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HONDURAS
FY 1995-97
PL 480 TITLE III
PROGRAM

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I. EXECUTIVE SUMMARY

A. Poverty:

Honduras, a nation of 5.3 million people with an annual per capita GDP of only \$634, ranks among the least developed countries and is the third poorest country in the Western Hemisphere. Over a third of the households in Honduras remain "very poor"; i.e., too poor to be able to afford to buy the basic basket of food required to meet their nutritional needs. Most of the poor in Honduras live in rural areas, 78 percent, and most poor households, 76 percent, are self-employed in agriculture, i.e., primarily campesino families. A higher percentage of children in rural areas are malnourished: 46.5 percent of children living in rural areas in 1987 were chronically malnourished (stunted) versus 23.1 percent in urban areas.

Even Honduras' low nationwide per capita GDP figure is deceptive; it hides the depth of poverty in much of the country since relative wealth is highly concentrated. Indeed, according to the World Bank, Honduras has the fourth lowest proportion of national income in the poorest quartile among Latin American countries (only Panama, Brazil and Guatemala are worse). While some countries have "pockets of poverty," Honduras has "pockets of prosperity" - namely scattered towns, and especially the large cities of Tegucigalpa and San Pedro Sula where incomes are two and a half times higher than in rural areas. In 1993, rural households had an average monthly income of L113.2 (approx. \$21), whereas the Government of Honduras (GOH) poverty line stood at L184 per month. The rural "indigence" line stood at L138, which was the cost of the basic food basket, calculated to provide 2,200 calories per household member per day. Fifty-one percent of the rural population was indigent in 1993. Poverty is especially pronounced in western Honduras and in the vast "La Mosquitia" region to the east (see Honduras Poverty Map on following page).

B. The Food Insecurity Problem:

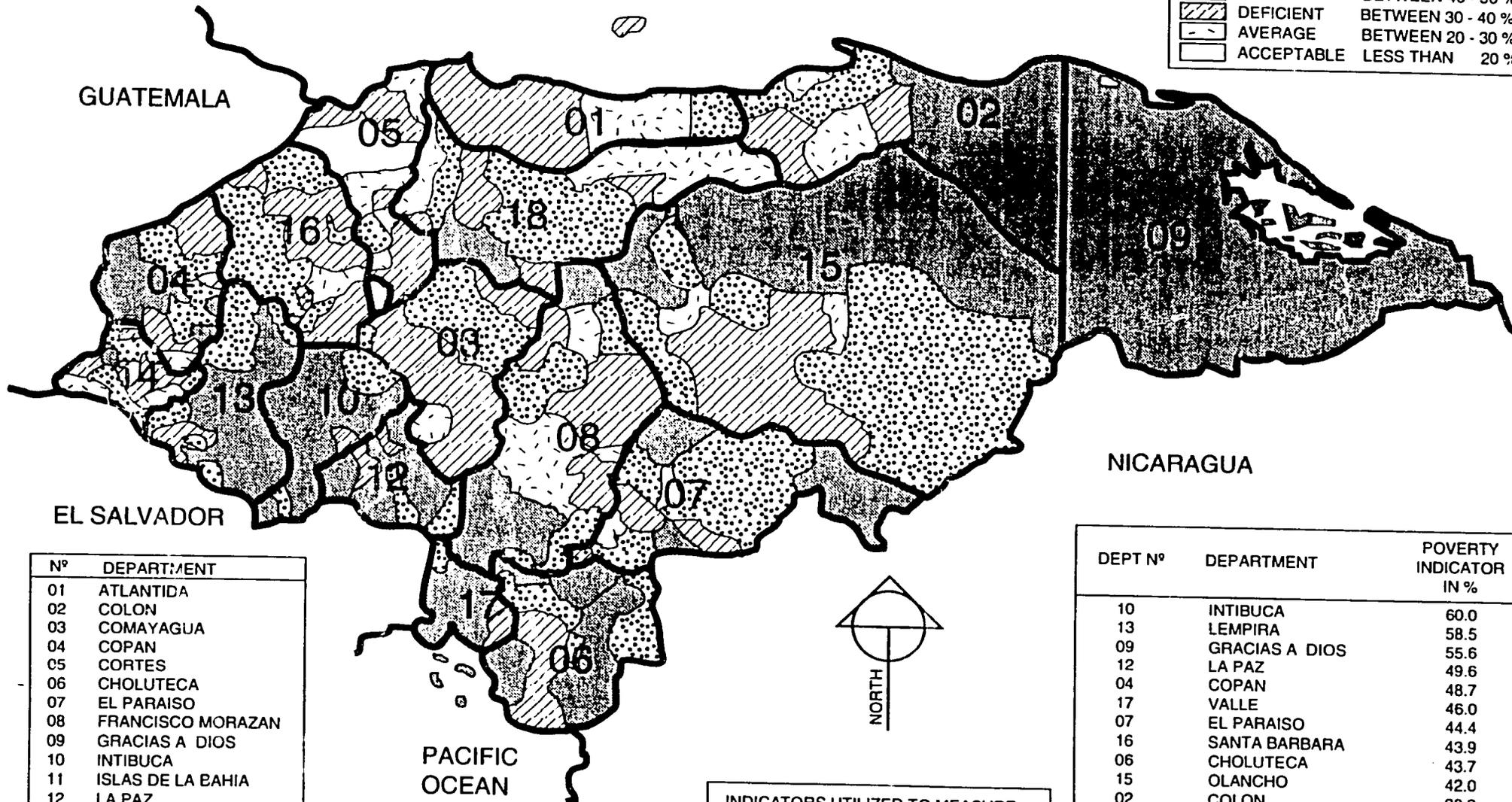
All three aspects of food security in Honduras are problematic. At the household level, a common key to addressing the problems of availability, access and utilization of food is the alleviation of poverty. Most rural households cannot produce enough food or earn enough money to be able to afford adequate diets for their families. At the national level, increased economic growth is necessary to be able to afford the food import bill while meeting other essential import and debt service requirements.

REPUBLICA DE HONDURAS

POVERTY MAP

SOURCE:
GOVERNMENT OF HONDURAS

POVERTY INDICATORS		
	VERY BAD	MORE THAN 50 %
	BAD	BETWEEN 40 - 50 %
	DEFICIENT	BETWEEN 30 - 40 %
	AVERAGE	BETWEEN 20 - 30 %
	ACCEPTABLE	LESS THAN 20 %



Nº	DEPARTMENT
01	ATLANTIDA
02	COLON
03	COMAYAGUA
04	COPAN
05	CORTES
06	CHOLUTECA
07	EL PARAISO
08	FRANCISCO MORAZAN
09	GRACIAS A DIOS
10	INTIBUCA
11	ISLAS DE LA BAHIA
12	LA PAZ
13	LEMPIRA
14	OCOTEPEQUE
15	OLANCHO
16	SANTA BARBARA
17	VALLE
18	YORO

INDICATORS UTILIZED TO MEASURE POVERTY	
ACCESS TO POTABLE WATER	50.0 %
MALNUTRITION	30.0 %
BASIC SANITATION	20.0 %
TOTAL	100.0 %

DEPT Nº	DEPARTMENT	POVERTY INDICATOR IN %
10	INTIBUCA	60.0
13	LEMPIRA	58.5
09	GRACIAS A DIOS	55.6
12	LA PAZ	49.6
04	COPAN	48.7
17	VALLE	46.0
07	EL PARAISO	44.4
16	SANTA BARBARA	43.9
06	CHOLUTECA	43.7
15	OLANCHO	42.0
02	COLON	38.3
03	COMAYAGUA	37.9
14	OCOTEPEQUE	37.4
18	YORO	34.1
01	ATLANTIDA	31.8
08	FRANCISCO MORAZAN	22.4
11	ISLAS DE LA BAHIA	19.8
05	CORTES	18.4

Over the longer term, these problems can best be solved on a sustained basis by the right set of policies. In the near term (3–5 years), USAID believes that an **integrated approach**, combining policy reform, increased food imports, growth and income stimulation, and measures to increase food production, and improve water and sanitation coverage and household nutrition, is the most effective means of attacking the problem.

C. The Proposed Program:

To address the problem of continuing food insecurity, USAID/Honduras proposes a three year, \$30 million PL-480 Title III Program beginning in FY95.

The purpose of the program is threefold:

- To increase overall food availability in the country, directly through the provision of imported wheat and through environmentally sustainable increases in food production and indirectly through increases in foreign exchange from greater agricultural exports;
- To improve the access of the rural poor to food and better diets through increasing household agricultural production and small farm and off-farm incomes; and
- To contribute to improved food utilization through improvements in the coverage of potable water and sanitation services, and through improved household health and dietary practices.

The program will also have an important environmental impact by helping expand the number of households, particularly those farming on fragile hillside land, using environmentally sound agricultural practices. The program will also support efforts to protect and manage watersheds required for the sustainable long term supply of water for agricultural and household use. It will also contribute to increasing the participation of the rural poor and food insecure in the economic development process.

The sectoral policy reforms essential to achieve our food security objectives and to be supported under the proposed program include:

- removal of price distortions affecting the agricultural sector and improving production incentives;
- elimination of government direct interventions in agricultural production and markets;
- development of a market information system;

-
- increasing land tenure security and land market activity;
 - strengthening rural financial systems; and
 - restructuring and decentralization of the National Water and Sanitation Service.

The program activities to be supported by Title III local currency, DA project assistance, and/or Title II will enhance food production and improve household nutrition, and include:

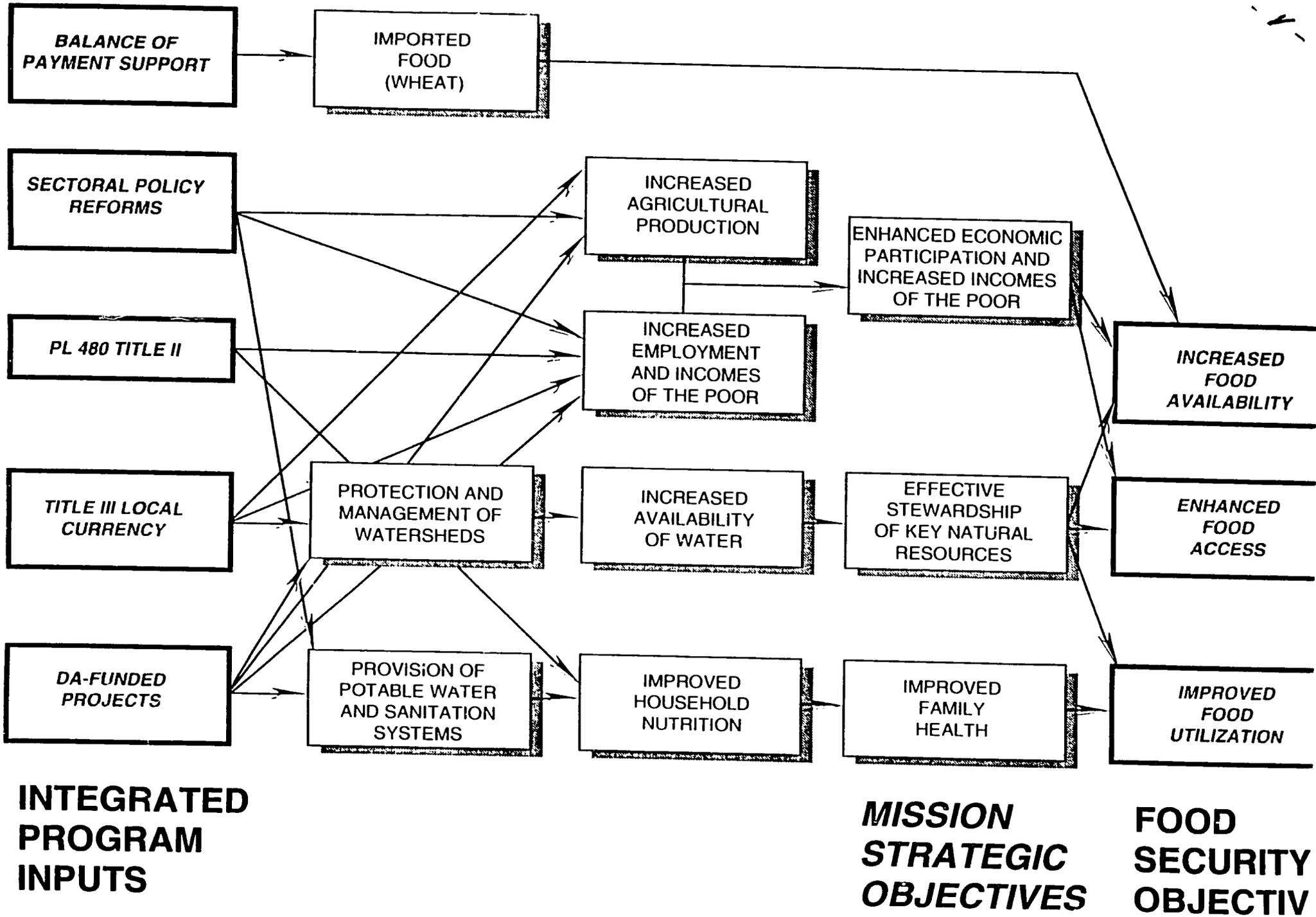
- Land titling
- Market information
- Policy analysis
- Small farmer production and diversification
- Strengthening rural financial systems
- Improving management and protection of watersheds
- Rural water and sanitation
- Primary health care, with an emphasis on child survival interventions
- Nutritional assistance and education for needy children and mothers

The interaction of the integrated program inputs or elements -- food imports, policy reforms and program activities -- is depicted on the facing page. As the diagram indicates, three out of the Mission's four Strategic Objectives are integral to the Program. Quantitative projections of the impact of the program can be found in the Logical Framework in Annex A.

D. Evaluation of Past Title III Assistance:

Past performance under the FY91 and FY92-94 Title III programs has been excellent, but the job is not complete. The agricultural sector policy reforms supported by the FY92-94 Program have promoted food security and poverty alleviation among the most food insecure groups in Honduras - rural residents in general and small farm households in particular. **The recently completed program evaluation (Annex E) found that production of basic grains grew 10 percent per year for the three years (through 1993) following introduction of the reforms. Overall agricultural production grew at 5.4 percent per year since the reforms, compared to 2.2 percent during the previous seven years. With a 30 percent improvement in relative terms of trade, rural households whose primary economic activity is agriculture increased their incomes by 14.7 percent in real terms. These improvements have spurred agricultural investments which increased 20 percent in real terms through 1993.**

Thousand of jobs and the incomes that go with them have been created as a result of USAID projects supported by Title III local currency, thus improving household food access. One such project contributed to the creation of approximately 42,000 jobs, 70 percent of which went to women from poor households. A recent survey found that the average monthly income of households with these workers was over two times the level which limits eligibility



for the GOH's food coupon program. The same survey found these households expended significantly more on food than comparable households without workers. An evaluation of another local currency supported project found that over 6,375 farm jobs were created in 1993 alone, and that over 10,000 farm families that had benefitted from the activity had seen their income rise during the life of project more than 25 percent in real terms. Nearly 10,000 hectares of marginal hillside land are under improved management, and 6,000 households benefitted from an estimated 50 percent increase in production and even greater increases in overall income. In addition, the FY92-94 program evaluation also found that during this period at least \$500,000,000 in foreign exchange was generated by enterprises supported by USAID projects utilizing Title III local currency.

E. The Crucial Need for the \$30 Million Title III Program:

Both before and after the 1993 elections, food security has been a central concern of the Liberal Party. However, given the Party's populist orientation, the first impulse of the new government was to try to pursue this objective through financially non-sustainable measures and by state intervention in grain markets (both of which have proven ineffective in the past). Moreover, after having campaigned against structural adjustment prior to the elections, the new government found itself faced with the necessity of continuing the adjustment process if the country was to remain eligible for desperately needed IFI assistance. Reluctantly, they have negotiated an overdue stabilization program with the IMF.

