countries depending on individual needs and course offerings, or in Honduras with local or expatriate technical instructors.

Limited commodity support in the form of personal computers and software as well as project vehicles for the technical assistance team and the UPSA policy analysis unit will be provided. In addition, the local support costs for the technical assistance teams will be financed by the project. These inputs are the necessary tools for improving analytical and information gathering skills.

In addition to a specific agenda for study and improved analytical skills, the project recognizes that for effective analyses to be completed the researchers must be able to rely on a dependable data base for manipulation and evaluation of sector information. At the present time, the data base for agricultural policy analysis in Honduras is deficient in a number of respects. Although an area sample frame has been constructed for the country, it has not been fully utilized, so that most of the production data are based on informal field judgments. Data are not available to users at the time they need them, nor for the types of analyses that justify and support policy reforms. Further, users have lost confidence in the proliferation of different statistics produced by GOH agencies. Different agencies publish widely divergent statistics on the same concepts. In other cases, data are available but they have not been published (e.g. comprehensive breakdown of agricultural trade; weekly and monthly domestic prices for fresh fruits and vegetables).

The Project will lend support in the articulation and gathering of information needs for analysis, supporting the development of a continuous system of area, production and price statistics. It will also complement the focus on statistics with an attack on another area of acute deficiency, namely, the absence of up-to-date information on the structure of agricultural production and land tenure in the country. Specifically, the General Directorate of Statistics and Censuses in the Ministry of Planning and UPSA will conduct a nationally representative survey of rural households as a joint activity.

The survey will permit estimation not only of the size distribution of landholding, but also of a number of production and socioeconomic

characteristics of rural households. Variables to be covered include farm income, sources and levels of nonfarm income, crop mix, input use, tenancy, use of credit and technical assistance, market access, etc. In a word, the survey will provide a snapshot of the structure of agriculture in Honduras at a given point in time, a snapshot that, like a census but with considerably more richness of information, can be used as a solid analytical base for policy analysis in future years. Also, the recent advances that the Mission's agricultural policy advisor has secured in the coverage of the 1988 National Agricultural Survey will be extended to the regular annual production surveys. Limited technical assistance will be provided to define methodologies, advise on parameters to be included, and to improve the linkages between data gatherers and users. The operational costs of carrying out the surveys will be financed through the GOH counterpart contribution.

2. Awareness and Consensus Building

After sectoral reform options have been outlined and analyzed, there remains the vital process of educating decision makers and the public at large, transforming the options into law or decree through political consensus, and implementing them with adequately programmed and planned technical and financial resources. This probably is the most difficult component of the Project to execute, but should the sectoral policy and reform analysis groundwork be done thoroughly and adequately, much of the reform path already will have been paved. A convincing technical analysis carried out by Honduran Government specialists is the basis that a decision maker needs in order to lobby for a policy change.

With the support of the project, the Policy Analysis Department of UPSA will sponsor a variety of forums -- seminars, workshops, short courses, etc. -- as a mechanism for promoting informed debate on agricultural policy and reform issues, and for educating the public at large concerning such issues. This type of activity has already begun under the Project which helped in organizing a seminar on structural adjustment in agriculture involving the participation of Hacienda, SECLAN, MRN and IICA. Under this Project component in the future, forums which include representatives of Honduras' various producer organizations will be emphasized. Depending on the nature of a given forum, the Policy Analysis Department of UPSA may bring in specialists from abroad through the project as keynote speakers or to give a cross-country perspective.

The Project will utilize the position of the Secretary of State for Natural Resources, CORDA, UPSA and other sectoral bodies to bring recommended reforms and implementation plans to the appropriate executive or legislative decision making level. The reform recommendations will arise out of thorough analyses of major issues, problems and policy implications. It has to be borne firmly in mind that the Honduran Government is the decision maker on policy matters. The technical work can alert the Government to issues and approaches that might not have been considered previously, and once a decision is made, technical assistance can be provided to help design the implementation process and plan.

To further the prospects for implementation, the Project contemplates a series of workshops and seminars on key issues. The project team also will be expected to utilize a variety of informal communication networks to help disseminate the results of the analyses and heighten the awareness of the need for policy change. Those networks also can provide valuable feedback into the policy design process.

The project will lay the basis for policy reforms in Honduran agriculture. Sectoral support and programs of donors and the GOH will be directed toward implementation of those reforms. The two stages are clearly linked. Nevertheless, direct policy change is beyond the scope of this component's limited resources and will not be an objective of project activities. It must be recognized that successful project efforts cannot be predicted with certainty, that there is inherent risk in this kind of undertaking. Therefore it is appropriate to schedule a mid-term evaluation of the component, after about two and one half years of elapsed time.

Assuming that OODA accepts the policy reform recommendations coming from UPSA, financial resources may be required to implement the reform. As contemplated presently, the ASAP, and other GOH and donor assistance programs will describe a process by which the respective GOH entity affected by the suggested reform formally solicits financial assistance from the Ministry of Hacienda to ensure that the reforms are carried out. Local currency resources, generated from dollar disbursements under sectoral assistance programs, and dollars required for offshore procurements will be channeled through the GOH budget process to the respective GOH policy implementing entity. Hacienda will routinely communicate with USAID regarding these requests. The National Agrarian Institute for example, may require financial assistance for a further delineation of land in an area to be set for a pilot effort at establishing a land market. The point to be emphasized here is the linkage between this project component and sector assistance, and their combined importance as the basis for the agriculture portfolio.

C. Objectively Verifiable Indicators of Component Success

This project component will result in an improved capacity by the GOH to undertake policy analysis and administrative reforms in the agricultural sector. While the GOH will immediately benefit from project assistance, the reform measures established under this Project will benefit the Honduran economy and the Honduran people in general. Based on planned and ongoing activities to date, this component of the Project is expected to result in a strengthened and institutionalized process by which GOH sector representatives contribute to policy decisions affecting agriculture;

Outputs contributing to this end-of-project status are:

1. Analyses of policies with recommendations that would have a positive impact on agricultural incomes, productivity, employment and investment;

2. A dependable and broadened agricultural data base;
3. A sharper definition and greater consensus in the public and private sector on the need for those reforms; and
4. Public agricultural support and lobbying for reform proposals.

Specific indicators of these outputs will be as follows:

1. a) 16 joint policy analysis studies in the areas of: agricultural pricing; land use and natural resource management; and access to input, output, technology and credit markets;
b) 100 participants completing policy related workshops, short term courses and other training events;
2. a) 1 Rural Household Survey;
b) 4 National Agricultural Surveys;
3. a) 1800 reports and conference proceedings disseminated;
b) 600 participants attending project sponsored seminars; and
4. a) Proposals for: Executive Decrees; interministerial agreements; and donor or host government project support to implement proposed reforms;
b) Legislative reform bills introduced to Congress.

D. Strategy for GOH Negotiations

The strategy for negotiating the financial and technical aspects of the project component must take into account the recent Honduran national elections, and the possibility that a new administration might require more negotiation time on this project than would be the case were there no election nor change of administration. Nevertheless, given the importance of sectoral policy reform for the bilateral program and future growth prospects for Honduras, negotiations on the project should commence as soon as possible after sectoral representatives for the new administration are identified. A PROAG should be near completion after the new administration's representatives express their agreement with the project.

USAID's negotiating strategy will be based on the objective of achieving an active and successful participation by GOH agricultural sector representatives in the analysis, formulation, dissemination of information, and reform of critical sectoral policies. It is only through

collaborative analytical work on policy concerns, continuous contact with decision makers in both the public and private sectors, and the capability to raise reform proposals to the decision making levels in the government that the project will have its desired impact.

Continued emphasis on the further strengthening of the policy analysis unit of UPSA, and coordination of the public agricultural sector is likely to be of mutual interest in the negotiations. USAID also will be interested in seeing adequate personnel and logistical resources provided by the GOH to the counterpart implementing agency.

Beyond the issues of financial and logistical support for the project elements are the issues of the technical agenda of the project. The strategic posture of the Mission, as articulated in the Agricultural Development Strategy paper, will be one that emphasizes the areas of price structures, the resource base, and market and technology access. There is likely to be considerable agreement on the technical agenda, although negotiations necessarily will have to review the work to date, and why these areas figure so prominently.

Leverage that the Mission can bring to bear to achieve its negotiation objective are the project's technical assistance, commodity, and training resources. In addition, FY90 ESF, PL-480, and future ASAP disbursements are likely to emphasize sectoral reforms. Internalizing the reform analysis and formulation process in the GOH through this project could be seen as a necessary precondition to the negotiations and disbursements under stabilization and sectoral programs. Compliance with the covenant can be leveraged, if necessary, with the ESF, ASAP and PL-480 programs.

With respect to timing, USAID and the GOH entered into negotiations on the project following the elections and the identification of transition counterparts for sectoral matters. At present, the new administration has agreed to the project concept, technical scope, administrative and implementation plan, and counterpart arrangements which permit the signing of a Project Agreement Amendment.

E. Covenants

The GOH will covenant to:

- a) Mandate UPSA as the government counterpart agency for public agricultural sector policy dialogue, and define its roles and responsibilities with respect to SECPLAN;
- b) Provide financial support as specified in the Project's Financial Plan and adequate counterpart personnel to the UPSA Policy Analysis

and Information Units for the life of the Project;

- c) Finance and carry out annual national agricultural production surveys, and one rural household survey during the life of the project.

VI. COST ESTIMATE AND FINANCIAL PLAN

A. Financial Plan

The total estimated cost of activities to be financed under this Project Component is \$6.85 million. AID will contribute \$4.35 million in grant funds and the GOH will contribute the local currency equivalent of \$2.5 million. AID's contribution represents 64% of total project costs and the GOH's represents 36% of the total project component cost. It is anticipated that \$3.0 million will be obligated in FY 90 with the balance of \$1.35 million to be obligated in FY 92. It is estimated that disbursements will be made over a four year period (1990-1994) as shown in Tables 2 and 3.

AID funds will finance the following inputs:

- Five person years of external long term technical assistance, consisting of 2 professionals in agricultural policy analysis to support the agricultural sector policy and planning process of the GOH;
- Seven person years of local technical assistance for managerial, technical and legal assistance for policy and surveys;
- Sixty four person months of short term technical assistance to assist in the policy analyses and implementation programs of the Sectoral Policy Unit and public sector agricultural institutions;
- Short term training through the sponsoring of 100 participants in short-term programs in the U.S., Honduras and third countries;
- Commodities and logistical support consisting of microcomputers, some office equipment for the technical assistance teams;
- Publications, seminars, communications and supplies to carry out dissemination activities;
- Services of a Project Liaison Officer (PLO) for a two year period to carry out the day to day management responsibilities of the project.

GOH counterpart will be required for support to the counterpart policy analysis group, and to carry out surveys for the agricultural sector.

B. Methods of Financing

Disbursement will be authorized on the basis of documentation submitted for Mission approval.

<u>Method of Implementation</u>	<u>Method of Financing</u>	<u>Approximate Amount</u>
<u>Technical Assistance</u>		
Institutional Contract/ Non Personal Services	Direct Payment	\$ 3,060,000
<u>Training</u>		
Direct Contracts	Direct Payment	\$ 356,000
<u>Dissemination</u>		
Direct Contracts	Direct Payment	\$ 14,400
Purchase Orders	Direct Payment	\$ 66,000
<u>Commodities</u>		
Direct Purchase	Direct Purchase	\$ 220,000
<u>Local Support</u>		
Direct Contract	Direct Payment	\$ 233,600
<u>Project Management</u>		
Direct Contract/ Personal Services	Direct Payment	\$ 250,000
<u>Evaluation and Audit</u>		
Direct Contract	Direct Payment	\$ 150,000

C. Audits

The GOH Controller General of the Republic (CGR) is responsible for auditing the AID Projects. However, because of inadequate human and other resources the Controller General is unable to perform audits on a timely basis. To assure audits are made of the Project, the amount of \$50,000 has been budgeted for the auditing costs during the life of the Project. It is expected that AID will contract directly for these services with local Honduran firms although the Mission may finance such audits through the CGR. In addition, the AID Inspector General will schedule periodic audits to determine compliance and the efficiency and effectiveness of the use of the Project funds. Also the Office of the Controller will make financial reviews to assure accounting and internal controls are established that should ensure Projects assets are safeguarded.

D. Revised Project Budget

The total estimated cost of the Project is \$22,250,000, comprised of a \$16.350 million AID contribution (\$9.35 million in Development Assistance grant funds and \$7 million in projectized ESF) and a GOH/private sector contribution of the U.S. dollar equivalent of \$5,900,000. The AID Development Assistance funds will cover costs associated with the private sector, and the agricultural sector components. Projectized ESF funds will finance the original public sector component. GOH counterpart resources will come from National Treasury Funds or from Host Country Owned Local Currency (HCOLC)

E. Budgets for the Agricultural Component

TABLE 1
Budget for Policy Analysis and Implementation Amendment
Agricultural Component
Summary Budget (\$)

		SUBTOTAL AID	GOH	TOTAL
Technical Assistance		3,060,000	1,000,000	4,060,000
Long term expatriate	1,500,000			
Short term expatriate	1,280,000			
Local	280,000			
Training		356,000		356,000
U.S. and Third Country				
Airfare	40,000			
Perdiem	84,000			
Instruction	80,000			
In-country				
Facilities	32,000			
Instruction	120,000			
Dissemination		80,400		80,400
Publications	14,400			
Facilities	60,000			
Publicity	6,000			
Local Support		233,600		233,600
Rent, Furniture, Utilities	60,000			
Office Equipment	12,000			
Communications	48,000			
Supplies	9,600			
Copying	24,000			
Secretarial support	60,000			
Commodities		220,000		220,000
Computers	60,000			
Vehicles/Maintenance	160,000			
Project Management		250,000		250,000
Agricultural Project Liaison Officer	250,000			
Evaluation and Audit	150,000	150,000		150,000
Agricultural Statistics Support			1,500,000	1,500,000
TOTAL	4,350,000	4,350,000	2,500,000	6,850,000

TABLE 2
Budget for Policy Analysis and Implementation Amendment
Agricultural Component