The bulk of the actions needed in the agricultural sector to foster food security are reflected in the reforms contained in the Agricultural Modernization Law enacted in 1992; the implementation of these reforms is essential to achieving Honduras' food security objective. In June of this year, USAID sponsored a week long seminar on the importance of the agricultural reforms with Honduran government policy makers and World Bank and IDB officials. Despite the fact that a multi-million dollar IBRD/IDB Ag Sector Loan tranche was being held up by lack of action by the GOH, the government came away from the seminar still internally divided over the question of whether to pursue the market based reforms or to revert to the more traditional state control and market intervention approach.

At a time when the country is facing both an economic and energy crisis, with petroleum imports projected to more than double to \$500 million/year as new thermal plants replace the loss of hydroelectric energy and reduce the 12 hours/day of rationing, the proposed \$10 million/year in food assistance becomes especially significant for Honduras.

- **First, it helps to fill a critical food import gap at a time of severe foreign exchange shortage. The most recent gap for wheat from human consumption has grown to 140,000 MT/year. The \$10 million program would fill 35-40 per cent of this gap.**

- **Second, it provides crucial leverage for the U.S. to resolve the internal GOH debate over the agricultural sector policy direction in favor of continuing to implement the market based reforms which are required to allow sustainable food security.** Ironically, the leverage of both the IBRD and IDB has been undercut by the fact that they are taking out of Honduras as much in loan repayments each year as they are disbursing in new assistance, and are therefore perceived by the GOH as being more anxious to disburse to assure their repayments than the government is to act on the "required" reforms. In this context, the **\$10 million per year grant of Title III food assistance becomes a highly significant policy negotiating instrument.**

- **Finally, the \$10 million/yr would provide the level of local currency resources needed to finance costs of implementing the reforms.** These costs will include establishment of an accelerated land titling program, development of a market information system, strengthening of rural finance systems addressing small farmer needs, and small farmer crop diversification. In addition, Title III local currencies are needed to finance nutrition programs for needy mothers and children, watershed protection, and rural water and sanitation. These initiatives, costly under any circumstances, will be particularly difficult to undertake at a time of IMF budget stringency. **At an annual level below \$10 million/year, many of these essential food security interventions could not be carried out.**

II. PROGRAM DESCRIPTION

A. BACKGROUND

USAID/Honduras has a successful history of using food aid for developmental purposes. Prior to the 1990 farm legislation which created the Title III program, the Mission used Title I self-help provisions to encourage the Government of Honduras (GOH) to undertake important agricultural policy reforms. Through effective use of the conditionalities in the 1989 and 1990 Title I programs, and a series of ESF programs and DA-funded technical assistance projects – the Policy Analysis and Implementation Project (PAIP) in particular – the Mission played a major role in convincing the Callejas Administration, which took office in 1990, to undertake a major stabilization and structural reform program. These reforms, which were initiated in 1990 and consolidated with the 1992 passage of the Agricultural Modernization and Development Law (AMDL), reduced policy distortions which negatively affected agriculture and destroyed price incentives to Honduran producers, especially small farmers. Since 1990, the Mission has made effective use of the FY91 and FY92–94 Title III programs to expand these agricultural sector reforms.

Annex E to this proposal is an evaluation of the impact of the FY92–94 Title III Program. This analysis indicates that the price related reforms supported by the Title III programs had a measurable and strong impact, not only on producer prices and agricultural production (both of which increased), but also on the incomes of poor rural households. The numbers show clearly that the price policy changes have had a dramatic effect on reducing poverty in rural areas. For example, although the proportion of poor households in rural areas increased between 1989 and 1990 (the year of the major reforms), the proportion of poor in rural areas started to decline in 1991, and by early 1993 was 23 percent lower than at the beginning of the reforms.

Despite these significant improvements in food production, agricultural investment and rural incomes, the job is half done. The current objective is to help the new Honduran government stay on track with respect to the macro and price policy reforms initiated in 1990. The GOH must implement the structural reforms in the AMDL if it is to increase agricultural production, productivity and rural household incomes in the medium-term and sustain them in the long run. The new Liberal Party administration, which entered office in January 1994, has inherited serious balance of payments and fiscal problems from the previous government, whose commitment to the 1990 reforms, especially those related to fiscal discipline, faltered as the elections approached. Powerful interests and the Liberal Party's own historic affinity for state-oriented solutions to economic problems are pushing the new government to repudiate some of the gains represented by the AMDL. This Title III program can play a critical role in helping the new government resist this pressure and implement its national priority of improved food security. The proposed program will help move Honduras from a "borderline" country, to one that is fully food secure.

B PROBLEMS ADDRESSED

1. Household Food Insecurity – Inaccessibility of Food Due to Poverty

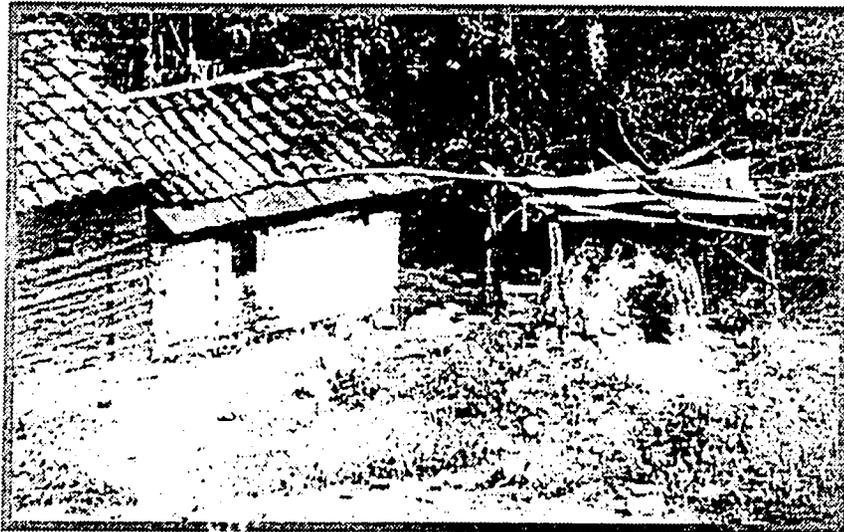
Household food insecurity continues to plague Honduras, especially in rural areas and among small farm households and other rural families that constitute 78 percent of the population. Household food insecurity is related to food availability and access – largely a result of poverty, in that many, if not most, rural households cannot produce enough food or earn sufficient income to afford adequate diets. Lack of access to health, and water and sanitation services in rural areas prevents proper food utilization and contributes to the high rates of child mortality, morbidity and malnutrition.

FACT: Over two-thirds of the corn and 80 percent of the beans produced in Honduras are grown by small farmers (rainfed plots of 5 manzanas or less) that teeter on the edge of subsistence and occasional surplus. Seventy-six percent of these households lived in poverty in 1992, despite the fact that rural poverty was lower in 1992 than at any time since 1980. The majority of these producers operate so close to the edge that relatively minor variations, such as the current drought affecting much of Honduras, will put them in danger. The Mission's Land Use and Productivity Enhancement Project (LUPE), supported by Title III local currency generations, found at the beginning of the Project that some 70 percent of the participating small hillside farm families suffer food shortages at some time during the year. Since then, the Project has involved some 6,000 households which have benefitted from production increases, estimated at 50 percent, and even greater increases in income. Support of LUPE would continue under the FY95-97 Title III program.¹

Honduras is still a very poor country, with an annual per capita GDP of \$634. This makes it the third poorest country in the Western Hemisphere, ranking above only Haiti and Nicaragua. Over a third of the households in Honduras remain "very poor," i.e., too poor to afford to buy the basic basket of food required to meet their nutritional needs.

FACT: Seventy-six percent of the households with incomes in the upper 20 percent of the income distribution live in towns and cities, and 46 percent live in the two largest cities, Tegucigalpa and San Pedro Sula. On the other hand, 78 percent of the households in the poorest 30 percent of the income distribution are rural. In 1993, these rural households had an average monthly income of L.113.2 (approx. \$21), whereas the GOH poverty line stood at L.184 per month. The rural "indigence" line stood at L.138, which was the cost of the basic food basket, calculated to provide 2,200 calories per household member per day. **Fifty-one percent of the rural population was indigent in 1993.**

¹ The "FACTS" that appear from time to time in the text are drawn largely from the evaluation.



Plates 1-2: Pervasive rural poverty does not permit adequate food access.



Plate 3: Food access will be supported under the program through policy reforms and local currency fund activities which increase employment opportunities and incomes of the rural poor.



Plate 4: The program will support well targeted, nationwide GOH safety net programs which improve the food access of the most vulnerable groups, i. e., children under five and pregnant and lactating mothers.

Most of the Honduran poor live in rural areas, and most poor households -- 76 percent -- are self-employed in agriculture, i.e. primarily campesino families. A high percentage of children in rural areas are malnourished; 46.5 percent of children living in rural areas in 1987 were chronically malnourished (stunted) versus 23.1 percent in urban areas.

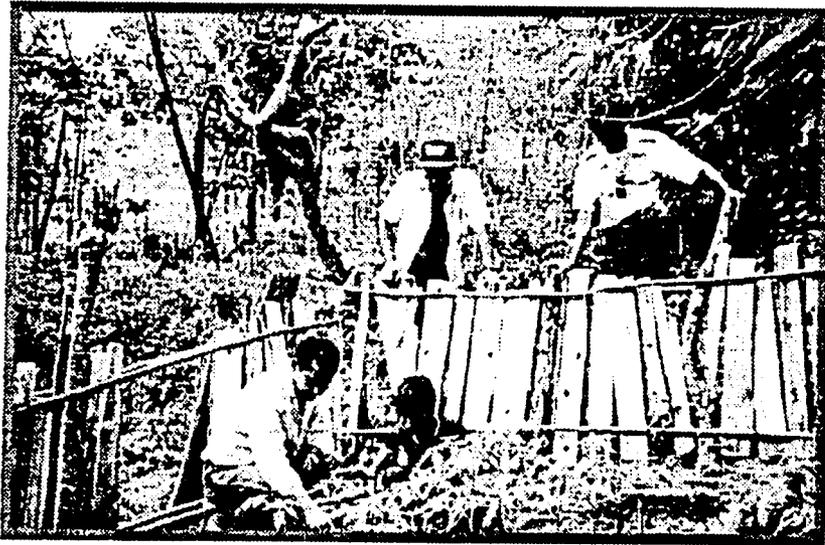
FACT: After declining sharply in 1991-1992, due in large part to the agricultural sector reforms supported by the FY91 and FY92-94 Title III programs, rural poverty rates began to rise in 1993. The prognosis for 1994 is not good. Central Bank figures for the first four months of the year indicate a 5 percent decline in agricultural sector production, largely attributable to lower banana exports. Food prices have risen 25-30 percent in 1994, affecting the poor the hardest since they tend to spend a higher proportion of their meager incomes on food - in 1992, 56 percent of non-farm rural family budgets were spent on food. Overall national economic growth for the year is projected to fall by 1 percent, a figure that could worsen due to the severity of the current electricity crisis and to drought.

The Government of the Honduras uses access to potable water and sanitation, and malnutrition as countrywide indicators of poverty (as surrogates for income). Using these criteria, the official GOH Poverty Map (located in the Executive Summary) indicates the degree of poverty throughout the country. While the policy reforms supported by the proposed program are necessarily national in scope, a number of the local currency supported activities will focus on areas in Southwestern Honduras and La Mosquitia with the highest prevalence of poverty.

2. National Food Availability

Overall, food availability has improved in Honduras in recent years in part due to increases in domestic food production stimulated by economic reforms encouraged by the Mission's Title I, III and ESF programs. Wheat imports, provided primarily through PL-480 programs during the 1980s, contributed to increases in overall food availability. Honduras cannot produce wheat, but with strong economic growth it can earn enough foreign exchange to pay for its wheat needs through commercial purchases.

The current prospect for adequate levels of food availability, however, is not good. The country is facing a serious balance of payments problem. The new government entered office in January to find that Honduras had practically no international reserves (only enough liquid international reserves to cover one month of imports, instead of the three months that is considered prudent). The government also found a country heavily in debt, with an external public debt at the end of 1993 of \$3.6 billion, or roughly 107 percent of GDP. This means the country must make annual debt-service payments approaching \$450 million, producing a debt service ratio of roughly 40 percent. Only 60 cents of each dollar in foreign exchange is available to pay for imports, be they consumer goods such as food, or capital inputs.



Plates 5-6: The program will increase food availability through supporting policy reforms which improve the incentives to produce and invest in the agricultural sector, and activities which directly increase food production.

FACT: Honduras has essentially run out of international reserves. Net reserves fell \$110 million in 1993, and in 1994 another \$56 million as of mid-July. No less than \$40 million in debt service payments were due in August. The scarcity of foreign exchange is taking a toll on food imports, which are expected to fall from \$131 million in 1993 to \$121 million in 1994. This projection was made before, due to a combination of mismanagement and drought, Honduras' main source of electrical generating capacity (El Cajon dam) for all practical purposes went off-line. Increasingly scarce foreign exchange will be required for several years to purchase oil for replacement thermal power plants, making less available for the importation of food. The Mission expects actual 1994 food imports to be even less than projected.

Both lack of foreign exchange and the external debt have serious consequences for food security. The shortage of foreign exchange makes the balance of payments component of the Title III program essential. A reduction of the program would have a serious impact on the overall economy, as well as on food availability. Inadequate access to foreign exchange will also put further pressure on Honduras' market determined exchange rate, producing a decline in the value of the country's currency. This will mean higher import costs, including food imports, and will contribute to higher inflation. Annual food price inflation is currently running around 30 percent, and Embassy economic analysts believe overall inflation could reach 50 percent by the end of 1994. The effects of inflation are most adverse on the poor, whose meager purchasing power is further reduced.² The shortage of foreign exchange will also impact negatively on food security by reducing the overall economic growth necessary to finance improvements in social welfare, including health and nutrition programs focused on household and individual food security.

In addition, the onset of a drought that is threatening the major food growing areas of the country could mean significantly lower levels of domestic food production this year. Both the drought and any overall decline in national food availability will have their most serious impact on the poorest and most food insecure -- rural households.

3. Poor Food Utilization

Overcoming sectoral and macroeconomic constraints, like those in the agricultural sector which address food availability and access are necessary, but not sufficient, to ensure food security. Constraints to proper utilization of food must also be addressed. Proper food utilization results in nutritional benefit; without it, food which is available and accessible is wasted. In Honduras, poor dietary and sanitary practices and poor health are the primary constraints to food utilization. While chronic poor health of any type can contribute to malnutrition, diarrheal diseases are by far the largest problem since much of the food which is eaten is lost before it can be utilized. UNICEF recently concluded that child nutrition could

² According to the World Bank, between 1990 and 1993 the cost of the basic food basket rose 76 percent in urban areas and 79 percent in rural areas.



Plates 7-8: The program will support improved food utilization through policy reforms and activities which will result in increased coverage of rural potable water and sanitation systems. The program will also support expanded health and nutritional educational efforts, including exclusive breastfeeding.

be enhanced as well or better through prevention of diarrheal disease than through supplementary feedings.

In Honduras, lack of potable water has been found to be a primary cause of infant mortality, morbidity, and child malnutrition due to its link with diarrheal diseases. Although the prevalence of diarrhea has declined sharply – almost 40 percent between 1987 and 1991 – it is still a major factor contributing to poor health, especially among children.