	Year 1	Year 2	Year 3	Year 4	Subtotal	Total	SUBTOTAL AID	60%	TOTAL
Technical Assistance							3,860,000	1,000,000	4,860,000
Long term expatriate (5 person years)	600,000	600,000	300,000	0	1,500,000	1,500,000			
Short term expatriate (64 person months)	440,000	440,000	192,000	192,000	1,260,000	1,260,000			
Local (7 person years)	80,000	100,000	60,000	40,000	280,000	280,000			
Training							356,000		356,000
U.S. and Third Country									
Airfare(10 X \$1000 X 4)	10,000	10,000	10,000	10,000	40,000	40,000			
Perdiem (10 X \$100/d X21d x 4)	21,000	21,000	21,000	21,000	84,000	84,000			
Instruction (10 X \$2000 X 4)	20,000	20,000	20,000	20,000	80,000	80,000			
In-country									
Facilities (\$4000 X 2/year X 4)	8,000	8,000	8,000	8,000	32,000	32,000			
Instruction (\$15,000 X 2/year X 4)	30,000	30,000	30,000	30,000	120,000	120,000			
Dissemination							80,400		80,400
Publicat(3 sem/yr X 4 X 150/sem X \$9,000)	3,600	3,600	3,600	3,600	14,400	14,400			
Facilities(50 Part/sem X 12 X \$20/day X5d)	15,000	15,000	15,000	15,000	60,000	60,000			
Publicity(\$500/sem X 12)	1,500	1,500	1,500	1,500	6,000	6,000			
Local Support							233,600		233,600
Rent, Furniture, Utilities	20,000	20,000	20,000	20,000	80,000	80,000			
Office Equipment	12,000	0	0	0	12,000	12,000			
Comuncations(\$1000/m X 48)	12,000	12,000	12,000	12,000	48,000	48,000			
Supplies(\$200/m X 48)	2,400	2,400	2,400	2,400	9,600	9,600			
Copying(\$500/month X 48)	6,000	6,000	6,000	6,000	24,000	24,000			
Secretarial support(2 X \$7500/year X 4)	15,000	15,000	15,000	15,000	60,000	60,000			
Commodities							220,000		220,000
Computers (6 @ \$10,000 each)	60,000				60,000	60,000			
Vehicles/Maintenance (4 @ \$40,000 each)	40,000	40,000	40,000	40,000	160,000	160,000			
Project Management							250,000		250,000
Agricultural Project Liaison Officer	125,000	125,000	0	0	250,000	250,000			
Evaluation and Audit	12,500	12,500	112,500	12,500	150,000	150,000	150,000		150,000
Agricultural Statistics Support							1,500,000		1,500,000
TOTAL	1,542,000	1,490,000	869,000	449,000	4,350,000	4,350,000	4,350,000	2,500,000	6,850,000

Assumptions:

1. Year 1 begins June 1990.
2. All TA will be contracted and in place by June 1990.

TABLE 3
POLICY ANALYSIS AND IMPLEMENTATION PP SUPPLEMENT
YEARLY BUDGETS - AID FINANCING (U.S. DOLLAR EQUIVALENTS)

	Y E A R 1		Y E A R 2		Y E A R 3		Y E A R 4		T O T A L		
	FX	LC	FX	LC	FX	LC	FX	LC	FX	LC	
Technical Assistance											
Long term expatriate	600,000	0	600,000	0	300,000	0	0	0	1,500,000	0	
Short term expatriate	448,000	0	448,000	0	192,000	0	192,000	0	1,280,000	0	
Local	0	80,000	0	100,000	0	60,000	0	40,000	0	280,000	
									0	0	
Training									0	0	
U.S. and Third Country									0	0	
Airfare	5,000	5,000	5,000	5,000	5,000	5,000	5,000	5,000	20,000	20,000	
Perdiem	21,000	0	21,000	0	21,000	0	21,000	0	84,000	0	
Instruction	20,000	0	20,000	0	20,000	0	20,000	0	80,000	0	
In-country											
Facilities		0	8,000	8,000	0	8,000	0	8,000	8,000	24,000	
Instruction	30,000	0	30,000	0	24,000	6,000	24,000	6,000	108,000	12,000	
Dissemination											
Publications	0	3,600	0	3,600	0	3,600	0	3,600	0	14,400	
Facilities	0	15,000	0	15,000	0	15,000	0	15,000	0	60,000	
Publicity	0	1,500	0	1,500	0	1,500	0	1,500	0	6,000	
Local Support											
Rent, Furniture, Utilities	0	20,000	0	20,000	0	20,000	0	20,000	0	80,000	
Office Equipment	8,000	4,000	0	0	0	0	0	0	8,000	4,000	
Communications	0	12,000	0	12,000	0	12,000	0	12,000	0	48,000	
Supplies	0	2,400	0	2,400	0	2,400	0	2,400	0	9,600	
Copying	0	6,000	0	6,000	0	6,000	0	6,000	0	24,000	
Secretarial support	0	15,000	0	15,000	0	15,000	0	15,000	0	60,000	
Commodities											
Computers	60,000	0	0	0	0	0	0	0	60,000	0	
Vehicles/Maintenance	80,000	10,000	10,000	20,000	10,000	10,000	10,000	10,000	110,000	50,000	
Project Management											
Ag. Project Liaison Officer	125,000	0	125,000	0	0	0	0	0	250,000	0	
Evaluation and Audit	0	12,500	0	12,500	100,000	12,500	0	12,500	100,000	50,000	
TOTAL	1,397,000	187,000	1,267,000	221,000	672,000	177,000	272,000	157,000	3,608,000	742,000	4,350,000

Assumptions:

1. Year 1 expenditures begin June 1990.
2. All TA will be contracted and in place

Table 4
POLICY ANALYSIS AND IMPLEMENTATION PROJECT BUDGET
(US\$000)

	A.I.D. FX	A.I.D. LC	A.I.D. TOTAL	GOV TOTAL	PRIVATE SECTOR	TOTAL
I. Public Sector Policy Analysis and Implementation						
A. Technical Assistance	3,772	0	3,772	1,000	0	4,772
B. Equipment and Commodities	100	0	100	100	0	200
C. Training	3,000	0	3,000	0	0	3,000
D. Salaries and Adm. Expenses	0	0	0	1,000	0	1,000
E. Project Management/ Project Liaison Officer	28	0	28	300	0	328
F. Evaluation	100	0	100	0	0	100
G. Audits	0	0	0	50	0	50
SUBTOTAL	7,000	0	7,000	2,450	0	9,450
II. Private Sector Institutional and Policy Analysis Strengthening						
A. Technical Advisor	863	0	863	0	0	863
B. Policy and Economic Analysis	980	0	980	0	197	1,177
C. Policy Dialogue, Consensus- Building & Public Education	1,300	0	1,300	0	272	1,572
D. Institutional Consolidation	1,406	0	1,406	0	320	1,726
E. Administrative Support	0	210	210	0	161	371
F. Project Management	0	0	0	0	0	0
G. Evaluation and Financial Reviews	177	0	177	0	0	177
H. Endowment Trust Fund	0	0	0	(1,000)	(1,000)	(2,000)
I. Commodities	62	0	62	0	0	62
SUBTOTAL	4,790	210	5,000	0	950	5,950
III. Agricultural Sector Policy Analysis and Implementation						
A. Technical Assistance	2,760	280	3,040	1,000	0	4,040
B. Training	302	56	358	0	0	358
C. Dissemination	0	80	80	0	0	80
D. Local Support	0	234	234	0	0	234
E. Commodities	170	50	220	0	0	220
F. Project Management	250	0	250	0	0	250
G. Evaluation and Audit	100	50	150	0	0	150
H. Agricultural Statistics	0	0	0	1,500	0	1,500
SUBTOTAL	3,602	740	4,350	2,500	0	6,850
PROJECT TOTAL	15,392	950	16,350	4,950	950	22,250

VII. PROJECT IMPLEMENTATION AND ADMINISTRATION

A. Project Implementation

As stated in the discussions of project component activities and the anticipated end-of-project-status and outputs, the project will support policy analyses, planning and preparations for the implementation of sectoral reforms, and agricultural statistics developments with the goal of formulating and implementing agricultural sector reforms that will lead to sustained economic growth. A preliminary outline of the policy agenda to be approached by the project was also provided. The following scheme of project implementation has been developed to serve as a general guide for initial project procurements and activities, and for the further development of specific implementation plans to be developed between USAID, the GOH implementing agency, and project technical assistance.

	<u>ACTIVITY</u>	<u>QTR/FY</u>	<u>RESPONSIBILITY</u>
1.	Project negotiated w/GOH	2/90	USAID
2.	GOH Project authorized	2/90	USAID
3.	PROAG signed	2/90	USAID, GOH
4.	Initial obligation	2/90	USAID
5.	Information/Evaluation Plan Developed	2/90	USAID, GOH
6.	Project Implementation orders drafted for: Liaison Officer Long term TA Short term TA Local Assistance Computers/vehicles	3/90	USAID
7.	GOH counterpart programmed	2/90	GOH
8.	Counterpart personnel in place	2/90	GOH
9.	Initial detailed workplan completed	3/90	USAID, GOH
10.	Project Implementation orders approved	4/90	USAID
11.	1990 Agricultural Survey Funded and Initiated	3/90	GOH, TA
12.	Initial Policy Analysis Course	3/90	USAID, GOH
13.	Year I Analyses initiated:	4/90	USAID, TA, GOH
	- Updated Domestic Resource Cost/Protection Coefficients		
	- Policy Incidence and Effects on Commodity and Input Prices		
	- Agricultural Market Structures Assessment		
	- Land Tenure and Use Patterns and Related Policies		
	- Land Transactions and Financing Practices		
	- Agrarian Reform Land Management Models		
	(LOE = 15pm LT, 20pm ST, 24pm Local Assistance)		

- | | | | |
|-----|--|------------|---------|
| 14. | Initial Project Seminar | 4/90 | GOH, TA |
| 15. | Completion, Publication and
Dissemination of Year I Analyses
and Policy Implications | 2 and 3/91 | GOH, TA |
| 16. | Ad hoc Policy Analyses
as required
(LOE = 8pm LT, 6pm ST) | Continuous | GOH, TA |

Summary of Policy Analysis Topics for Years II through IV, and Estimated LOE, subject to modification:

- Assessment and Impacts of Domestic and International Marketing Policies for Agricultural Inputs and Outputs
- Assessment of IHMA Operations
- Assessment and Analysis of Food Assistance Policies
- Evaluation of Honduran Land Tax System
- Policy Options for Stimulating Land Markets
- Environmental Impacts of Land Use Policies
- Legal and Administrative Analysis of Agrarian Reform Law
- Alternative Land Management Models Under Agrarian Reform
(LOE = 15pm LT, 26pm ST, 49pm Local Assistance)

B. Project Component Administration

It is foreseen that USAID/ARDO will be the entity responsible for overall performance and implementation of the agricultural policy component. Component administration will be the responsibility of a USDH Project Officer who will be assisted in the first two years of the component by a full time personal services contractor who will act as the Project Liaison Officer (PLO). Implementation will be carried out by Honduran and U.S. based institutional contractors and GOH and private sector counterparts. The designated chief of the technical assistance team will report to the Project Committee (described below), as well as working on a day to day basis with the head of the UPSA policy analysis unit, the Project Liaison Officer and reporting frequently to the Project Officer.

The USAID Project Liaison Officer, supervised by the USDH Project Officer, will: assist in the procurement of technical assistance, training and commodity support to the project; handle day to day administration of AID financed inputs; provide advice on the resolution of issues that arise on project financing, counterpart support levels, technical scope and implementation, and GOH and other donor involvement; take responsibility for AID project reporting and correspondence; and initiate and supervise project evaluation and monitoring activities. The Project Liaison Officer will be contracted for a period of two years and will be instrumental in ensuring a rapid start to component activities.

The USDH Project Officer in ARDO will technically approve all procurement and implementation plans, as well as administratively approve project disbursements.

The GOH will establish a Project Committee (PC) composed of the Minister of Natural Resources, or his designate, and the Executive Secretary and Technical Secretary of UPSA. This committee shall have the principal responsibilities of:

- i. defining the sectoral policy analysis, dissemination, and training needs to be addressed on a short to long term basis;
- ii. coordinating and monitoring sector policy analysis and public awareness building efforts of public and private sector institutions;
- iii. designating no less than three full time long term counterparts and various policy analysis work groups on specific policy topics;
- iv. requesting technical financial and logistical support for policy analysis and dissemination activities;
- v. presenting policy and institutional reform recommendations to executive and legislative institutions; and
- vi. managing the technical, logistical, financial, planning and reporting requirements of the project.

C. Monitoring and Information System

An information system will be developed by an AID funded consultant during the preimplementation stage. It is anticipated that one person month of technical assistance will be required for the design of the system. The information system will adhere to AID guidelines and will use the following preliminary information and areas of emphasis.

Users of the Information: The major information users will be the Project Committee, and the chief of the technical assistance team, the UPSA policy analysis unit, decision makers at the CODA level, and the AID project manager. The Project Committee will define quarterly and yearly work plans of studies, policies to be analyzed, training and dissemination activities. The consultant will develop methods of data collection and the head of the UPSA policy analysis unit, the head of the UPSA information unit and the AID Project Officer will develop specific data collection, monitoring and evaluation plans for the corresponding periods.

Institutional Locus: One objective of this project is to develop the Honduran capacity to formulate and implement economic policy and administrative reform. For effective analysis and implementation to take place a sound information and monitoring system must be in place, one

project output being the development of an accurate and reliable agricultural data base. The newly established agricultural planning entity, UPSA, has an information unit which will be the repository of information for the agricultural sector. Gathering of data will be carried out by various agencies with the monitoring of the UPSA information unit staff. During the development of the information plan the consultant shall determine the adequacy of the current data base and staffing pattern and shall recommend changes if necessary.

Project Goal, Purpose, and Output Questions, Indicators and Methodologies:

In addition to reviewing the status of agricultural statistics, recommending the project hardware, software and information requirements for data base improvements to be targeted over the life of the project, and sectoral models appropriate for use by the project, the Information System consultant will develop methodologies for data collection which measure the component goal, purpose and output level indicators. Basic information is provided in the logical framework (Annex I) to the PP Supplement. Indicators and sample methods are identified below:

Project Goal: The goal of this Project is to promote sustained economic growth and stability.

Indicators: Improved economic and fiscal performance as measured by, inter alia:

- a. higher real GDP growth rates over the medium term;
- b. lower fiscal deficit as a percentage of GDP;
- c. lower current account deficit in balance of payments as a percentage of GDP.

Data Collection Methodology: Examination of Central Bank records, examination of Ministry of Finance records, and examination of administrative records. External sources such as World Bank and International Monetary Fund records will be useful in confirming locally generated information or supplanting project needs where such information is not readily available.

Project Purpose: The project purpose is to strengthen Honduran capacity to formulate and implement economic policies and administrative reforms.

Indicators: (Agricultural Component only) Strengthened institutional capacity within the public agricultural sector for policy formulation and analysis.

Data Collection Methodology: The UPSA information unit will collect and maintain information on the institutional capacity of the public agricultural sector for policy analysis and implementation. The consultant will develop clear information parameters and reporting methods which measure this capacity, and which can be maintained upon completion of the project.

Project Outputs: (Agricultural Component only)

- a. enhanced human resource base;
- b. analyses of key problems affecting the agricultural sector;
- c. dependable, accurate, strengthened agricultural data base;
- d. sharper definition, increased awareness and greater consensus by the public and private sectors on problems and possible solutions in the agricultural sector;
- e. increased public agricultural sector support for reform proposals.