FACT: In 1989, overall infant mortality in Honduras was 29 per 1000 live births in households with piped water inside the home, versus 44 per 1000 for households with access to piped water located off the property. For households that relied on non-piped water, such as wells and rivers, the rate was 63 deaths per 1000 live births. The corresponding prevalence of severe growth retardation for children between six and eight years of age were 7.7, 12.0, and 17.0 percent. USAID's Health Sector projects have supplied over 525,000 rural residents with potable water and sanitation services. Health, nutritional status and food utilization on the part of these individuals improved. The on-going Health Sector II Project rural water and sanitation efforts will be supported under the FY95-97 Title III program.

Significant investments have been made in Honduras over the last two decades in rural water and sanitation. From the level of investment, a dramatic increase in coverage could be expected. This has not happened. According to the GOH Epidemiology and Family Health Survey (EFHS) data, coverage remained static between 1984 and 1991. On a national level, only 20 percent of all households get their water from a natural source. In rural areas, however, less than half the population receives water from a faucet. It is apparent that as new populations are served for the first time, other populations actually lose service due to water system deterioration. The problem is institutional in nature; the national water and sanitation service (SANAA) is overstaffed, highly centralized, and ineffective. Indeed, the situation is so bad that the major past donor in the water sector, the IDB, has declined to offer further funding until SANAA is significantly reorganized. Until this happens, water and sanitation coverage will at best remain static. It is more likely that coverage will actually decline as new investments fail to keep up with system deterioration. However, the management of SANAA brought in by the new national government is well aware of the situation and is very receptive to the improvements contained in the FY95-97 program's policy agenda.

FACT: Certain household characteristics in Honduras correlate directly with low food consumption. Of those households showing a caloric consumption of less than 70 percent of the 2,200 daily requirement, 83 percent did not have water inside the house (only 40 percent of all rural Hondurans do); over 60 percent had a dirt floor in the dwelling; more than 60 percent did not have a system for hygienic disposal of excreta; 73 percent of the adult household members have less than a 4th grade education; and over 74 percent had five or more family members (rural households have an average of 5.6 children).

In conclusion, all aspects of food security in Honduras are problematic. The FY95–97 Title III Program will address national and household food availability, household food access, and individual utilization of food. At the household level, the key to addressing the problems of availability, access and utilization of food is the alleviation of poverty. The program will contribute to increased food production, food consumption and improved food utilization, and will demonstrate visible progress toward these objectives over a 3–5 year timeframe. The criteria that USAID will use to measure progress towards these objectives are discussed below.

C. PROGRAM OBJECTIVES AND PERFORMANCE INDICATORS

The FY95–97 Title III Program will help Honduras protect recent improvements in national food availability, directly through the provision of imported wheat and indirectly by encouraging the GOH to maintain and expand the agricultural sector reforms necessary for increased food production. The program will also increase the incomes of both small farm and off–farm households among the rural poor, thus promoting improved access to food. Finally, the program will help improve the access of the rural poor to water and sanitation services which are needed to improve food utilization.

The Goal of the FY95–97 Title III Program is "to improve the food security of the Honduran population, including all its aspects of availability, access and utilization" (see Logical Framework in Annex A). To maximize its impact, however, the program has been designed to have a direct affect on the group that is the most food insecure -- households living in rural areas and in particular small farm households.

The Purpose of the Program is threefold:

- To increase overall food availability in the country, directly through the provision of imported wheat and through environmentally sustainable increases in food production, and indirectly through increases in foreign exchange from greater agricultural exports;
- To improve the access of the rural poor to food and better diets through increasing household agricultural production and small farm and off–farm incomes; and
- To contribute to improved food utilization through improvements in the coverage of potable water and sanitation services, and through improved household health and dietary practices.

The program will also have an important environmental impact by helping expand the number of households, particularly those farming on fragile hillside land, practicing environmentally sound agricultural practices, and by supporting efforts to protect and manage watersheds required for the sustainable long–term supply of water for agricultural and household use. In addition, it will contribute to increasing participation of the rural poor and food insecure in

the development process.

The following **Program Outputs**, resulting from the policy reforms and/or local currency activities under the program, will contribute to achievement of the Program Purpose:

- Reduced price distortions in the agricultural sector and improvements in incentives for agricultural production;
- Increased investment in the agricultural sector;
- Development of a rural land market;
- Increased production of basic grains and in the area planted, and increased production and sale of non-traditional agricultural products produced by small farmers;
- Increased value and volume of traditional and non-traditional agricultural exports;
- Increased coverage of potable water and sanitation systems in rural areas; and
- Reduced watershed degradation.

The performance indicators and means of verification for each of these Outputs are contained in the Logical Framework (Annex A), and the relationship of the Program Goal, Purpose, and Outputs to Mission Strategic Objectives is illustrated in the diagram in the Executive Summary.

Under the proposed FY95-97 program, USAID/Honduras is requesting Title III commodities valued at \$10 million per year. This annual level request is related to each of the three program elements discussed in the next section.

First, the 50,000-55,000MT of wheat associated with this level is **needed as food** (see Annex D, "Commodity Analysis"). There is a requirement gap for every basic grain consumed in Honduras. The most recent three year average annual gap ranges from 177,000MT of white corn, to 58,000MT of rice. The annual demand gap for wheat for human consumption has grown to 140,000MT. In times of basic grain scarcity, such as Honduras is now experiencing, there are few, if any, alternatives to wheat. The balance of payments aspect of the program is also critical, given Honduras' very serious shortage of foreign exchange. Thus, at a lower than requested level, the availability of a key basic grain will suffer since either (a) the foreign exchange to import the required levels of wheat will not be available, and/or (b) the shortage of foreign exchange, leading to a deterioration in the value of the Lempira, will result in commercially imported wheat that is higher priced, undermining the access of the

poor to this basic food.

The second element relates to the **policy reform measures** supported by the Title III program. To support sustainable food security in Honduras the government must continue the agricultural sector policy reforms begun under the FY91 and FY92–94 programs, and concentrate on the implementation of the AMDL. In a number of cases such steps will go against the grain of populist elements within the present administration, or vested interests inside and outside of the government. In other words, they will be politically difficult. As noted above, both the balance of payments support and the commodity itself are now especially valuable to Honduras given the country's economic situation. The Mission believes that an annual level below \$10 million could jeopardize the proposed policy objectives of the program, which directly respond to key constraints to sustainable food security (see Annex C, Constraints Analysis).

The third element relates to **local currency expenditures** which support the purposes of the Program. Here again, the Mission's analysis indicates that the requested annual program level of \$10 million is required to provide the necessary local currency to support the program's policy agenda. The FY95–97 Title III program will support the implementation of key aspects of the AMDL, e.g., through strengthening rural finance systems and improving land tenure security by dramatically expanding land titling. The expected benefits of many policy reform achievements supported under previous food aid programs will not be realized until the costly measures needed to implement them are taken. Therein lies the rub: the GOH does not have the financial resources to undertake enough of the necessary steps. Indeed, the GOH is currently negotiating with the IMF for the second year of an enhanced structural adjustment facility agreement and has prepared a serious deficit reduction package for submission to the National Congress. Without the local currency resources from a Title III program, the GOH may have to delay indefinitely implementation of key aspects of the AMDL and other policy reforms underpinning improved food security.

D. PROGRAM ELEMENTS

The proposed Title III program will include three elements:

- Commodity imports and balance of payments support;
- Policy reforms designed to increase food production, employment and incomes of the rural poor, and prevent chronic diarrheal disease; and
- Local currency expenditures directed to the purposes of the Program.

1. Commodity Imports and Balance of Payments

The program will supply Honduras with an important but declining portion of its wheat for flour import and consumption requirements. The balance of payments aspect of the program is critical, given the country's serious shortage of foreign exchange, and will help mitigate the effects on food availability of a continued large shortfall in foreign exchange.

The Honduras wheat market has depended almost entirely on imports under PL-480 programs (Titles I, II and III) for almost a decade. Since the country does not produce wheat, it will have to rely on imports to meet its wheat for flour consumption demands, which have averaged around 120,000 metric tons per year over the period 1989-1992. Over time, as the economy grows and the country is able to pay off its debts, it should become more able to pay for wheat imports through commercial purchases. In the meantime, the dollar financing mechanism of the PL-480 Title III wheat imports will reduce pressure on the country's balance of payments and enable Honduras to allocate its scarce foreign exchange to finance other food imports and priority imports needed to spur economic growth.

2. Policy Reform Measures

The policy reform component of the program is designed to achieve the Program Purposes and covers two broad areas of reform:

- a) reforms in the agricultural sector designed to increase agricultural production, productivity and rural household incomes, thereby increasing food availability and access; and
- b) reforms in the health sector designed to reduce the incidence of chronic disease in rural areas, thereby improving food utilization.

While the entire FY95-97 program policy agenda can be linked to some degree to the alleviation of poverty, there are several aspects of the agenda which will have a direct impact. One such area involves maintaining and implementing key provisions in the AMDL relating to land tenure security and expanded land titling. Another area involves the strengthening of the rural finance system, including an assessment of the informal credit system in rural areas which provides the bulk of credit for small farm households. Reforms involving the water and sanitation sector will directly improve the lives, and productivity, of thousands of rural poor. All of these improvements will be supported by local currency generated from the sale of the food (see next section), and many will be further supported by DA-funded bilateral projects.

The reform agenda, which is presented in a series of annual policy measure tables at the conclusion of this section, is consistent with and supportive of the new government's initiatives as well as with the objectives and activities of other major donors active in the country. Target completion dates for policy reform measures have been established for the first year of the program. (An undated policy measure in 1995 indicates that the measure must be completed prior to signing of the Program Agreement.) Specific dates will be determined for 1996 and 1997 during annual program amendment negotiations with the GOH. In all cases, measures taken by the GOH must be acceptable in form and substance to USAID.

The agricultural sector reforms designed to increase agricultural production, productivity and rural household incomes will focus on three major policy areas: (i) improving incentives to invest and produce in the agricultural sector; (ii) encouraging increased investment in land and improved land use; and (iii) strengthening the rural finance system and improving access of small farmers to financial services. All three areas will pick up where the FY92-94 Title III program leaves off, i.e., the policy agenda in these areas will maintain and expand the reform achievements to date. By removing price distortions which prevent the small farm family from obtaining the full value of its production, two advantages result. More food is produced and available at the national level, and the incomes of small farm families increase. As policies change prices in favor of the small producer, however, he/she meets a new set of challenges and resource constraints. As the producer price of food increases, the value of land and the need for access to rural credit increase. As agricultural prices rise, the value of resources like land and credit increase, but access to these resources is often restricted for the poor. Tenure security and efficient rural financial markets for small farmers are necessary adjuncts to price policy reform.

a) Improving Incentives to Produce and Invest in the Agricultural Sector

The first policy area contains the following measures: (1) removing price distortions affecting agriculture; (2) privatizing grain storage facilities; and (3) developing a market information system and other actions designed to make agricultural markets work better.

Removing Price Distortions Affecting Agriculture

Poverty and food insecurity worsened during the 1980s in Honduras, especially in rural areas. This was a result of an overvalued exchange rate and trade policies which favored import substitution industries. These policies discriminated against the agricultural sector and reduced incentives to domestic agricultural producers, including small farmers and producers of basic grains.

These policies were changed in 1990 as part of a reform process initiated by the previous government. The GOH adopted a flexible exchange regime in 1990 and began to maintain a

macroeconomic framework consistent with increased agricultural production. The GOH also reduced tariffs to a 5–20 percent range and eliminated quantitative import and export

restrictions on all agricultural products. Prices of all agricultural products, with the exception of coffee and sugar, have been decontrolled and are now determined by market forces.

The agricultural sector responded to improving prices. For the two years immediately following the reforms, the area planted increased 13 percent. The index of total agricultural production increased an average of five percent per year, and growth in the basic grain index gained 10 percent per year. As a result, total food availability increased, and farmer incomes improved enough to reduce the proportion of poor living in rural areas by a remarkable 23 percent.

The initial growth attributable to the economic reforms has run its course. Deepening of the reform package and maintaining the gains achieved to date are essential to continued food security and economic growth. To provide the basis for continued progress toward these objectives, the GOH will pledge to maintain key policy reforms achieved under the FY92–94 program, and to further liberalize agricultural trade. In addition, the GOH will agree to maintain those key provisions of the AMDL which have been essential to the initial improvements in agricultural production, productivity and rural incomes.

The issue now is to maintain and expand these reforms. Fortunately, the current GOH has adopted food security as one of its strongest planks. Unfortunately, it appears to have little idea of how to achieve its goal. A genuine threat exists to the policy reforms obtained under previous programs and, specifically, to the AMDL. The current GOH is facing a serious economic crisis, and its tendency in the face of this crisis is to revert to old, statist "solutions" instead of reinforcing the market based measures which have brought relative progress. There is a strong movement to "reform the reforms" and to change many of the key measures of the AMDL, specifically those which deal with government intervention in the market and in land tenure security. For all of its success, the AMDL continues to be a controversial measure in Honduras, and there are many vested interests which would change or eliminate its provisions.

The proposed FY95–97 program will prevent backsliding by supporting the progressive forces which advocate maintaining and deepening free market responses to the current crisis. Key policy reforms to be maintained are specified in annual policy measure tables at the end of this section, and will be included in the Program Agreement with the GOH.

Privatizing Grain Storage Facilities

Grain merchandizing is a private sector function. Governments that enter grain markets inevitably lose money. Worse, they reduce the availability of food because even efficient

private traders are unlikely to enter markets dominated and financed by governments. Past GOH intervention in the grain market cannot be shown to have contributed to food security or improved producer prices; indeed, it appears to have impeded progress toward these objectives.

The statist orientation of successive Honduran governments led to large GOH investment in the construction and maintenance of grain storage facilities. Under the prior Title III program, the GOH was to transfer many of its grain storage and other facilities to the private sector. The GOH sold off the Sula Dairy plant, the Ministry of Natural Resources Seed Facility and two sugar mills.

Eight of the grain storage facilities were sold and offers have been received on two others, but negotiations have essentially stopped. The process is taking longer than expected, with only 35 percent (measured in capacity terms) of the facilities transferred to date. This set of policy reforms, included in the annual policy measure tables at the end of this section, is designed to complete these sales as quickly as possible, leaving the GOH with only enough storage capacity to maintain an emergency reserve of beans.³

Since past GOH policy, rather than economics, dictated the size and location of the facilities, some of them are likely not feasible as grain storage facilities at their present size and/or location. The GOH must recognize this and value or dispose of them, piecemeal if necessary, for purposes other than grain storage where possible.

Developing a Market Information System and Other Actions Designed to Make Markets Work Better

In a free market economy, information takes on unparalleled importance to producers and marketers. Where information is scarce, only the privileged have access to it. To maximize and distribute the benefits of free market policies, the GOH must provide for systematic collection, analysis and dissemination of market information.

Price information gives essential signals to the entire chain of food production, marketing, storage, processing and consumption. Information on prices, quantities and qualities of products in the various relevant markets are essential for small producers, especially as they negotiate with intermediaries. With minimal analysis, market information can be converted into decision making criteria for what to plant, how much to store, and when/where to market the production.

³ The particular type of red bean preferred by Hondurans is grown in few other places in the world, and imports of other bean varieties are culturally unacceptable in the local market.

Currently, producers, wholesalers, and retailers have limited market information to guide their resource allocation decisions. This leads to inefficiencies and higher costs. The development of a GOH market information system will help make the price formation process transparent to producers, wholesalers, and retailers in order to increase market efficiency, promote competition among market participants, and reduce costs of food to final consumers and bring enhanced food security to the nation.

The GOH actions presented in the tables at the end of this section will help ensure that such a system will be developed in Honduras. The development of a market information system will be assisted by both local currency (see section D.3) and DA-funded activities.

b) Encouraging Increased Investment in Land and Improved Land Use

There are a number of land tenure problems in Honduras which have important implications for improved food security, especially among the poor. These include:

- The extensive and inefficient use of land;
- Insecure property rights and the consequent disincentives to productive investment;
- A highly concentrated structure of land ownership which has created major problems of land access for the vast majority of the rural population.