Indicators:

- a. number and type of participants completing agricultural policy related workshops, short courses and other training events;
- b. completeness of joint agricultural policy analysis studies in areas of: agricultural prices, land and natural resource use and management, and access to input/output and credit markets;
- c. number, accuracy and use of rural household surveys;
- d. number, accuracy and use of national agricultural surveys;
- e. number of reports and conference proceedings related to agricultural policy issues disseminated to public and private sector officials and decision makers;
- f. number and occupation of participants attending agricultural project sponsored events;
- g. use of disseminated reports by decision makers;
- h. number of proposals for: executive decrees, interministerial agreements, and international donor or GOH financing for projects;
- i. number and quality of legislative reform bills introduced to Congress;

Data Collection Methodology: The UPSA information unit, the Project Officer, and the AID Participant Training Division will be required to collect information on the number, gender and background of participants receiving international training under the project. Participants attending specific courses in the U.S. or third countries will be required to prepare written reports on the quality, appropriateness and timeliness of the training upon completion. Courses or training events which include an assessment, evaluation or examination of the participant's ability will be encouraged, and a copy of such evaluation will be required.

The UPSA information center will house copies of all project sponsored publications, informal studies and discussion papers. The Technical Assistance team and the AID Project Officer will have primary responsibility for assessing the accuracy and responsiveness of these studies. Independent assessment of the analytical work may be carried out through rapid low-cost studies. The UPSA information unit and the UPSA policy analysis unit will be required to maintain lists of the distribution of all studies carried out by the project. In addition, the UPSA information unit will oversee the collection of data on conference participation. Both distribution lists and conference participation records should provide sex disaggregated data.

An evaluation of each conference will be carried out by the local technical assistance provider or other group which may be charged with the organization and execution of the event. The evaluation will examine the participant's knowledge/awareness of the conference topic before and after the conference, an assessment by the participant of the appropriateness of the conference, the structure of the event, and recommendations for change. The results of these evaluations will be used to assess project impact on public awareness and to restructure future events if necessary.

Group and guided interviews carried out by an external consultant may be used to determine the degree to which policy makers are aware of and use the policy analysis studies and capability of the UPSA policy analysis unit. The results of these interviews will be used to adjust implementation strategies where necessary.

The UPSA information unit will be responsible for maintaining records of all executive decrees, interministerial agreements, legislative changes and proposals for international donor or GOH funding generated from the public agricultural sector.

The UPSA information unit and the DGEC of SECPLAN will maintain copies of the rural household survey to be conducted in 1990, and the annual national agricultural surveys. Rapid, non-random sample surveys may be used to assess the use and perceived accuracy of these surveys.

Special Studies: The Information Systems Consultant will recommend special studies to be included to address implementation problems or to more fully address special information needs.

Feedback: Included in the scope of work for the technical assistance teams (expatriate and local) will be conditions that they are responsible for working with UPSA policy analysis and information staff to ensure that data analyses are maintained and provided in a timely way. The technical assistance contract will require quarterly reports on progress, achievements, implementation problems, and key areas for action in the upcoming period. The reports will be in English and Spanish and will be shared with the UPSA information unit, the UPSA policy analysis unit and the Project Committee.

Budget: Approximately 2.3% (US\$100,000) of the AID financed \$4.35 million contribution to this project has been programmed for data collection, monitoring and analysis including evaluations. Additional support from the Government of Honduras will be provided through its support for the UPSA information unit and rural household and agricultural surveys.

Evaluation Schedule: A midterm evaluation is planned for 1Q FY93 to assess the results of policy analysis activities and to determine the feasibility of a larger scale effort in the policy arena. Areas to be included in the midterm evaluation include reduced conflict between national and private objectives, the role of the public agricultural sector as a leader in policy reform and dissemination of analytical work, the proposed links between project activities and the policy conditionality of the ASAP and other programs. In addition, a final evaluation is planned, however, the new evaluation guidelines provide flexibility to reprogram the funds dedicated to this activity to other interim monitoring and evaluation needs.

VIII. PROJECT ANALYSES

A. Economic Considerations

The main focus of the supplemental component of the PAIP is on improving the agricultural policy-making environment in Honduras. This will be achieved via the provision of (1) long and short-term technical assistance on an as needed basis, and (2) permanent in-house policy analysis capability through both short-term training and close collaboration between TA specialists and host country counterparts. The intermediate target of the project component is to facilitate the adoption of improved exchange rate, trade, pricing, land use, credit, marketing, and research and extension policies.

The estimation of project costs is straightforward. Total expenditures during the 4 year LOP are estimated at \$7.35 million (see Table 4), which includes a dollar expenditure component of \$3.608 million. The estimation of project benefits must of necessity be somewhat more speculative. It is virtually impossible to pinpoint the GDP or foreign exchange impact of a series of interrelated policy changes which have complex long-run effects on economic growth rates. However it is possible to apply different estimates regarding final project impact on sectoral growth rates, as a means of assessing the profitability of project component activities under different assumptions regarding the impact of those activities on the policy reform process.

The current estimate for 1989 is L9,678 million, of which agricultural production accounts for approximately 20%. If we adopt the extremely conservative assumption that a significant improvement in the

agricultural policy environment would increase the value of agricultural production by a scant 2% over its 1989 level, and that this increase would occur in the year following project completion (ie. 1994), the project component's internal rate of return at market prices would be 63%. Reducing the increase in output value to 1% would still generate a rate of return of 28.5%. Thus the project component appears to generate a highly favorable rate of return under extremely conservative assumptions regarding its impact on agricultural production.

If we shadow price the foreign exchange resources utilized in the project at a rate of \$1 :L3.5, total project costs rise to L16 million. Assuming that only half of the additional contribution to GDP represents foreign exchange earnings/savings, this generates an economic internal rate of return (EIRR) of 54%. Reducing the increase in sectoral value added to 1% once again, the EIRR falls to 21% - still a healthy internal rate of return on project component resources.

One caveat should be mentioned. The project activity herein described is basically a lobbying effort (with a marginal training component). As a result, it is an extremely high risk activity. While the preceding analysis indicates that the GDP impact which the policy reform efforts have to generate in order to justify project costs is quite small, it must be realized that such an effort could easily turn out to be an all or nothing proposition. That is, it is quite possible that the policy reform initiatives will either produce a series of policy changes which yield significant sectoral and GDP growth impacts, or that the policy advice provided through the activity will fall on deaf ears and produce nothing but a flow of unutilized reports.

Thus while the growth impact needed to justify undertaking the new project component is marginal a possibility exists that the activity will yield a negative flow of net benefits. This illustrates the degree to which the profitability of this type of project investment is dependent upon factors beyond the direct control of project planners and implementers, and underscores the need to carefully monitor GOH commitment to the policy reform process (gained through the project strategy of collaborative and consensus building policy analysis work) as project obligations and disbursements are made.

B. Administrative/Institutional Analysis

The recently created Agricultural Sector Planning Unit, UPSA, will be main counterpart agency for this Project. UPSA will consolidate the activities of the units in the Ministry of Natural Resources and other public sector agricultural institutions which are currently involved in some type of agricultural policy planning and programming, and perform the evaluation, monitoring, programming and policy review functions for the sector as a whole that currently are performed by SECPLAN.

According to the Planning Law of 1986 which created UPSA and the subsequent "Reglamento 177-88" of December 1988, administration of UPSA will be presided over by the Minister of Natural Resources. Policy directives and studies emanating from UPSA will be reviewed and either accepted or rejected by the Agricultural Development Council (or CODA - Consejo de Desarrollo Agrícola). The CODA in turn will consist of the Minister of SECPLAN, representatives from all of the various parastatal and semi-autonomous entities currently involved in the agricultural sector, and two private sector representatives from campesino associations. The President of CODA is the Minister of Natural Resources.

Currently, the GOH is receiving assistance from IICA in the establishment of procedures and policies for both UPSA and CODA. Personnel for UPSA will be drawn from the approximately 145 professional and technical people currently serving in planning sections of GOH ministries. Budget support will come from annually budgeted funds for planning for the Ministry of Natural Resources, SECPLAN and the above mentioned parastatal entities.

In creating UPSA and CODA, the GOH has taken a major step forward in consolidating its policy functions and thereby emphasizing the importance of agricultural sector reforms. Nevertheless, the Mission is aware of the problems and stumbling blocks inherent in the start up of any new organization. Accordingly, it is appropriate for the Mission to have some alternative institutional framework and timetable under which to implement the policy analysis agenda.

The experience of the World Bank is noteworthy here. In 1989, the World Bank preconditioned negotiation of a sizeable agricultural sector loan on the formation of working groups, the completion of sector policy and administrative analyses, and the development of the bylaws for UPSA. Given the incentive of the loan, the GOH complied, and produced some worthwhile analyses of policy and structural reforms necessary for growth in the sector. The interinstitutional working groups were coordinated by the Ministry of Planning (SECPLAN) which provided an operational model for similar future efforts under UPSA.

The World Bank strategy here appears to have been effective and wise. It preconditioned loan negotiations on a collaborative work on specific sectoral issues, and structured the analysis so that it would be largely seen as product of, and a consensus within the GOH. Institutionally, it recognized the weakness of public agricultural sector organization and policy capability and took steps to foster its development.

C. Social Considerations

The Project will result in key improvements to the agricultural sector through the implementation of agricultural policy reform initiatives. Benefits will be widely distributed on a nationwide basis by increasing nutrition, employment and income levels and by contributing to sustainable economic growth.

Supporting the Honduran capability to undertake agricultural policy analysis and implementation practices will positively affect at least three major categories of beneficiaries: first, the Ministry of Natural Resources and other public institutions and ministries involved in agricultural policy implementation at the technical and decision-making levels; second, the farmers -- producers and consumers of basic food crops, cash crops, and nontraditional agricultural products -- and their families; and third, domestic consumers, by giving them products at prices which accurately reflect supply and demand.

D. Environmental Considerations

AID Handbook 3, Appendix 2D, Section 216.2C establishes criteria for exempting the Initial Environmental Examination (IEE) and subsequent environmental analysis requirement, if applicable, on the basis of categorical exclusion.

Among the eligible categories are studies, projects or programs intended to develop the capability of recipient countries to engage in development planning except to the extent that such programs contain activities (e.g. construction) that have a direct impact on the environment.

As described the purpose of this Project is to strengthen the Honduran capability on the analysis of policies in the agricultural sector. The original Project Paper recommends a negative determination for environmental impact. There will be no construction, nor any other activity that has direct impact on the environment financed under the new Project, consequently the negative determination is still relevant and no further environmental evaluation will be required.

**Policy Analysis and Implementation
Logical Framework**

Annex I

- Page 1 of 3

Summary	Objectively Verifiable Indicators	Means of Verification	Important Assumptions
<p>A.1. Goal To promote sustained economic growth and stability</p>	<p>A.2. <u>Measurement of Goal Achievement</u> Improved economic and fiscal performance as measured by, <u>inter alia</u>:</p> <ul style="list-style-type: none"> a. Higher real GDP growth rates over the medium term. b. Lower fiscal deficit as a percentage of GDP. c. Lower current account deficit in balance of payments as a percentage of GDP. 	<p>A.3. <u>(As related to goal)</u></p> <ul style="list-style-type: none"> - Central Bank - Project monitoring - GOH reports - IMF/IBRD reports - Economic Reports 	<p>A.4. <u>(As related to goal)</u></p> <ul style="list-style-type: none"> - Continues economic, social political stability in Honduras and Central America. - Productive policy dialogue between AID and GOH continues. - Political climate favorable to private sector investment.
<p>B.1. Purpose To strengthen Honduran capacity to formulate and implement economic policies and administration.</p>	<p>B.2. <u>End of Project Status</u> Significantly increased capacity on the part of the GOH to undertake economic analysis and implement policies as evidenced by policy studies and policy changes in the areas of foreign trade, customs administration, public sector expenditures, and export competitiveness.</p> <p>Strengthened private sector organization, COHEP, with increased membership, increased financial support from members, development of professional economic research capacity, published information and conferences establishing COHEP's position on economic policy issues and visible efforts by COHEP to influence national economic policy.</p> <p>Strengthened institutional capacity within the public agricultural sector for policy formulation and analysis.</p>	<p>B.2. <u>(As related to Purpose)</u></p> <ul style="list-style-type: none"> - Project Monitoring - Project Evaluation - Consultants Reports - Economic reports <ul style="list-style-type: none"> - Copies of reports - Attendance at conferences <ul style="list-style-type: none"> - Project Monitoring - Project Evaluation 	<p>B.4. <u>(As related to purpose)</u></p> <ul style="list-style-type: none"> - Leadership stability within the GOH. - GOH continues to implement economic reform package. <ul style="list-style-type: none"> - Continued efforts by COHEP to revitalize its organization and construct private/public dialogue on economic growth. - Continued private sector willingness to participate in policy reform process. <ul style="list-style-type: none"> - Leadership within the public agricultural sector on policy issues.

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**Policy Analysis and Implementation
Logical Framework**

Annex I
Page 2 of 3

Summary

C.1. Outputs

Enhanced human resource base

Analyses of key problems affecting the private sector.

Analyses of key problem areas affecting the national economy.

Improvements in public sector operations

Public dissemination of information regarding the need for private savings and investment for economic growth, the role and meaning of private enterprise and private sector views on public policy.

Analyses of key problems affecting the agricultural sector.

Dependable, accurate strengthened agricultural data base.

Sharper definition, increased awareness and greater consensus by the public and private sectors on the policy problems and possible solutions in the agricultural sector.

Objectively Verifiable Indicators

C.2. Output Indicators

- 10 PhD.s in economics
- 25 MA/MS in economics/public administration
- 15 international ST training
- 100 participants completing agricultural policy related workshops, short courses and other training events.

3-4 studies per year

Policy studies in the areas of public sector finance, export competitiveness, customs administration, and foreign trade.

Reduction of expenditures in public sector operations; increased productivity in public sector operations.

Conferences and published reports from COHEP on economic and fiscal policy, pamphlets, newspaper articles or radio coverage on the role of private enterprise in the economy.

16 joint agricultural policy analysis studies in areas of:

- agricultural prices (3)
- land and natural resource use and management.(8)
- access to input/output and credit markets.(5)

- 1 rural household survey
- 4 National agricultural surveys.

- 1800 reports and conference proceedings related to agricultural policy issues disseminated. 3 conferences per year with 150 documents per conference.

- 600 participants attending agricultural related project sponsored events. 50 participants attending 3 seminars each year.

Means of Verification

C.3. (As related to outputs)

- S&T/OIT progress reports
- Project monitoring
- Training Grantee reports
- Course attendance records
- Evaluation of attendees' performance.

- Copies of Analyses

- Copies of Studies

- Independent audits of public sector agencies, presentation of annual efficiency reports.
- Semesterly production of financial operation statements.

- Copies of reports
- Attendance at conferences

- Copies of studies

- Copy of survey results
- MNR, DGEC records

- Conference attendance records

- Evaluations of seminars by participants.

Important Assumptions

C.4. (As related to outputs)

- Trainee nomination, selection and placement proceeds in timely fashion.
- Participants are made available for training events.