Many of these problems were created, or at least exacerbated, by the original Agrarian Reform Law. For example, under that Law: (1) land owners were at permanent risk of expropriation; (2) land rental was illegal and could result in expropriation; (3) farm units of less than five hectares could not be titled; (4) farmers had to occupy land for more than 30 years to be titled; and (5) titling discriminated against women.

Passage of the AMDL corrected many of the problems and established a legal basis for more secure property rights. For example, the AMDL includes articles that: (1) guarantee and secure full ownership rights over land; (2) legalize land rental arrangements, with the exception of some types of share-cropping; (3) revise and simplify land adjudication and titling processes (e.g., reducing the minimum time for titling eligibility from 40 to 3 years of continuous operation and simplifying titling processes for farmers of less than five hectares); (4) eliminate the prohibition of titling land to holders of less than five hectares; and (5) provide women with equal rights of access to land.

Each of these articles improve security of land tenure and thus provide beneficiaries with increased access to credit and incentives to improve their land, increase production, and finance infrastructure such as irrigation and storage. As secure tenure leads to productive

investment, increasingly greater quantities of food will be produced and family incomes will increase, further increasing food security.

Much of the AMDL remains, however, to be implemented. The political forces allied against secure land tenure are seeking to make expropriation easier and mandate smaller landholdings than would be efficient. The institutions needed to continue the AMDL's implementation are weak. They need to be reoriented toward the essential task of improving land tenure security by issuing definitive titles.

Although INA has been reorganized (one of the conditions under the previous Title III agreement), too many staff are still assigned to paternalistic development programs and not enough attention is paid to INA's principal function of land titling. The GOH actions proposed for improving food security through increased land tenure security, and presented in tables at the end of this section, emphasize land titling as the primary responsibility of INA. GOH actions will be assisted by both local currency (see following section) and DA-funded activities.

c) Strengthening the Rural Financial System and Improving the Access of Small Farmers to Financial Services

Several factors distort the rural financial system in Honduras, leading to inefficient allocation of resources, high costs, and limited provision of financial services, especially to small and medium-scale producers. These distortions include, among other things: (a) broad, non-transparent interest rate subsidies; (b) use of inappropriate and inefficient public sector agricultural lending agencies such as the National Agricultural Development Bank (BANADESA); (c) deficiencies in the legal regulatory systems which make it difficult to foreclose on loans; and (d) in the past, a weak legal framework for land tenure.

As price policy reforms improve market conditions and land tenure reforms encourage additional investment, producers encounter other constraints which limit their ability to respond to price signals and increase national and household food security through improved production. One of the first constraints producers meet is the lack of agricultural credit. As a result, many producers in Honduras obtain production loans through an informal credit system about which little is known.

Under this set of reforms the GOH will: (1) operationalize a private rural financial system; (2) phase out all subsidized rediscount lines directed to the agricultural sector; and (3) undertake a study of the informal credit system found in rural Honduras. The macroeconomic reforms and the AMDL give a basis for improving the functioning of both the formal and informal credit systems. The GOH actions in this policy area presented in the tables at the end of this section will improve the access to and operation of credit systems serving small producers.

d) Increasing the Coverage of Potable Water and Sanitation Systems.

The health sector reforms are designed to reduce the incidence of chronic diarrheal disease in rural areas, thereby improving food utilization, by increasing the coverage of rural water and sanitation systems. Over half of Honduras' rural population does not have access to potable water and sanitation, and as a result diarrheal diseases due to consumption of contaminated water are a chronic malady in many rural parts of the country. Chronic diarrheal diseases are one of the major factors responsible for poor food utilization. Indeed, UNICEF has concluded that child nutrition, i.e., food utilization, could be enhanced as well or better through prevention of diarrheal disease than through supplementary feedings.

The reforms themselves relate to the restructuring and decentralization of the National Water and Sanitation Service (SANNA), the GOH institution which by law is responsible for constructing new water systems, and for directly operating existing urban water systems.⁴ Presently SANAA operates both as a utility, constructing and operating water and sanitation systems, and as the lead agency in the water and sanitation sector, which includes long-range planning. These two functions, however, are mixed and expansion of coverage in rural areas and planning both get lost in the shuffle. SANAA's organization has also become highly centralized and inefficient. Restructuring and decentralizing SANAA will enable it to assure that adequate plans for expansion of coverage are developed and executed, and that a supervisory system is established which will keep existing systems operating.

The GOH actions under the program will create within SANAA two separate branches: 1) Operations, which will be responsible for the operation of urban water systems, and 2) Programs, which will be the rector of the nationwide water and sanitation sector. Reforms will also strengthen the role of local units, including both selected municipalities and local SANAA offices.

⁴ "Urban" water system is defined as serving a population greater than 2,000 households. Village water boards operate and maintain rural water systems, and generally do a good job.

POLICY AREA	FY95 POLICY MEASURES
<p>1. AGRICULTURE</p> <ul style="list-style-type: none"> • Removing Price Distortions Affecting Agriculture 	<ul style="list-style-type: none"> a. The GOH agrees to maintain all key policy reforms implemented under previous Title III agreements, including: <ul style="list-style-type: none"> Liberalized agricultural trade and pricing regimes. Limitation of physical strategic reserve to beans. Measures which increase land tenure security and access to land market mechanisms. Implementation of plan to decentralize and privatize agricultural research and extension services (DICTA). b. The GOH agrees to eliminate all import and export controls on agricultural trade (including non-tariff barriers; improper phyto-sanitary use will be eliminated). c. The GOH agrees it will not impose price controls on any agricultural or agro-industrial product.
<ul style="list-style-type: none"> • Privatizing Grain Storage Facilities 	<ul style="list-style-type: none"> a. The GOH completes negotiations on the two facilities for which offers have been made (Comayagua and the Terminal Plant at San Pedro Sula). b. The GOH offers all remaining grain storage facilities except Tegucigalpa (i.e., Olanchito, El Porvenir, Santa Rita and Las Flores) to the private sector.
<ul style="list-style-type: none"> • Developing a Market Information System 	<ul style="list-style-type: none"> a. The GOH will present a plan for establishing a market information system. This plan will include information on the target audience (users), products to be covered, the type of information collected, frequency of collection, form of presentation, institutions responsible for generating the data, and the amount and source of funds required. March 1995 b. The GOH will begin implementation of the plan according to the agreed upon schedule. May 1995

POLICY AREA	FY95 POLICY MEASURES
<ul style="list-style-type: none"> • Encouraging Increased Investment in Land and Improved Land Use 	<ol style="list-style-type: none"> a. The GOH agrees to maintain provisions in the ADML which provide land tenure security, including: Simplified criteria for expropriation. Legalization of land rental. Massive land titling program. b. The GOH initiates a public information campaign to ensure that land owners and agriculturalists are aware of their rights and responsibilities under the AMDL, including the legality of land rental. c. INA develops and begins implementation of a plan to accelerate its primary function of titling. This includes actions to increase the speed and efficiency with which titles are issued. d. INA initiates cadastral work and titling in the agriculturally significant Departments of Olancho and Colón.
<ul style="list-style-type: none"> • Strengthening the Rural Finance System 	<ol style="list-style-type: none"> a. The GOH approves regulations needed to begin operation of a private rural financial system (cajas rurales) which emphasizes rural savings mobilization and sound commercial, financial, and regulatory practices. (Preferential, subsidized lines of credit directed to specific agricultural activities such as basic grains production will not be used.) March 1995
<p>2. <u>RURAL WATER & SANITATION</u></p> <ul style="list-style-type: none"> • Increasing Coverage of Potable Water and Sanitation 	<ol style="list-style-type: none"> a. SANAA completes a plan for separating itself into two branches covering <u>operations</u> and <u>programs</u> functions. This plan will demonstrate how the revised organization will help expand the access of Honduras' rural poor to potable water and sanitation. b. SANAA regional offices are created and fully staffed to allow the organization to carry out its mandate more effectively.

POLICY AREA	FY96 POLICY MEASURES
<p>1. <u>AGRICULTURE</u></p> <ul style="list-style-type: none"> • Removing Price Distortions Affecting Agriculture 	<p>a. The GOH agrees to maintain all key policy reforms implemented under previous Title III agreements (See FY95).</p> <p>b. The GOH agrees to maintain a policy of free agricultural trade unimpeded by import or export controls (including non-tariff barriers; improper phyto-sanitary use will be eliminated).</p> <p>c. The GOH agrees to maintain a policy of free market pricing on all agricultural and agro-industrial products.</p>
<ul style="list-style-type: none"> • Privatizing Grain Storage Facilities 	
<ul style="list-style-type: none"> • Developing a Market Information System 	<p>a. The GOH continues implementation of this plan according to the agreed upon schedule.</p>
<ul style="list-style-type: none"> • Encouraging Increased Investment in Land and Improved Land Use 	<p>a. The GOH agrees to maintain the essential provisions of the AMIDL specified for the first year of this Title III agreement.</p> <p>b. INA completes cadastral work in Departments of Olancho and Colón.</p> <p>c. INA titles 20,000 properties.</p>
<ul style="list-style-type: none"> • Strengthening the Rural Finance System 	<p>a. The Honduran Central Bank phases out all subsidized rediscount lines directed to the agricultural sector, including any subsidized credit programs in BANADESA.</p> <p>b. The GOH undertakes a study of the informal credit system which determines its role and adequacy in supplying credit to rural families.</p>
<p>2. <u>RURAL WATER & SANITATION</u></p> <ul style="list-style-type: none"> • Increasing Coverage of Potable Water and Sanitation 	<p>a. Selected urban water systems are transferred to their respective municipalities.</p> <p>b. SANAA completes internal reorganization dividing the institution into Operations and Program branches.</p>

POLICY AREA	FY97 POLICY MEASURES
<p>1. <u>AGRICULTURE</u></p> <ul style="list-style-type: none"> • Removing Price Distortions Affecting Agriculture 	<ul style="list-style-type: none"> a. The GOH agrees to maintain all key policy reforms implemented under previous Title III agreements (see FY95). b. The GOH agrees to maintain a policy of free agricultural trade unimpeded by import or export controls (including non-tariff barriers; improper phyto-sanitary use will be eliminated). c. The GOH agrees to maintain a policy of free market pricing on all agricultural and agro-industrial products.
<ul style="list-style-type: none"> • Privatizing Grain Storage Facilities 	
<ul style="list-style-type: none"> • Developing a Market Information System 	<ul style="list-style-type: none"> a. The GOH continues implementation of this plan according to the agreed upon schedule.
<ul style="list-style-type: none"> • Encouraging Increased Investment in Land and Improved Land Use 	<ul style="list-style-type: none"> a. The GOH agrees to maintain the essential provisions of the AMDL specified for the first year of this Title III agreement. b. INA conducts cadastral work in all remaining agricultural valleys of the country (except La Mosquitia and the Islas de la Bahia.) c. INA titles an additional 20,000 properties.
<ul style="list-style-type: none"> • Strengthening the Rural Finance System 	<ul style="list-style-type: none"> a. The GOH agrees not to subsidize agricultural credit through lower than market interest rates.
<p>2. <u>RURAL WATER & SANITATION</u></p> <ul style="list-style-type: none"> • Increasing Coverage of Potable Water and Sanitation 	<ul style="list-style-type: none"> a. SANAA completes transfer to local SANAA units of managerial responsibility for those urban water systems not transferred to selected municipalities.

3. Local Currency Uses

The policy reforms that the new Title III program will support will not be enough, by themselves, to bring about substantial improvements in the food security of those most at risk -- the rural poor -- in the medium-term. Programs and projects which provide additional investment capital and technical assistance will also be necessary. Accordingly, the local currencies generated under the Program will also support GOH/USAID efforts to increase food production and rural incomes, and promote improved food utilization.

PL 480 Title III legislation specifies that a minimum of 10 percent of the local currency generations must support the work of "indigenous" NGOs/PVOs. The proposed local currency programming meets this figure, with approximately L.34,000,000 of the Program's estimated L.270,000,000 in proceeds supporting Honduran NGOs and PVOs. In the local currency table presented on the following page activities involving NGOs and PVOs are indicated.

ILLUSTRATIVE FY 1995 - FY 1997 LOCAL CURRENCY PROGRAMMING
(000 LEMPIRAS)

PROJECT DESCRIPTION	PROJECT No.	AMOUNT PROGRAMMED			TOTAL
		FY 95	FY 96	FY 97	
I. SPECIFIC SECTOR (PROJECT) SUPPORT					
A. GOH/USAID Projects:					
Policy Analysis and Implementation (Ag. Sector)	0325.02	3,000	3,000	0	6,000
Small Farmer Agribusiness Development	0383	1,500	1,500	1,500	4,500
Small Farmer Export Development*	0399	2,000	3,000	2,000	7,000
Land Use Productivity Enhancement*	0292	0	4,000	4,000	8,000
Honduran Environmental Protection Fund*	0385	3,000	3,000	3,000	9,000
Forestry Development*	0246	8,000	8,500	8,500	16,500
Health Sector II*	0216	8,120	14,102	16,402	38,624
Title II		3,145	3,145	3,145	9,435
SUBTOTAL		28,765	40,247	30,047	99,059
B. GOH Programs:					
PRAF (Targeted family income subsidy program)		20,000	20,000	20,000	60,000
C. Collaborative Research and Support Programs (CRSPs)					
		500	500	500	1,500
SUBTOTAL "I"		49,265	55,747	50,547	160,559
II. GENERAL SECTOR SUPPORT					
A. Land Titling/INA		15,000	15,000	15,000	45,000
B. Market Information System		2,500	2,500	2,500	7,500
C. Rural Finance		5,000	3,000	3,000	11,000
D. Rural Water and Sanitation		1,706	2,815	3,051	7,572
E. Watershed Protection		2,200	2,200	2,200	6,600
F. Screwworm Program		2,500	2,500	2,500	7,500
G. PanAmerican School of Agriculture*		100	100	100	300
SUBTOTAL "II"		29,006	28,115	28,351	85,472
III. OTHER					
A. Monitoring, Evaluation & Audit		600	600	600	1,800
B. Household (Agricultural) Survey		0	2,000	0	2,000
C. Family Health Survey		1,000	0	0	1,000
SUBTOTAL "III"		1,600	2,600	600	3,800
GRAND TOTAL		79,871	91,462	92,398	257,431
RESERVE					12,569
PROGRAM TOTAL					270,000

Estimated rate of exchange, September 1994: L 9.00=\$1.00

* Activity supports indigenous NGOs/PVOs

Planned local currency supported activities are briefly described below. For further information on these activities, see Annex E, "Evaluation of the FY92-94 Title III Program."

a) **GOH/USAID Projects:**

(i) **Policy Analysis and Implementation (Ag. Sector) (522-0325.02)** – The purpose of the agricultural component of PAIP is to strengthen the Honduran capacity to formulate and implement agricultural and natural resource management policies and administrative reforms. PAIP, which also received local currency under the FY92-94 Title III Program, will continue its support of the entire FY95-97 agricultural sector policy agenda, primarily through the provision of long- and short-term technical assistance to the Ministry of Natural Resources Agricultural Sectoral Planning Unit (UPSA). The activity contributes to Mission Strategic Objective No. 1, Enhanced Economic Participation and Increased Incomes of the Poor.

(ii) **Small Farmer Agribusiness Development (522-0383)** – The purpose of this activity is to increase agricultural production, value-added processing and agricultural exports of participating small farmer owned businesses (FOBs), many of which are cooperatives. The project continues and expands upon the FOB strengthening activities begun under the Small Farmer Organizational Strengthening project, which focuses on both rural credit unions and cooperatives, and is related to Mission Strategic Objective No. 1.

(iii) **Small Farmer Export Development (522-0399)** – The purpose of this new activity is to develop agricultural export crops and mechanisms that are appropriate for smallholder farmer participation and which lead to increases in smallholder farmer incomes. The activity will develop economically and environmentally sound production methods for 5-6 nontraditional crops and disseminate the technology and market information to smallholder farmers. The project is implemented through a grant to the Honduran Agricultural Research Foundation (FHIA), a non-profit NGO. The activity will contribute to short- to medium-term increases in household food access, as incomes grow, and to medium- to long-term improvements in national food availability through the generation of foreign exchange. The activity contributes to Mission Strategic Objective No. 1.

(iv) **Land Use and Productivity Enhancement (LUPE) (522-0292)** – The purpose of LUPE is to increase hillside agricultural production and productivity on a sustainable basis, including improved management of natural resources on which longer-term productivity depends. The project focus is on central and southern Honduras, where environmental degradation from unsustainable hillside agricultural practices is most severe. As under the FY92-94 Title III program, Title III local currency will support these efforts, including those undertaken by indigenous NGOs through project subgrants. Much of LUPE's work with local NGOs also involves micro-watershed management, as well as the encouragement of improved dietary habits and household sanitation practices. The activity contributes to Mission Strategic

Objective No. 2, Effective Stewardship of Key Natural Resources for Sustainable Economic Growth.

(v) Honduran Environmental Protection Fund (522-0385) – The project purpose is to strengthen and expand environmental protection and natural resource management activities carried out by NGOs in Honduras. Priority is given to activities, implemented by partnerships of U.S. and Honduran NGOs, addressing sustainable management of watersheds. Within this context, the activity supports efforts to promote sustainable food production, and to manage protected areas, particularly significant watersheds. The activity is thus principally linked to Mission Strategic Objective No. 2. It also supports enhanced food utilization by protecting potable water sources and improving the diets of small farm households.

(vi) Forestry Development (522-0246) – The purpose of the Forestry Development Project is to improve the management and sustainable productivity of commercial pine forests. In FY95, the purpose will be revised to include the improved management and protection of critical watersheds and other designated protected areas. Beginning in FY95, the project will help establish a nationwide system of protected areas, many of which are comprised of critical cloudforest upper watersheds. As part of these efforts, a policy agenda will be agreed upon with the GOH to strengthen protected area management. For example, within the State Forestry Institute, the recently created Department of Protected Areas will become fully operational. The GOH will also be required to develop a policy to protect key upper cloudforest watersheds. The project contributes to Mission Strategic Objective No. 2.

(vii) Health Sector II (522-0216) – The purpose of this project is to support, strengthen and continue the process of extension of coverage of efficient, sustainable, and effective primary health care and rural water and sanitation (RW&S) services, with an emphasis on child survival and maternal reproductive health interventions. Support of RW&S activities under this project implemented by SANAA and indigenous PVOs will directly contribute to improved household food utilization, by reducing the prevalence of diarrhea and other gastrointestinal diseases. The project contributes to Mission Strategic Objective No. 3, Improved Family Health.

(viii) PL 480 Title II – The goal of the Title II program administered by CARE International is to "improve food security and sustainable development at the household level." The program, which is targeted at children and mothers in the most food insecure parts of the country, improves short-term household and individual food access. Although both PL 480 programs are directed to enhancing the food security of the Honduran population, the Title II program deals primarily on a microeconomic level, directly channeling food to target populations through GOH and PVO programs, and thus addressing short-term household food access needs. CARE plans a significant redesign of its Title II program in mid-FY95, with increased emphasis on sustainable development activities, e.g., rural food-for-work programs to construct trails and roads that will improve small farmer access to

markets, narrowed targeting of all its food programs to the most needy, and increased use of local PVOs as implementors. After the redesign, the Title II and III programs will be even more complementary. Title III local currency will support the Title II program by covering in-country costs formerly financed from the now-ended ESF program. The activity contributes to Mission Strategic Objectives No. 1, through the school feeding program's support of Mission primary education objectives, and No. 3, "Improved Family Health."

b) GOH Project:

Family Allotment Program (PRAF) – The GOH created the PRAF in 1990 with the objective of "providing special protection to children at nutritional risk." The program seeks to protect vulnerable population groups who suffer disproportionately from the economic structural adjustment program. The activity directly increases food access at the household level on the part of poor rural and urban mothers and children through short-term targeted subsidies provided by issuance of food coupons. Title III local currency will continue to support two of PRAF's four subprograms: the "Women Head of Household Bonus Project," which aims to cushion households where the mother provides the family's sole economic support through provision of a monthly food coupon to each child registered in a primary school during 10 months of the year; and the "Mother-Child Bonus Project," which partially subsidizes the food requirements of poor pregnant and lactating mothers and children under five. This program also contributes to improved food utilization at the individual level by encouraging exclusive breastfeeding, weaning and improved dietary habits. Mothers are required to bring their children into a health center on a monthly basis to receive their coupons. There, the children are given a checkup and can receive early treatment for diarrhea and ARIs, be vaccinated and have their growth monitored.

c) GOH Counterpart to USAID CRSPs: GOH counterpart support for these activities, which contribute to enhanced food availability at the national level, will continue under the FY95-97 Title III program. For example, support for the Pond Dynamics CRSP will contribute to fresh and saltwater culture of food products for both domestic and export markets. Support of the Soils Management CRSP (TropSoil) will continue to benefit, together with the LUPE Project, thousands of marginal hillside farm households by demonstrating the effectiveness of soil conservation interventions.

d) General GOH Sector Support:

(i) Land Titling – Sector support of land titling will complement GOH efforts to encourage increased investment in land and improved land use. Local currency will cover costs associated with implementing those policy and administrative measures, e.g., a public information campaign to ensure that land reform beneficiaries are aware of their rights and developing a strategy for resolving adjudication petitions. Local currency will also provide financing for cadastral work included under the FY95-97 Title III Agreement.

(ii) Market Information System – Local currency will finance the development of the plan establishing the market information system, and the subsequent implementation of that plan, thus complementing GOH policy reforms which involve improvement of incentives to produce and invest in the agricultural sector.

(iii) Rural Finance – Sector support will complement GOH efforts to strengthen the rural finance system and improve access of small farmers to financial services. Local currency will also fund a study of the informal credit system in rural finance, and possible development of a plan for implementing the recommendations of the study.

(iv) Rural Water and Sanitation – Sector support for rural water and sanitation will complement GOH efforts to increase coverage of potable water and sanitation systems. Local currency financing will cover the costs associated with restructuring and decentralization of SANAA. Capital expenditures in the RW&S sector will be financed by GOH national funds and/or multilateral donors, and by the Health Sector II Project.

(v) Watershed Protection – Sector support for watershed protection will complement the associated GOH policy reforms achieved in conjunction with the DA-funded Forestry Development Project (see above). Local currency will cover costs associated with preparation and implementation of management plans for designated protected areas involving critical watersheds.

(vi) USDA Screwworm Program – The USDA screwworm eradication program will end in FY95, but local currency will finance GOH efforts to sustain the successes of this program. These efforts are essential to protecting the sizable investment made to eradicate the screwworm in Honduras.

(vii) Pan American School of Agriculture (EAP) at Zamorano – The applied agricultural research conducted under this activity will continue to benefit subsistence farmers throughout Honduras by increasing food production and household incomes.

e) Other:

(i) Monitoring, Evaluation and Audit – Local currency will finance costs associated with GOH monitoring of the FY95–97 Title III program, midterm and final evaluations, and annual audits performed by the Controller General of Honduras.

(ii) Household Food Consumption Surveys – Annual surveys, developed with the assistance of USAID/W and contracted through the Honduran private sector, will continue to be supported in order to measure the program's impact on food production and consumption.

(iii) Epidemiology and Family Health Survey – A nationwide survey conducted by the Ministry of Health every four years (fieldwork for the last survey was conducted in 1991). The results of the survey will include, *inter alia*, information on the nutritional status of children under five years of age, and how the provision of potable water and sanitation affects food utilization.

E. PROGRAM INTEGRATION

1. Conformity with USAID Strategy and Programs

The 1995–97 Title III Program will make a direct contribution to three of the Mission's strategic objectives (see diagram in Executive Summary). The strongest relationship is with Strategic Objective No. 1, **Enhanced Economic Participation and Increased Incomes of the Poor**. In brief, this is what the entire Program is about, with the strongest focus on the rural poor.

The Program will contribute, directly and indirectly, to Strategic Objective No. 2, **Effective Stewardship of Key Natural Resources for Sustainable Economic Growth**. There is arguably no more critical natural resource than water. Without adequate supplies of water, human health and, especially in an agrarian country like Honduras, economic development will suffer. Support for forestry management and protected area management activities under the FY95–97 Program will continue to have a very positive impact on water quality and availability, with positive benefits for consumptive and productive uses of water. Second, local currency will be used under the LUPE and HEPF Projects to develop and extend environmentally sound cultivation practices, which are substantially raising production on high risk family farms and thus raising incomes and food availability. In a more indirect sense, natural resource degradation in Honduras is, in large part, a poverty problem. To the extent that the Program raises the incomes of the rural poor, it lessens the threat to the country's natural resources. Moreover, the reforms related to land tenure, by giving more value to land, will increase the incentives to use land more effectively and sustainably.

The Program will also contribute to the Mission's third strategic objective -- **Improved Family Health**. The direct impact will come through policy reforms involving the national water and sanitation service (SANAA), and the local currency expenditures used to expand rural access to potable water and sanitation systems, primary health care services, and supplementary feeding and nutrition programs. The Program will also have an indirect impact on this health objective by helping to raise incomes of the rural poor.

The 1995–97 Title III program, like the FY92–94 program, has also been designed as a mechanism for implementing the Mission's Agricultural Sector Strategy. The Agricultural Sector Strategy and the Title III program are closely interrelated, because a concern with improving food security is at the core of both. The Strategy increases the effectiveness of the

Title III program, because it lays out a series of actions which need to be taken over the medium to longer-term to achieve improved food security into which a succession of Title III and other Mission activities have been and will continue to be integrated. The 1989 and 1990 Title I programs, the 1991 and FY92-94 Title III programs, a series of ESF programs, and DA funded technical assistance projects, PAIP in particular, all contributed to the successful implementation of the price policy reforms which were the priority measures in the first stage of this Strategy. This Title III program will contribute to reforms dealing with land tenure and land and rural financial markets, which are part of the second stage of the Agricultural Sector Strategy. Local currency support of DA-funded projects dealing with improved access to agricultural inputs, e.g., credit, technology, and management skills, also contribute to objectives of the Strategy.

2. Support of GOH Priorities

One of the Liberal Party's key platform planks in its successful bid for the presidency was an emphasis on improving the food security of the country's poor: "...the principal focal point of agricultural policy is the nutritional status and food security of the Honduran population."⁵ This national priority has been reflected in the actions of the new administration since it entered office in January 1994. The Planning Secretariat (SECPLAN) has been given responsibility by President Reina to coordinate efforts in this area involving the Ministry of Natural Resources (Agriculture), the Ministry of the Environment, the National Agricultural Bank (BANADESA), and other GOH institutions that make up the Food Security Ministerial Council. In early August, SECPLAN was asked to elaborate, in collaboration with the council, a short-term national plan to improve food security. The Title III program will also provide substantial support to, through the use of local currency generations, the Reina Administration's efforts in meeting the food and nutritional needs of the most food insecure. As stated in the "Plan de Gobierno," the GOH will expand its "social safety-net" activities, and in particular the food coupon programs (PRAF) for mothers and infants, and mother-heads-of-household, yet focus these activities in areas with the highest rates of poverty and malnutrition.⁶ (See Section II D.3, "Local Currency Uses," and Annex E, "Evaluation of the FY92-94 Title III Program" for further information on PRAF.)

⁵ Reina 1994-1998 Government Program documents.

⁶ A similar focusing is taking place within the ongoing PL 480 Title II program implemented by CARE; see Section II.D.3, above.

Since this government campaigned on "adjustment with a human face" while maintaining the policies initiated in 1990 by the previous government, it is sensitive to the food security objectives of this program and will respond as much as it can within the serious constraints under which it has to operate. However, while the emphasis on improved food security is something to be encouraged (which the Mission has), some of the early policies and actions which have resulted have not been. The new government has had a tendency to react to some of the problems that have developed by falling back on the kind of government market interventions that were responsible for the lack of agricultural sector growth and rural poverty in the first place. For example, there has been an overemphasis on achieving national basic grain self-sufficiency. The GOH is again considering directed credit to basic grain producers. On the other hand, efforts are also being made to target agricultural inputs, e.g., improved seed varieties, and extension services to the most promising agricultural zones. SECPLAN is also assisting agricultural producers in their efforts to gain tax free imports of key inputs, e.g., seed, fertilizer, machinery, etc. The proposed Title III program will provide the policy leverage and technical support needed to help the GOH identify and implement positive actions, while avoiding those that are counterproductive.

3. Integration with Other Mission Activities

The FY95-97 Title III program will be linked with several other Mission activities discussed above in Section II.D.3, "Local Currency Uses".

4. Relationship to Programs of Other Donors

The policy agenda of both the current and proposed Title III programs are consistent with World Bank and Inter-American Development Bank (IDB) programs, and with IMF targets. In fact, most of the agriculture-related policy reform packages adopted by other donors have been developed by the USAID DA- and Title III-supported Policy Analysis and Implementation Project (PAIP). The policy reforms included in this proposal were developed with the assistance of the PAIP technical assistance team and are consistent with, and complementary to, the current Agricultural Sector Adjustment Credit program co-financed by the World Bank (\$60 million) and the IDB (\$50 million). Indeed, it is questionable that this loan would have been made if not for the policy reforms directly supported by the FY91 and FY92-94 programs.

It is important to note the further leveraging of other donor resources that has already occurred, as well as that expected under the proposed program. The FY92-94 Program supported the enactment of a National Environmental Law which established the institutional framework for the new Ministry of the Environment. In response, the World Bank has announced a major, multi-year assistance program for this Ministry. The Title III program was also instrumental in the reorganization of the State Forestry Institute. Again, the World Bank and IDB have followed with further assistance as a result. It is expected that as a result

of the reforms in the water and sanitation sector planned under the FY95-97 program, the IDB will resume major lending in that sector, which had largely been halted given donors' concerns about SANAA.

III. PROGRAM JUSTIFICATION

A. RELATIONSHIP TO OBJECTIVES OF THE TITLE III LEGISLATION

1. Contribution to Improved Food Security

The 1995-97 Title III program has been designed to have a direct impact on the food security of rural households, the most food insecure group in the country. This is reflected in the goal of the program which is "to improve the food security of the Honduran population" in all three of its dimensions -- availability, access and utilization.

Since the root cause of food insecurity in Honduras is lack of access to food, which is to say poverty, the central focus of the program will be to increase food production and raise the incomes of the poor rural households and, in particular, of poor households dependent on the agricultural sector for their livelihood. For some households, changes in price incentives and land tenure arrangements, coupled in some cases with Mission project activities, will enable them to increase their incomes by increasing production of cash crops, including both traditional and non-traditional exports. For others, income increases will come from additional off-farm employment, some of which will be generated by increases in economic activity in rural areas stimulated by the policy reforms and some as a result of Mission-financed project activities (see FY92-94 Title III Program Evaluation in Annex E). As is the case with the current program, some of the local currency generated by the commodity sales will also be used to support the GOH's family assistance program (PRAF) which increases the access of poor households to food through the distribution of food coupons.

The food imported under the Title III program also increases the aggregate amount of food available in the country. This is important to national level food security because the Title III food is needed as food. The poor and food insecure, to which this program is directed, will be the chief victims if total food supplies decline due to a sharp drop in food imports brought on by the country's severe foreign exchange crisis.