- Continued private sector participation.

- Identification of TA in timely fashion, good coordination between AID, the GOH and contractor team.

- Continued GOH efforts to rationalize public sector operations.

- COHEP efforts to revitalize its organizations and lead public/private dialogue on economic growth.

- TA is contracted and available on a timely basis.

- GOH and AID agree on priority areas for analysis.

- GOH counterparts are made available to carry out studies jointly.

- GOH makes funding available to carry out surveys on a timely basis.

- Public agricultural sector supports dissemination of study results.

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Policy Analysis and Implementation
Logical Framework

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ary
Public agricultural sector
support for reform proposals.

Objectively Verifiable Indicators

Means of Verification

Important Assumptions

- Proposals for:
 executive decrees;
 interministerial agreements.
 international donor or GOH
 financing.
- legislative reform bills
 introduced to Congress.

- Copies of decrees and agreements
- Copies of proposals
- GOH Congressional Proceedings
 (transcripts).

- Changes can be addressed through
 legal vehicles

ts (Agricultural Component)

	AID	GOH	TOTAL
Technical Assistance	\$1,500,000	\$1,000,000	
Technical Assistance	1,280,000		
Technical Assistance	280,000		
International Training	240,000		
Country Training	152,000		
semination	81,000		
odities	220,000		
l Support	233,000		
ject Management	250,000		
ution and Audit	150,000		
l Agricultural Surveys		\$1,500,000	
	\$4,350,000	\$2,500,000	\$6,850,000



Secretaría de Hacienda y Crédito Público
 Dirección General de Crédito Público
 República de Honduras, C. A.

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 ANNEX II

15 FEB 90 04 25

Tegucigalpa, 15 de Febrero, 1990.

02-172

Excelentísimo
 Señor
 JOHN A. SANBRAILO
 Director de la Agencia
 Internacional para el
 Desarrollo.
 Ciudad.

REF: CONVENIO A.I.D. 522-0325
 PROYECTO ANALISIS Y EJECUCION DE
 POLITICAS ECONOMICAS.

Estimado Señor Director:

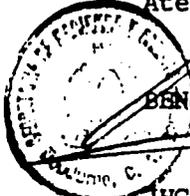
Por este medio la Secretaría de Hacienda y Crédito Público, en representación del Gobierno de Honduras y basado en la solicitud presentada por el Ministerio de Recursos Naturales, formalmente solicita una enmienda - al Proyecto de Análisis y Ejecución de Políticas Económicas, a la vez solicitamos a esa Institución un incremento de fondos de donación por la cantidad de \$ 4,350.000 para apoyar al Gobierno a llevar a cabo el análisis de políticas, actividades de divulgación y capacitación para el sector agrícola. El Gobierno de Honduras apoyará el proyecto a través de contribuciones en especie y en efectivo equivalente a \$2,500.000, - primordialmente para apoyar una unidad de análisis de políticas agrícolas y para llevar a cabo encuestas anuales sobre la producción agrícola nacional.

El Gobierno de Honduras espera trabajar estrechamente con la A.I.D. en un esfuerzo de cooperación para incrementar el rendimiento del sector agrícola productivo. El programa de trabajo analítico propuesto, la asistencia técnica, seminarios, concientización y capacitación serán los elementos claves para alcanzar este objetivo.

Sin otro particular por el momento, me es grato suscribirme de usted,

Atentamente,

BENJAMÍN VILLANUEVA
 Ministro
 JHC/adem.



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SECRETARÍA DE ESTADO
EN EL DESPACHO DE
RECURSOS NATURALES

República de Honduras C. A.

NOTA S- 074-90

Tegucigalpa, F.M.,
Febrero 15, 1990

Doctor
Benjamín Villanueva
Ministro de Hacienda y
Crédito Público
Su Despacho

Estimado Señor Ministro:

Por medio de la presente me permito ratificar la solicitud de apoyo, por parte de esa Secretaría de Estado, para la negociación de la enmienda al Proyecto de Análisis de Política e Implementación, Proyecto AID No. 522-0025, la cual fue sometida a ese Ministerio por mi antecesor en esta Secretaría, mediante NOTA S-3380-89, de fecha 29 de diciembre de 1989. Esta enmienda consiste en ampliar el alcance original del Proyecto a fin de incluir un componente para apoyar la formulación, ejecución y mantenimiento de políticas agrícolas.

El componente a ser financiado por el Gobierno de Honduras tiene un costo total de Seis Milnoventa y Cinco Mil Quinientos (6,950.000) dólares U.S.\$., de los cuales Cuatro Milnoventa y Cinco Mil Quinientos (4,950.000) provienen de los recursos propios del Gobierno de Honduras y Dos Milones Cuatrocientos Mil (2,000.000) dólares U.S.\$., de la contraparte del Gobierno de Honduras. Este apoyo consiste en el personal, equipo, oficinas y suministros en la Unidad de Planificación Sectorial Agrícola, que opera en esta Secretaría y que presta servicios a las entidades agrícolas que periódicamente lleva a cabo la Dirección de Estadística y Censos de la Secretaría de Planificación y Coordinación y Presupuesto. Cabe destacar que la contraparte ya formó parte de los presupuestos regulares de las instituciones responsables de la ejecución del Proyecto y que no constituyen nuevas cargas al Presupuesto General de Ingresos y Egresos.

La duración del Proyecto es de cinco años, a contar desde su inicio, iniciarlo en el menor plazo posible, y se le dará prioridad en los aspectos de política agrícola, en particular en el sector agropecuario y forestal, en el marco de la política agrícola del Gobierno de Honduras y del Señor Presidente de la República. El Proyecto tiene un carácter prioritario en los aspectos de política agrícola, en particular en el sector agropecuario y forestal, en el marco de la política agrícola del Gobierno de Honduras y del Señor Presidente de la República.



SECRETARIA DE ESTADO
EN EL DESPACHO DE
RECURSOS NATURALES

República de Honduras. C. A

- 2 -

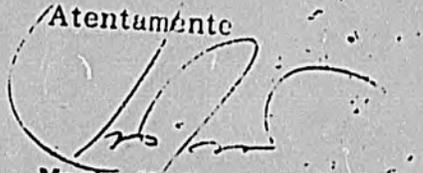
esfuerzos que el Gobierno de Honduras está realizando en este campo son, sin lugar a dudas, los más concentrados que se han realizado en la vida institucional del Estado hondureño. Además, el Proyecto apoyará en los análisis del impacto de las políticas sectoriales y extrasectoriales en el desempeño del agro hondureño.

La concepción del Proyecto incluye analizar, formular y ejecutar las políticas agrícolas para cumplir con los compromisos contraídos por el Gobierno de Honduras en otros proyectos, en los convenios de los cuales se incluyen las obligaciones, pero no se contemplaron las acciones ni se presupuestaron los recursos para respaldarlas.

En definitiva, la Secretaría de Recursos Naturales considera que el Proyecto será beneficioso para el futuro desarrollo de nuestro sector agropecuario y que es sumamente oportuno en el momento histórico por que atraviesa nuestro país. Por lo antes expuesto esperamos contar con su apoyo para lograr negociar la enmienda en la brevedad posible.

Aprovecho la oportunidad para reiterarle las muestras de mi más alta consideración y estima.