In 1993, over 75,000 metric tons of wheat were imported under the Honduras Title III program. This wheat, which was worth over \$13 million, represented over 40 percent of the wheat supply available for human consumption and around an additional 115 calories per person per day. Imports under the FY95-97 program will be smaller, but even if they decline to 50,000 metric tonnes per year, this would still increase the country's overall calorie availability by approximately 76 calories per person per day.

To strengthen the impact of Title III program on food utilization, a component of the policy reform agenda will help improve coverage of potable water and sanitation systems, especially in rural areas. Local currencies will also support expansion of water and sanitation systems, and primary health and nutritional care services supported under the Mission's Health Sector II project. Finally, the Mission will use this program as a vehicle for exploring the possibility of expanding the fortification of wheat flour produced in Honduras with iron in order to combat one of the most serious micro-nutrient deficiencies in the country -- iron deficiency anemia.

2. Privatization of Food and Agricultural Distribution Systems

The 1990 food aid legislation encourages the use of the Title III program to expand private sector participation in the marketing and production of food and agricultural commodities, a key objective of the Mission's Agricultural Sector Strategy. The wheat import, milling and wholesale and retail distribution system is entirely private now that the GOH has eliminated IHMA's (the government's grain stabilization agency) monopoly on grain imports and has stopped importing grains. The GOH, as part of the current Title III program, has also sold those facilities that competed with the private sector in the production of agro-industrial products. Under this program, the GOH will sell the remaining storage facilities owned by IHMA, with the exception of one storage silo in the capital of Tegucigalpa.

B. COUNTRY COMMITMENT

See Section II.E.2, above, "Support of GOH Priorities."

C. DONOR CONSULTATION

The Mission has consulted with local representatives of the World Food Programme (WFP) and the European Economic Community (EEC), the only other major donors involved with food aid, concerning both recent wheat imports and the proposed wheat imports under the FY95-97 Program. The Mission also consults on a regular basis with the IMF and World Bank, as well as GOH institutions, to ensure that neither the wheat imported under the program nor the use of the local currencies generated by the sale of the wheat will have a disruptive impact on Honduran agricultural producers or on the overall economy. Finally,

USAID consults with other donors on general food security issues in a forum established for this purpose by the GOH Secretariat of Planning (SECPLAN).

IV. PROGRAM IMPLEMENTATION

The program will encourage a considerable degree of private sector participation in the purchase, storage, handling and distribution of the PL-480 commodities. The GOH will assume a minor role limited to approval of the call forward process, and the transfer of title to the commodities to the private sector. The wheat milling industry, comprised of four private millers, will purchase the commodities donated to the GOH with financing arranged for privately or with the assistance of private commercial banks. Ownership will be transferred from the GOH to the millers upon receipt of payment. These millers in turn will undertake all handling and processing of the commodities.

A. PROGRAM MANAGEMENT

The program will be managed as follows:

- a) Following signature of the Title III agreement, and annual amendments which determine the annual authorized U.S. dollar levels of the program, a GOH/USAID committee will meet with representatives of the private sector to develop estimates of the type and grade of the commodity to be imported, the approximate quantity, the estimated dollar cost of commodities and shipping, the period of time during which commodities will be imported into Honduras (through September 30th of each year through 1997).
- b) The millers and the GOH will sign agreements under which the millers commit themselves to local currency payments for the purchase of the commodities to be imported under the program in each fiscal year. To support the private sector development intent of the Title III Program, these agreements shall contain language which places as much responsibility as allowed under the 1990 farm bill on the private sector (the millers) to procure commodities and transportation, arrange in-country transportation, storage and use. Clauses will be used in the agreements to allow for the following points listed in Table 1 on the following page.
- c) Copies of the agreements must cover the points listed in Table 1 and must be provided to USAID.
- d) Based on the amounts and types of wheat and shipping dates agreed to by the GOH, the millers and USAID/Honduras call forward cables will be transmitted to: A) confirm or update information contained in the commodity specifications; B) provide detailed information needed for tendering purposes by USAID/Washington and C) request that FFP initiate the procurement/shipping process. The detailed information will include the name or names of consignees, to whom all or parts of the shipments will be assigned.

TABLE 1: POINTS TO BE COVERED IN THE AGREEMENTS BETWEEN THE GOH AND THE MILLERS

A. The buyers of the commodities will be the local flour millers, the seller will be the government of Honduras (GOH). The spirit and intent of the agreement will be that the cost of acquiring the wheat will not be subsidized in any manner neither will its cost be greater, to the buyer, than the commercial commodity and transport costs charged in the market at the time of procurement. The Ministry of Finance (MOF) will directly manage commodity and transportation documentation, collection of funds from millers, and the transfer of these funds to a GOH owned separate account for this program in the Central Bank of Honduras (Separate Account No. 2500647). Contracts between the MOF and millers include a bank guaranty to ensure payment for the wheat.

B) An estimated cost of the commodity and transport via NON-U.S. flag carrier under quote free out unquote terms will be included in the agreement and adjusted as procurement is executed and actual costs are determined. All estimations of freight costs will be made on the basis of actual non-U.S. flag carrier under free out shipping terms. In order to approximate normal commercial CIF (cost, insurance and freight) Terms, the MOF will charge millers the cost of applicable maritime insurance.

C) The GOH will calculate the actual costs of commodities based on original bills of lading for each shipment minus the dockage identified in the corresponding commercial invoice plus the foreign flag equivalent (FFE) as determined by USAID/W under free out shipping terms. USAID/W will determine the FFE based on the lowest actual foreign flag/free out bid for a particular shipment. USAID/Honduras and the GOH will review and concur on the cost estimates before this information is passed to the millers.

D) Upon USAID/Honduras and GOH agreement, the GOH will present a bill of collection to the millers as soon as practicable after the arrival of each shipment of wheat. Payment by the millers to the GOH will be made in Lempiras for the total costs of a particular shipment at the highest rate of exchange not illegal in Honduras, as per the new exchange regime established by the Central Bank of Honduras on June 22, 1994 (Resolution No. 337-6194). Timing of payment will be within five working days of the delivery of the bills of lading from the GOH to the millers with the following documents attached: 1) commercial invoice - original and two copies; 2) phytosanitary certificate; 3) USDA grain inspection certificate; and 4) USAID/W communication specifying the FFE under free out shipping terms.

E) The GOH will facilitate miller payment for a shipment within ten working days of being officially billed. If for any reason there are delays in payment, the GOH will provide written notification to USAID of the specific nature of the problems causing this delay. If any miller fails to provide the amount billed them by the local agent within the specified time period and is unable to properly justify this failure, said miller will not be allowed to participate in subsequent shipments of the same calendar year or subsequent years until the account is paid in full with interest. The allotment of any miller who is delinquent will be divided among the participating, eligible millers. All outstanding debts will accrue interest at the highest legal annual rate in Honduras during the period of the debt. The GOH will be responsible for determining and billing interest against outstanding debt, and in informing the USAID on a regular basis of the debt and interest due under the program.

F) Actual procurement of the commodity and freight will be executed on a specified date in Washington, D.C, with informal participation of the millers and the GOH. Bids will be received and commodity and freight contracts awarded based on specifications included in an invitation for bid to the private sector. USAID/W will select the winning bid considering price and other factors in informal consultation with the millers.

e) Using the call forward cables issued by USAID/Honduras, FFP will arrange for tenders to be issued for the amounts of the commodities and the shipping services requested (quote free-out unquote terms). Bids will be reviewed and awards made for commodity and freight procurement. FFP will advise USAID/Honduras, the GOH and the millers of the bid opening dates in USAID/Washington.

f) USAID/W will make arrangements to ensure that the wheat is purchased, loaded and shipped. It will send the originals of all appropriate documents (bill of lading – original and three copies; commercial receipt – original and two copies; phytosanitary certificate; USDA grain inspection certificate); and aid communication specifying the FFE under free out shipping terms to the GOH.

g) The GOH will use this information to ensure the timely delivery of the commodities, the collection of funds from the millers and the depositing of these funds into a GOH owned separate account for this program in the Central Bank of Honduras (Separate Account No. 2500647). The GOH will inform USAID/Honduras in writing of the status of the account identifying any delays in payment or other problems.

h) Upon arrival of the wheat at Puerto Cortes, the millers will clear the wheat through customs and receive the commodity. The millers are responsible for paying all applicable port charges, taxes, tariffs, and inland freight costs. Justifiable claims of commodity losses incurred in transit will be credited to the millers' accounts.

i) USAID/Honduras will verify that the lempira equivalent of the U.S. dollar value of each fiscal year authorization in wheat and base shipping costs have passed to the GOH accounts.

B. IMPLEMENTATION SCHEDULE

The previous section explains the procedures for wheat imports. The achievement of policy reform measures as articulated in section II.D.2 and in the policy matrix in Annex B are the key implementation actions. Once the negotiations with the GOH are completed each year, each policy reform benchmark will either be completed prior to signature of the Program Agreement or Amendment thereto or will have a date for its completion specified in the Agreement or Amendment.

C. COST ESTIMATE AND FINANCIAL PLAN

The U.S. Government contribution to this program will consist of donations of wheat in amounts equivalent in value to \$10 million per year over the three year life of the program.

V. MONITORING AND EVALUATION ARRANGEMENTS

Different approaches will be used for monitoring and evaluating the Program's inputs, outputs, purposes, and goal (see the Logical Framework in Annex A).

A. Users of the Information

The primary users of the information will be USAID's Rural Development Office (RD) and its Human Resources Development Office (HRD). These are the Offices responsible for implementation of the program. They will make the information available to other Mission Offices that are involved in the monitoring and evaluation process, especially the Office of Development Programs (DP). In the policy area, RD and HRD will monitor and report on the progress the GOH is making in meeting the established policy benchmarks.

B. Information Sources

Most of the information for the program monitoring and evaluation (M&E) will be provided by the Mission's PAIP/Ag project's technical assistance office (PRODEPAH). Additional major information sources will include other ongoing Mission projects (LUPE, Health Sector II) and periodic national surveys.

C. Program Goal, Purpose and Outcome Questions, Indicators and Methodologies

1) Program Goal: To improve the food security of the Honduran population including all its aspects of availability, access, and utilization.

Goal-level question: To what extent has child malnutrition been decreased?

Indicator: Percentage of children aged 12 to 23 months that are malnourished.

Data Collection Methodology: Baseline data on the percentage of children malnourished is available from a 1991 nationwide Epidemiology and Family Health Survey (EFHS). To assess changes over time in this as well as other health and nutrition indicators, the EFHS will be repeated in 1995 and again four years later.

2) Program Purposes: (a) To increase overall food availability in the country, directly through the provision of imported wheat and through environmentally sustainable increases in food production, and indirectly through increases in foreign exchange from greater agricultural exports; (b) To improve the access of the rural poor to food and better diets through increasing household agricultural production and small farm and off-farm incomes; and (c) To contribute to improved food utilization through improvements in the coverage of

potable water and sanitation services, and through improved household health and dietary practices.

Purpose-level questions: Has per capita calorie availability been maintained or increased? Has rural household food consumption increased? Has real agricultural GDP (total and per capita) increased? Have rural household incomes increased? Has there been a decrease in the percentage of rural households below the poverty line? Have USAID-supported water and sanitation systems contributed to a decline in diarrheal disease in rural areas?

Indicators: Per capita calorie availability, rural household food consumption, real agricultural GDP (total and per capita), rural household incomes, percentage of rural households below the poverty line, percent of total outpatient visits in rural areas by children under five due to diarrhea, and percent of children with diarrhea treated with ORS.

Data Collection Methodology: Basic information on purpose level impacts will come from a variety of sources. Information on changes in calorie availability will be obtained from the GOH and FAO. Estimates of the changes in real agricultural GDP will be obtained from the PAIP/Ag project. Most importantly, estimates on the changes in rural household food consumption, incomes and in the number of rural households living in poverty will also be available from PAIP/Ag, based on information from the GOH multi-purpose household survey that is collected each year (see below). Information on diarrheal disease will be provided by the Health Sector II Project and the GOH's Epidemiology and Family Health Survey (EFHS).

As part of the monitoring and evaluation system established by the FY92-94 Title III program, local currency generations were used to finance the design and implementation of a major nationwide household survey. The Household Survey, which was first conducted in 1993-94, collected information on household sources of income (including detailed information on land ownership and production activities for rural households), income level, expenditures, diets, health, nutrition and education. The field work has been completed and the results are now being analyzed. Preliminary 1993-94 data will be available this Fall.

3) Program Outputs: (a) Reduced price distortions in the agricultural sector and improvements in incentives for agricultural production; (b) Increased investment in the agricultural sector; (c) Development of a land market; (d) Increased production of basic grains and in the area planted, and increased production and sale of nontraditional agricultural products produced by small farmers using sustainable methods; (e) Increased value and volume of traditional and nontraditional agricultural exports; (f) Increased coverage of potable water and sanitation systems in rural areas; and (g) reduced watershed degradation.

Output level questions: Have price distortions of key agricultural products decreased? Has investment in the agricultural sector in real terms increased? Have land sales and rentals increased? Has the area planted with basic grains and key nontraditional exports increased? Has the volume and value of traditional and non-traditional exports increased? Has the production and sale of non-traditional agricultural exports by small farmers increased? Has the coverage of rural water and sanitation systems increased? Has watershed degradation decreased?

Indicators: Degree of price distortions affecting various key agricultural projects; real investment in the agricultural sector; number of land sales and rentals; area planted and production of basic grains and key nontraditional agricultural exports; number of households practicing environmentally sound agricultural practices; volume and value of traditional and nontraditional agricultural exports by year; number of rural residents with access to potable water and sanitation systems; and number of watersheds effectively protected/managed.

The Mission will report on the progress that the GOH is making in meeting the policy reform benchmarks as well as progress toward the program goal -- improving the food security of the Honduran population -- each year as part of the Action Plan review, per the new Supplementary Title III Policy Guidance. The Mission will also arrange for an independent evaluation of the entire program during its third and final year.

VI. FINANCIAL MANAGEMENT AND AUDITS

The Program Agreement will require the Central Bank of Honduras (BCH) to continue to utilize the set of operational procedures governing the administration and use of local currency generations developed for the FY92-94 Title III Program. These procedures include, but are not limited to, accountability and monitoring responsibilities of USAID and the BCH over deposits into and disbursements from the newly established FY95-97 Program Separate Account established at the BCH, interest rates to be applied to funds on deposit, and overall financial reporting requirements.

The management capabilities of the BCH have been evaluated by the Mission's Office of the Controller, Financial Analysis and Review Section (FARS). Based on the results of these reviews, the Mission has concluded that the BCH has the capability and sufficient span of control to continue to adequately manage the local currency generations under the proposed Title III Program.

The Mission's Rural Development Office (RD) will continue to be responsible for the overall management and administration of Title III activities, assisted by the Office of the Controller's FARS personnel in the financial management of all local currency generations. The Office of Development Finance (DF) is responsible for overseeing the annual programming of local currency generations, and for general program support.

In accordance with the current audit provisions for PL 480 Title III programs, the Mission will ensure that annual audits are made of the Program. Under a recent agreement reached with the Regional Inspector General (RIG), the GOH's Office of the Controller General will perform the audits under the USAID/RIG Recipient Audit Program (RAP). The audits will verify that donated commodities and host country owned local currency proceeds have been properly accounted for and used in accordance with the Title III Program Agreement and Local Currency Operating Procedures. The Mission will set aside the equivalent in local currency of approximately \$33,000 over the three year period from the Program generations to reimburse the direct audit costs to the GOH Office of the Controller General. These audits will be conducted under the direct supervision of the Mission FARS, following the guidance agreed upon with the RIG. The Program Agreement will include the audit clause which complies with the revised standard audit provision for PL 480 Title III programs worldwide.

In addition to the annual audits, the Mission FARS may conduct periodic financial reviews to ensure that local currency generations under the program are properly managed, controlled and reported upon.

LOGICAL FRAMEWORK FOR THE HONDURAS 1995-97 TITLE III PROGRAM

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p><u>PROGRAM GOAL:</u></p> <p>To improve the food security of the Honduras population, including all its aspects of availability, access and utilization.</p>	<p>Reduction in child malnutrition from 20.5 percent of children aged 12 to 23 months malnourished (weight-for-age at level 2 or worse) in 1991 to 16.5 percent in 1997.</p>	<p>Base-line data on child malnutrition is available from the 1991/92 survey; this survey will be repeated in 1995, at which time one will be able to assess changes using a comparable indicator.</p>	<p><u>GOAL TO SUPERGOAL</u></p>
<p><u>PROGRAM PURPOSE:</u></p> <p>1. To increase overall food availability in the country, directly through the provision of imported wheat and through environmentally sustainable increases in food production and indirectly through increases in foreign exchange from greater agricultural exports.</p> <p>2. To improve the access of the rural poor to food and better diets through increasing household agricultural production and small farm and off-farm incomes.</p> <p>3. To contribute to improved food utilization through improvements in the coverage of potable water and sanitation services, and through improved household health and dietary practices.</p>	<p>1a. Per capita calorie availability remains at 2300 in 1995, 1996 and 1997.</p> <p>1b. Rural household calories consumption increases by 10% in 1997 with respect to 1993/94.</p> <p>2a. Annual growth in real agricultural GDP will be at least 4% during 1995-97.</p> <p>2b. Increase rural household real incomes by 10%, particularly of those in the lowest quintile by 1997.</p> <p>2c. The percentage of rural households below the poverty line decreases from 78% in 1993 to 65% in 1997.</p> <p>3a. Percent of total outpatient visits by children under 5 due to diarrhea declines from 13.5% (1994) to 12.5% in 1997.</p> <p>3b. Percent of children under 5 with diarrhea in last three days treated with ORS increases from 37% (1994) to 40% in 1997.</p>	<p>1. Food balance sheets from FAO and the PAIP Project.</p> <p>1a. Household food consumption surveys.</p> <p>2a. Estimates of changes in real agricultural GDP from the PAIP Project.</p> <p>2b. Estimates of changes in rural household incomes are available from the PAIP Project, based on a GOH household survey that is conducted every year beginning in 1989.</p> <p>2c. Estimates of changes in the percentage of rural households living in poverty are available from the World Bank based on data from the GOH's annual household survey.</p> <p>3a. MOH Annual Reports.</p> <p>3b. GOH EFHS.</p>	<p><u>PURPOSE TO GOAL</u></p> <p>1. Poor households will spend a proportion of their increased incomes to improve family diets.</p> <p>2. Some of the increased food available will be fed to children.</p> <p>3. Poor households whose incomes have increased will also have access to improved primary health care services, including nutritional information, as a result of other Mission and other donor funded programs.</p> <p>4. Poor mothers will take advantage of the increased availability of preventative care services and adhere to the recommendations.</p> <p>5. Other activities of the Mission, other donors and the GOH will complement and reinforce the activities supported under this program.</p>

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	ASSUMPTIONS
<p>PROGRAM OUTPUTS: POLICY REFORMS</p> <p>1. Reduced price distortions in the agricultural sector and improvements in incentives for agricultural production.</p> <p>2. Increased investment in the agricultural sector.</p> <p>3. Development of a rural land market.</p> <p>4. Increased sustainable production of basic grains in the area planted and increased production and sale of non-traditional agricultural products produced by small farmers.</p> <p>5. Increased value and volume of traditional and non-traditional agricultural exports.</p> <p>6. Increased coverage of potable water and sanitation systems in rural areas.</p>	<p>1. Reduce the range of price distortions affecting key agricultural products; effective protection rates shall remain between .9-1.10 during 1995-1997.</p> <p>2. Investment in the agricultural sector in real terms should grow by 10% per year during 1995-97.</p> <p>3. Number of land sales should increase by 5% per year; land rentals should increase by 10% per year during 1995-97.</p> <p>4a. Area planted and production of basic grains and key non-traditional agricultural exports should increase 5% per year during 1995-97.</p> <p>4b. Over 25,000 small farm households practicing environmentally sound agricultural practices. 30% increase in basic grain production between 1995 and 1997.</p> <p>5. Volume and value of traditional and non-traditional agricultural exports increase by at least 5% per year during 1995-97.</p> <p>6. Number of rural residents with access to USAID-supported potable water and sanitation systems increases to 600,000 by the end of 1997.</p>	<p>1. Annual analysis of nominal and effective protection coefficients for key agricultural products by PAIP Project.</p> <p>2. Annual estimates of the value of investment in the agricultural sector from the Central Bank.</p> <p>3. Estimates can be developed by adding a module to the GOH multi-purpose household survey that is conducted every year.</p> <p>4a. Data on basic grains production from the annual basic grain survey; data on production on non-traditional agricultural exports from the Small Farmer Export Development Project, FPX and GOH sources.</p> <p>4b. Data from the LUPE project M&E system.</p> <p>5. Estimates of the annual volume and value of traditional and non-traditional agricultural exports from the PAIP Project.</p> <p>6. GOH Epidemiology and Family Health Survey.</p>	<p>OUTPUTS TO PURPOSE</p> <p>1. CACM countries maintain free market policies.</p> <p>2. Farmers respond positively to improved incentives.</p> <p>3. Increased private sector role in marketing will lead to reduced marketing margins and higher farm-gate prices.</p> <p>4. The lack of technology is not an immediate constraint to increased agricultural production.</p>

ISSUES	OBJECTIVES	ACTIONS ADOPTED PRIOR TO THIS AGREEMENT	OBJECTIVES TO BE MET DURING:		
			1ST YEAR (1995)	2ND YEAR (1996)	3RD YEAR (1997)
<p>1.1 <u>Improving Incentives for Agriculture: Removing Price Distortions Affecting Agriculture</u></p>					
<p>Poverty and food insecurity worsened during the 1980s, especially in the rural areas. This was a result of an over valued exchange rate and a trade policy designed to favor the development of import substitution industries both of which discriminated against the agricultural sector and reduced incentives to domestic agricultural producers.</p> <p>These policies were changed as part of a reform process initiated by the previous government. The issue now is to complete these reforms and to prevent backsliding. The new government has committed itself to maintaining these reforms but has a tendency to react to new problems by falling back on the kinds of government market interventions that were responsible for the lack of agricultural sector growth and rural poverty in the first place.</p>	<p>To contribute to improved food security by eliminating the remaining price distortions affecting the agricultural sector. This will increase the incentives to domestic agricultural producers, including the producers of basic grains, and contribute to increased agricultural production, productivity and rural household incomes.</p> <p>Prevent backsliding.</p>	<p>The GOH has adopted a flexibly managed exchange regime and is maintaining a macro economic framework consistent with and supportive of the development of the agricultural sector. The GOH has also (1) reduced tariff dispersion to a 5-20 percent range and (2) eliminated quantitative import and export restrictions on all agricultural products. Prices of all agricultural products, with the exception of coffee and sugar, have been decontrolled and are now determined by market forces.</p>	<p>a. The GOH agrees to maintain all key policy reforms implemented under past Title III agreements prior to the signing of this agreement, including: Liberalized agricultural trade and pricing regimes, limitation of physical strategic reserve to beans, measures which increase land tenure security and access to land market mechanisms, and implementation of plan to decentralize and privatize agricultural research and extension services (DICTA).</p> <p>b. The GOH agrees to eliminate all import and export controls on agricultural trade (including non-tariff barriers); improper phyto-sanitary control management will be eliminated-permits will be used exclusively for control of imports and exports from a sanitary perspective.</p>	<p>a. The GOH agrees to maintain all policy reforms implemented under past Title III agreements (See FY95).</p> <p>b. The GOH agrees to maintain a policy of free agricultural trade unimpeded by import or export controls (including non-tariff barriers; improper phyto-sanitary control management will be eliminated-permits will be used exclusively for control of import and export from a sanitary perspective).</p>	<p>a. The GOH agrees to maintain all policy reforms implemented under past Title III agreements (See FY95).</p> <p>b. The GOH agrees to maintain a policy of free agricultural trade unimpeded by import or export controls (including non-tariff barriers; improper phyto-sanitary control management will be eliminated-permits will be used exclusively for control of import and export from a sanitary perspective).</p>

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ISSUES	OBJECTIVES	ACTIONS ADOPTED PRIOR TO THIS AGREEMENT	OBJECTIVES TO BE MET DURING:		
			1ST YEAR (1995)	2ND YEAR (1996)	3RD YEAR (1997)
1.1	<u>Improving Incentives for Agriculture; Removing Price Distortions Affecting Agriculture (Contd.)</u>		c. The GOH agrees it will not impose price controls on any agricultural or agro-industrial product.	c. The GOH agrees to maintain a policy of free market pricing on all agricultural and agro-industrial products.	c. The GOH agrees to maintain a policy of free market pricing on all agricultural and agro-industrial products.

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<p>1.3 <u>Improving Incentives Affecting Agriculture: Developing a Market Info. System</u></p> <p>Producers, wholesalers, and retailers have limited market information to guide their resource allocation decisions. This leads to inefficiencies and higher marketing costs.</p>	<p>Make the price formation process transparent to producers, wholesalers, and retailers in order to increase market efficiency, promote competition among market participants and reduce the costs of the product to final consumers.</p>	<p>a. The GOH will present a plan for establishing a market information system. This plan will include information on the coordinating institution, target audience (users), the products to be covered, the type of information collected, frequency of collection, form of presentation, institutions responsible for generating and publishing the data, and the amount and source of funds required. March 1995</p> <p>b. The GOH will begin implementation of the plan according to the agreed upon schedule. May 1995</p>	<p>a. The GOH continues implementation of this plan according to the agreed upon schedule.</p>	<p>a. The GOH continues implementation of this plan according to the agreed upon schedule.</p>	

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<p>1.2 <u>Improving Incentives for Agriculture: Privatizing Grain Storage Facilities</u></p>					
<p>Direct state intervention in domestic agricultural production and markets has been costly and has discouraged private sector participation. Government intervention in the grain market, through IHMA (the grain marketing agency) has not contributed to improved food security, has not protected producer prices, and has been costly.</p>	<p>Transfer remaining state owned grain storage facilities to the private sector in order to improve market operations and reduce fiscal costs.</p>	<p>The GOH has already sold many of the facilities identified in the previous agreement, including the Sula Dairy, the Ministry of Natural Resources Seed Facility, two sugar mills and 35 percent of the IHMA storage facilities.</p>	<p>a. The GOH completes negotiations on the two facilities for which offers have been made (Comayagua and the Terminal Plant at San Pedro Sula).</p>	<p>b. The GOH offers all remaining grain storage facilities except Tegucigalpa (i.e., Olanchito, El Porvenir, Santa Rita and Las Flores) to the private sector.</p>	

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<p>2. <u>Encouraging of Increased Investment in Land and Improved Land Use</u></p> <p>There are a number of land tenure problems in Honduras which have important implications for improved food security.</p> <p>These include: 1) The extensive and inefficient use of land; 2) Insecure property rights and the disincentives to productive investment; 3) A structure of land ownership which is highly concentrated which has created major problems of land access for the vast majority of the rural population.</p> <p>The 1992 Agricultural Modernization and Development Law went a long way in terms of establishing the legal basis for making improvements in these three areas. However, the fact that much of this Law remains to be implemented coupled with the lack of development of supporting institutions have limited the amount of improvement achieved.</p>	<p>a. Improve land use and encourage increased investment in land by providing a more stable and secure legal base for land tenure.</p>	<p>a. The Agricultural Modernization and Development Law (AMDL), whose passage in 1992 was one of the major outputs of the previous Title III Agreement, included a number of articles which successfully modified the old Agrarian Reform Law. Specifically it: 1) Guaranteed and secured full ownership rights over land; 2) Legalized land rental arrangements, with the exception of some types of share-cropping; 3) Revised and simplified land adjudication and titling processes (e.g., reducing the minimum time for titling eligibility from 40 to 3 years of continuous operation and simplifying titling processes for farmers of less than 5 hectares); 4) Eliminated the prohibition of titling land to holders of less than 5 hectares; 5) Provided women with equal rights of access to land.</p>	<p>a. The GOH agrees to maintain provisions in the AMDL (Agricultural Modernization and Development Law) which provide land tenure security, including: Simplified criteria for expropriation, legalization of land rental, and massive land titling program.</p>	<p>a. The GOH agrees to maintain the essential provisions of the AMDL specified for the first year of this Title III agreement.</p>	<p>a. The GOH agrees to maintain the essential provisions of the AMDL specified for the first year of this Title III agreement.</p>

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			1ST YEAR (1995)	2ND YEAR (1996)	3RD YEAR (1997)
<p>Few lenders will provide long-term financing for land purchases by small farmers and the landless poor who cannot provide commercial loan guarantees, and the land that is offered for sale is often invaded.</p> <p>Although INA has been reorganized (one of the conditions under the previous agreement) too many staff are still assigned to paternalistic development programs and not enough attention is paid to INA's principal functions, including land titling.</p>	<p>b. Ensure freedom of association for land reform beneficiaries.</p>		<p>b. The GOH initiates a public information campaign to ensure that land owners and agriculturalists are aware of their rights and responsibilities under the AMDL, including the legality of land rental.</p>	<p>b. INA completes cadastral work in Departments of Olancho and Colón.</p>	<p>b. INA conducts cadastral work in all remaining agricultural valleys of the country (except La Mosquitia and the Islas de la Bahía).</p>
	<p>c. Reorient INA's program toward the more successful completion of its titling functions.</p>		<p>c. INA develops and begins implementation of a plan to accelerate its primary function of titling. This includes actions to increase the speed and efficiency with which titles are issued.</p>	<p>c. INA titles 20,000 properties.</p>	<p>c. INA titles 20,000 properties.</p>
	<p>d. Completing the development of municipal and departmental cadastral inventories.</p>		<p>d. INA initiates cadastral work and titling in the agriculturally significant Departments of Olancho and Colón.</p>		

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<p>3. <u>Strengthening the Rural Finance System</u></p> <p>The GOH has relied on its National Agricultural Development Bank (BANADESA) and on rediscount lines through the Central Bank (BCH) to appease the pressure from farmer groups to provide subsidized credit to the agricultural sector. These mechanisms have not helped increase production; little of the credit provided has reached small farmers; and continual losses due to bad loans has created a drain on public funds. Other formal financial institutions, such as commercial banks, offer limited services to agriculture.</p>	<p>To strengthen the rural financial system, including by allowing greater participation of more efficient financial intermediaries.</p> <p>To improve access of small farmers to financial services.</p> <p>To improve credit allocation by eliminating interest rate subsidies and reducing fiscal drain.</p> <p>To understand more about the informal credit system operating in rural areas.</p>	<p>The GOH is restructuring BANADESA and has decided to divest it from the public sector, while developing alternative sources of rural financial intermediation.</p> <p>Law 31-92 created the "Cajas Rurales" as private institutions with resources from GOH trust funds administered by BANADESA.</p>	<p>a. The GOH approves the regulations needed to begin operation of a private rural financial system (cajas rurales) which emphasizes rural savings mobilization and sound commercial, financial and regulatory practices (Preferential, subsidized lines of credit directed to specific agricultural activities such as basic grains production, will not be used). March 1995</p>	<p>a. The Honduran Central Bank phases out all subsidized lines directed to the agricultural sector, including any subsidized credit programs in BANADESA.</p> <p>b. The GOH undertakes a study of the informal credit system which determines its role and adequacy in supplying financial services to poor rural families.</p>	<p>a. The GOH agrees not to subsidize agricultural credit through lower than market interest rates.</p>

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<p>4. <u>Increasing Coverage of Potable Water and Sanitation</u></p>					
<p>SANAA operates as a water utility and as the rector of the W&S sector. Each function requires a distinct approach and work methodology. The desire to make the utility produce sufficient income to support the entire operation weakens the ability to increase coverage and assure sustainability of smaller system.</p> <p>SANAA's internal structure is fractured into several "implementation units" generally aligned with donors. (Example: There is a SANAA-IDB, a SANAA-AID, etc.) At the same time, there is very little decision making taking place in the regions.</p>	<p>To create within SANAA two separate branches: 1) Operations, which will be responsible for the operation of urban water systems, and 2) Programs, which will be the rector of the W&S sector.</p> <p>To strengthen the role of SANAA regional offices.</p>	<p>SANAA has already met with various international teams to discuss the creation of two distinct branches. There have been some initial efforts to turn over some of the urban water systems to municipalities. Changes of personnel within SANAA have delayed process.</p> <p>SANAA management has been talking about the need to strengthen regional offices. Several schemes have been reviewed, but no decision has been made.</p>	<p>a. SANAA completes a plan for separating itself into two branches covering <u>operations</u> and <u>programs</u> functions. This plan will demonstrate how the revised organization will help expand the access of Honduras' rural poor to potable water and sanitation.</p> <p>b. SANAA regional offices are credited and fully staffed to allow the organization to carry out its mandate more effectively.</p>	<p>a. SANAA completes internal reorganization dividing the institution into Operations and Program branches.</p> <p>b. Selected urban water systems are transferred to their respective municipalities.</p>	<p>a. SANAA completes transfer to local SANAA units of managerial responsibility for those urban water systems not transferred to selected municipalities.</p>

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Enhanced food security in Honduras is constrained by a multitude of factors ranging from macro economic instability affecting food availability and access, to poor individual health and nutritional practices which undermine food utilization. The primary constraints are analyzed below within the USAID food security framework.