Atentamente



Mario Nufio Gamero
Ministro de Recursos Na.

cc. Dwight Stain
Oficina de Agricultura/AID

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SUBJECT: HONDURAS POLICY ANALYSIS AND IMPLEMENTATION
PROJECT 522-0325 NEW PROJECT DESCRIPTION

REF: A) TEGUCIGALPA 19466

1. ON 11/16/89 THE LAC BUREAU REVIEWED AND APPROVED THE SUBJECT NPD TO INCLUDE A DOLS 5.0 MILLION AGRICULTURAL SECTOR POLICY COMPONENT IN THE SUBJECT ON-GOING PROJECT THROUGH A PROJECT PAPER SUPPLEMENT (PPS). THE MISSION MAY PROCEED WITH THE DESIGN AND APPROVAL OF THE PROPOSED PPS TO THE POLICY ANALYSIS AND IMPLEMENTATION PROJECT 522-0325. THE PPS WILL INCLUDE THE FOLLOWING:

A) A CLEAR STATEMENT OF HOW THIS NEW AGRICULTURAL POLICY COMPONENT WILL FIT WITHIN THE MISSION'S PROPOSED NEW AGRICULTURAL STRATEGY, B) AN ANALYSIS WHICH PROVIDES AN OBLIGATION SCHEDULE AND DEMONSTRATES THAT THE DOLS 5.0 MILLION WILL BE EXPENDED WITHIN THE CURRENT PACD OF THE ON-GOING PROJECT 522-0325 AND C) AN EXPLANATION OF THE RELATIONSHIP BETWEEN DEVELOPMENT AND IMPLEMENTATION OF AGRICULTURAL POLICIES AND DOLLAR DISBURSEMENTS UNDER THE ESP/EOP STRUCTURAL ADJUSTMENT PROGRAM.

2. FYI A REVISED NPD FOR THE FY 91 (PREVIOUSLY FY 90) AGRICULTURAL DEVELOPMENT PROGRAM 522-0336 MUST BE INCLUDED IN THE UPCOMING FY 91/92 ACTION PLAN.

3. PLEASE SEND COPY OF THE APPROVED PPS TO LINDA SEVILLE LAC/DR/PSS. EAGLEBURGER

BT
#9204

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ANNEX IV
DEC 15 1989

AGENCY FOR INTERNATIONAL DEVELOPMENT
ADVICE OF PROGRAM CHANGE

Date:

Country : Honduras

Project Title : Policy Analysis and Implementation

Project Number : 522-0325

FY 1990 CP Reference : Annex III, p. 117

Appropriation Category : Economic Support Funds (ESF)
Private Sector, Energy and Environment (PSEE)
Agriculture, Rural Development and Nutrition (ARDN)

Life-of-Project Funding : \$ 7,000,000 (ESF)
\$ 4,000,000 (PSEE)
\$ 5,350,000 (ARDN)
\$16,350,000 Total (G)

Intended FY 1990 Obligation : \$ 3,000,000 (ARDN) (G)

This is to advise that A.I.D. intends to obligate \$3.0 million in ARDN grant funds in FY 1990 for the Policy Analysis and Implementation Project. The authorized life-of-project funding for this activity has been increased by \$4,350,000 in ARDN grant funds to a new project total of \$16,350,000.

The additional funds provide financing under the agricultural component of the project for policy formulation and analysis with special emphasis on policy related impediments to agricultural sector growth. The goal is to build a consensus on proposals for change.

Annex: Activity Data Sheet

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AGENCY FOR INTERNATIONAL DEVELOPMENT
ACTIVITY DATA SHEET

PROGRAM : LHRAS

CP 81-36 (4-8)

TITLE Policy Analysis and Implementation		FUNDING SOURCE FSP, PSFP, and NCM		PROPOSED DOLLARIZE (in thousands of dollars) FY 90 3,000		LIFE OF PROJECT (Year) 15,350	
NUMBER 522-0225	NEW <input type="checkbox"/>	PRECED REFERENCE ON #607, dated 7/27/87		INITIAL CHK. DATE ON 7/87	ESTIMATED FINAL DOLLARIZATION 7/87	ESTIMATED COMPLETION DATE OF PROJECT 7/94	
ORGAN <input checked="" type="checkbox"/> LEAD <input type="checkbox"/>	CONTROLLING <input checked="" type="checkbox"/>						

Purpose: To strengthen the Honduran capacity to formulate and implement economic policies and administrative reforms.

Project Description: The seven-year project includes three components. The first component is carried out with the Ministry of Finance and Public Credit and the Central Bank. It seeks to significantly increase the Government of Honduras' (GOH) capacity to undertake economic analyses and to implement policies. Of special interest are policy studies and changes in the areas of foreign trade, customs administration, public sector expenditures and export competitiveness. The second component concentrates on the private sector and is implemented by the Honduran Council for Private Enterprise (COHEP). This component strives for a strengthened COHEP with increased membership, increased financial support from members, and a developer professional economic research capacity. Publications and conferences will disseminate COHEP's position on economic policy issues. The third component, which this document addresses, seeks to improve the institutional capacity within the public agricultural sector for policy formulation and analysis primarily in the areas of agricultural prices, the use and management of land and natural resources and access to inputs/outputs and credit markets.

Sustainability: Project funds will be used to upgrade the analytical skills of technical personnel in the public, financial and agricultural sectors. Specific covenants to ensure continuing support to the agricultural policy unit will be included in the amended project agreement. The private sector group, COHEP, has operated effectively for twenty-five years, but is implementing a plan to increase its self sufficiency so that it may continue to be an influential policy analysis vehicle beyond the life of the project.

Relationship of Project to A.I.D. Country Strategy: The project directly responds to the country strategy through increasing private sector development and contributing to increased agricultural production and financial stabilization objectives. Increased production, employment and export earnings will accrue from the project and will contribute to higher incomes and improved standards of living for Hondurans.

Cost Country and Other Factors: The GOH recognizes the need for appropriate economic policies and administrative reforms which lead to growth. Improving the analytical, administrative and managerial skills of its key institutions is seen as a critical step toward selective change. Recent legislation to devolve planning and policy

setting activities to the sectoral level strengthen the rationale for the agricultural component. The objectives of the project are consistent with those of the IIRD, IDV, the Inter-American Development Bank and other donors seeking to improve Honduras' macroeconomic situation.

Beneficiaries: The primary beneficiaries of the project will be those individuals participating in the training events, seminars and dissemination activities. Decision makers who can rely on thorough analyses of problems will also benefit. The impact of changed policies will be felt by the general Honduran population who will benefit from increased income and access to goods and services.

Major Outputs (IAP)

Balanced Human Resource Base:	
MEd/MA graduates	35
Agricultural policy participants trained	100
Policy analyses conducted:	
Private industrial sector productivity	16
Public policy	15
Agricultural sector productivity	16
Dissemination activities:	
Policy conferences/seminars conducted	18
Publications issued	25
Strengthened agricultural data base:	
Rural Household Survey completed	1
National Agricultural Surveys completed	4

A.I.D.-Financed Inputs (US \$000)**Life-Of-Project**

- Technical Assistance	8,675
- Training	3,356
- Dissemination Activities	1,380
- Analytical Support Costs	564
- Institutional Consolidation	1,408
- Commodities	382
- Project Management	278
- Evaluation and Audit	427

Total

16,550

U.S. FINANCING (in thousands of dollars)				PRINCIPAL CONTRACTORS OR AGENCIES
	Commitment	Expenditure	Unexpended	
Through September 30, 1988	0	165	7,615	Ministry of Finance and Public Credit, the Central Bank of Honduras, and the Honduran Council for Private Enterprise (COHEP).
Estimated Fiscal Year 1993	4,000	1,917		
Estimated Through September 30, 1993	12,000	2,132		
Proposed Fiscal Year 1993	7,000	1,150	16,350	