At the national level, Honduras faces difficult economic prospects both in the short and medium-term which are constraints to food availability and access. In addition to the issues identified in the "Problems Addressed" section of the proposal, the country remains burdened by external debt of about 107 percent of its GDP and a debt service that amounts to about 40 percent of export earnings. According to the World Bank, continued implementation of the government's stabilization and structural reform program will require large inflows of grants, concessional assistance and debt relief between 1994 and 1996. The Bank also estimates that there will be annual financing gaps of between \$85 and \$145 million per year between 1994 and 1996, some of which could be partly covered by debt relief. Over the medium-term, Honduras' credit worthiness will remain vulnerable to fluctuations in the prices of its agricultural exports, bananas and coffee in particular, until a more diversified export structure has been established. Both the budget deficit and the lack of foreign exchange are driving inflation sharply higher. The short-to-medium term economic situation is likely to result in fewer food imports and slower income growth. High inflation rates may well further reduce food access and consumption, especially on the part of poor households.

Although the FY95-97 Title III Program can help somewhat in alleviating the balance of payments problem, and thereby contribute to improved food availability and overall economic growth, the main focus of the Program is on constraints to growth in the agricultural sector. Such growth would contribute to greater national and household food availability, as well as improved food access as rural income increases. Despite its potential, and the improvements in the early 1990's, the agricultural sector has not played as important a role in helping the country achieve broad-based economic growth and greater food security as it should have. Agricultural sector performance during the 1980s was particularly poor. Real agricultural sector GDP grew at only 1.8 percent per year between 1980 and 1989, 5 percent below the rate of growth for the economy as a whole and more than a full percentage point below the population growth rate. The fundamental constraints to Honduran economic development have been a heritage of statist, paternalistic policies; inadequate infrastructure; distorted relative prices of goods and factors of production; a deteriorating natural resource base; and inadequate development of human capital, characterized by low literacy rates and poor levels of nutrition. The Mission's Agricultural Sector Strategy identified three major categories of constraints to agricultural growth: (1) the price structure facing the sector, (2) the resource base, and (3) access to technologies, finance and markets. Each constraint is discussed below, and is referenced to the policy reform measures and local currency supported activities described in Section B, "Program Description," of the proposal.

a) The Price Structure

The macro economic, trade and regulatory policies followed by a succession of Honduran governments were among the major constraints to faster agricultural sector growth. They discriminated against the agricultural sector and stifled agricultural prices, productivity and production while preventing increases in real incomes for agricultural households, including producers of basic foods. Many of these policies have been changed, beginning in 1990, and the reduction in price distortions has had a measurable, positive impact on production and rural household incomes, particularly of the poor. Previous Title I and III programs convinced the 1990-94 Callejas government that price controls, export and import quotas, bans and other restrictions, retail price controls, and controls on the exchange rate were having a negative impact on agricultural production and increasing rural poverty. The FY95-97 program will hold the line on the price related policy reforms begun in 1990 and avoid backsliding.

See Policy Reform Measures, "Removing Price Distortions Affecting Agriculture." and "Privatizing Grain Storage Facilities". For local currency supported activities, see description of the Policy Analysis and Implementation Project.

b) Land Tenure

Once many of the price related reforms were in place the country and the Mission's attention turned to reforming policies affecting land tenure and land use. According to the Mission's analysis, a negative policy environment was contributing to the inefficient use of this important resource and, by increasing the risk, was limiting the amount people were willing to invest in the agricultural sector. The results were a deteriorating resource base which is jeopardizing the productivity of thousands of small farmers and causing a decline in agricultural exports.

Reforms of the legal framework affecting land tenure and land use were a major focus of the 1992-94 Title III program. Reshaping land tenure and land use policies, the Mission argued, will spur increased agricultural investment, production and export growth. More than any other set of remaining policy changes, the Mission argued, the clarification of land ownership and rental rights holds the potential for: (1) dramatically increasing agricultural investment, and (2) shifting stagnant land use patterns towards higher value-added activities. The 1992 AMDL corrected many of the problems created by the original Agrarian Reform Law, and did much to establish the legal basis for more secure property rights and encourage increased investment in, and better use of, the country's land resources. However, much of the land component of AMDL remains to be implemented, and the institutions needed to support its implementation need to be developed, are weak, and/or need to be reoriented.

See Policy Reforms on "Encouraging Increased Investment in Land and Improved Land Use." For local currency supported activities, see descriptions of the following GOH/USAID projects: Policy Analysis and Implementation; Land Use and Productivity Enhancement; Honduran Environmental Protection Fund; and Forestry Development. Also see description of local currency "General Sector Support" of INA Land Titling activities.

c) Access to Technologies, Finance and Markets

The access constraint includes, *inter alia*, the problems of: (1) costly access to domestic markets because of inadequate transport and storage facilities and costly and ineffective government services; (2) inadequate access to inputs because of inefficient credit, extension and input delivery systems, and insufficient credit available to small farmers; and (3) lack of market information, particularly on the part of small farmers.

The access constraint has been very much worsened by the unavailability of credit. The role of BANADESA and the commercial banks in providing agricultural credit has been limited. BANADESA, which has served primarily the agrarian reform sector, has sustained huge losses. The commercial banks have offered only limited services to agriculture. Neither source of credit has reached small private farmers. On the other hand, while little is known about the informal system, its existence is obvious. Area planted has been increasing while formal credit to the agricultural sector, in real terms, has been decreasing. While traditional wisdom says that informal lenders are "bad", many studies indicate that not only do the majority of farmers use the informal sector, they prefer it. For the GOH to improve access to credit, especially to small borrowers, it is essential to understand and facilitate the informal market.

See Policy Reform Measures on "Developing a Market Information System and Other Actions to Make Markets Work Better," and "Strengthening the Rural Financial System and Improving the Access of Small Farmers to Financial Services." For local currency supported activities, see descriptions of the following GOH/USAID projects: Policy Analysis and Implementation, Small Farmer Export Development, LUPE and Small Farmer Agribusiness Development. Also see description of local currency "General Sector Support" of rural finance activities.

Other constraints exist with regards to proper food utilization:

Chronic Diarrheal Disease

Overcoming constraints which address food availability and access are necessary, but not sufficient, to ensure food security. Constraints to proper utilization of food must also be addressed. Proper food utilization results in nutritional benefit; without it, food is wasted.

Appropriate food processing and storage, adequate knowledge of nutritional, child care and health practices, and potable water and sanitation all contribute to ensuring that the food eaten is utilized effectively. In Honduras, poor nutritional and sanitary practices and poor health are the primary constraints to food utilization. While chronic poor health of any type can contribute to malnutrition, diarrheal diseases are by far the largest problem since much of the food which is eaten is lost before it can be utilized by the body. In Honduras, as elsewhere in the developing world, lack of potable water has been found to be a primary cause of infant mortality, morbidity, and child malnutrition due to its link with diarrheal diseases. Although the prevalence of diarrhea has declined sharply – almost 40 percent between 1987 and 1991 – it is still a major factor contributing to poor health, especially among children.

FACT: A comparison of GOH Family Health Survey data from 1987 and 1991 indicates that nationwide potable water coverage has remained static over the period. In spite of new populations being served for the first time, usually under the rural water and sanitation component of the Mission's Health Sector II Project, other groups lost service due to water system deterioration. How to explain the 40 percent drop in diarrheal disease over the same period? The approximately 75,000 rural residents who gained access to potable water under Health Sector II also benefitted from training in improved health and sanitary practices. Apparently, the larger proportion of households provided with both potable water and such health training contributed to dramatic drop in diarrhea.

The FY95–97 Program will directly address constraints to improved food utilization. Both in terms of policy reform measures and local currency support, the Program will improve health, particularly of children, through: (1) increased provision of potable water and sanitation services; (2) promotion of exclusive breastfeeding, which is closely correlated to a lower incidence of diarrheal disease; (3) expansion of growth monitoring and nutrition education; and (4) promotion of proper case management of diarrheal disease and acute respiratory infections.

See Policy Reforms on "Increasing the Coverage of Potable Water and Sanitation Systems," For local currency supported activities, see descriptions of the following GOH/USAID activities: Health Sector II and PL 480 Title II. Also see description of the local currency–supported GOH "PRAF" program, and "General Sector Support" of water and sanitation activities.

Finally, there is a cross-cutting national level constraint to both increased food availability and improved food utilization.

Watershed Degradation

The widespread degradation of watersheds in Honduras imposes medium–term constraints to the availability of potable water for household use, and water for agricultural uses. There is a critical linkage between the removal of forest and other vegetative cover from upper

watersheds and the consequent damage downstream due to flooding, siltation and reduced water storage capacity. The results of watershed degradation include substantial destruction due to flooding of both dryland and irrigated food and export crops, adversely affecting both

availability of domestic food supplies and the income of marginal and moderate scale food producers. In addition, downstream effects of deforestation and related unsustainable hillside agricultural practices reduce the short-term capacity and threatening the long-term viability of water storage reservoirs. Less, and often lower quality, water is available for irrigation, which reduces food crop yields and production – and therefore food supplies. This implies higher costs and reduced access to basic food requirements by the poor. Less water is available for domestic and industrial (including power generation) use, which affects the processing, marketing, quality, preparation and consumption of food. Clearly, for the short- to medium-term, agricultural productivity and food security is jeopardized by mismanagement of natural resources and degradation of watersheds both on a localized scale and in entire river basins.

FACT: An estimated 50-100 tonnes/hectare of topsoil from traditional hillside farms is eroded and lost each year in Honduras. In a TROP SOIL CRSP test plot employing sustainable hillside agricultural practices supported by the LUPE project, the rate of erosion is 1 1/2-2 tonnes/hectare per year.

Improper stewardship of water resources also affects human health. Indeed, some of the rural water systems constructed during the past three years under the Health Sector II project are already being adversely affected by localized deforestation. As a result, natural water sources are drying up and village potable water supplies are being rationed. In the longer-term, these same threats will get worse if not treated effectively, and may be joined by others, such as increasing pollution of water supplies for agriculture and aquaculture (including mariculture), decreasing water quality for domestic uses, and increasing frequency of water shortages.

FACT: The area deforested in Honduras between 1960 and 1986 was equal to the size of Costa Rica. The area projected to be deforested between 1986 and the year 2000 is equal to the size of El Salvador.

The FY95-97 Title III program will address these constraints, along with DA-funded activities, through local currency support of activities which will improve watershed management and protection.

a. Commodity Needs Analysis

Because of climatic and topographic constraints, Honduras does not produce wheat. It therefore has to depend on imports to meet its wheat demand, which averaged around 120,000 metric tons over the period 1980-1993. For 1994, demand is estimated at approximately 140,000 metric tons, and at 145,000 to 150,000 metric tons by 1997.

Honduras has depended on concessional imports to supply a major portion of its wheat for a number of years (see Table 1). In 1989, the over 118,000 metric tons, or 66 percent of Honduras' wheat, were imported under a Title I program. In 1991, under the first Title III

TABLE 1: ESTIMATED SOURCES OF WHEAT SUPPLY, 1989 TO 1993, IN METRIC TONS

YEAR	TITLE III	OTHER DONATIONS	COMMERCIAL IMPORTS	TOTAL WHEAT IMPORTS FOR HUMAN CONSUMPTION	TITLE III IMPORTS AS A PERCENT OF TOTAL IMPORTS	WHEAT IMPORTS FOR ANIMAL FEED
1989	118,830	2,230	2,525	123,585	96	--
1990	79,705	--	11,591	91,296	87	--
1991	87,949	48,000	22,143	158,092	56	24,000*
1992	76,769	10,000	18,158**	104,927	73	--
1993	75,859	29,230	68,781	173,870	44	66,000***

* 1,156 metric tons of EEC origin; ** EEC origin; *** Canadian origin.

program, this percentage dropped to 56 percent due to an increase in the size of other wheat donations. In 1993, Title III only supplied 44 percent of the country's wheat, with another 40 percent coming from commercial imports including those supplied under the U.S. Export Enhancement Program (EEP).¹

¹ The EEP exists although there is no apparent threat to U.S. market share, as there is little, if any, foreign import of wheat into Honduras for human consumption. EEP wheat is not targeted to, nor does it effectively compete with, wheat imports for animal feed.

FACT: The requested food aid commodity – wheat – is needed as food. There is a basic grains gap (requirement gap) for every basic grain consumed by humans in Honduras. The most recent three year average annual gaps ranged from 177,000MT for white corn to 58,000MT of rice. The annual demand gap for wheat for human consumption has grown to approximately 140,000MT. Annual consumption of wheat has grown from 16.6 to 21.2 Kg/person between 1970 and 1989 (the last year figures were available), and household consumption rose from 36 percent of all households in 1979 to 52 percent in 1987. A recent study by PAHO/WHO concluded that the "significant" increase in wheat consumption was a result of both insufficient domestic production of white corn – the country's main grain staple – and the large amounts of wheat being imported, which have increased 400 percent over the past 15 years. Other functions – e.g. relative prices, increased incomes, differential tariff structures, and changing dietary patterns – also play a role. In times of basic grain scarcity there are few alternatives to imported wheat. During drought, such as parts of the region are now experiencing, white corn is often not available from neighboring countries, nor is rice. The particular type of red bean preferred by Hondurans is grown in few other places in the world. Soybeans are not consumed in Honduras.

The Honduras wheat market has become more complex, beginning with the importation of wheat for feed use in 1991. Prior to that, all wheat imports were milled into flour for human consumption. In 1991, however, 24,000 metric tons of feed grade wheat were imported and in 1993, 66,634 metric tons. During the first four months of calendar year 1994, another 50,298 metric tons of feed grade wheat were imported. The high price of corn, a differentiated tariff rate in favor of wheat, and the growing demand for feed on the part of the poultry and shrimp industry are among the reasons why demand for feed quality wheat has been increasing. The confusion between wheat imported for human and animal use led to the first Export Enhancement Program and continues to make the projection of wheat import needs more complicated.

For 1994, total import needs for both feed and wheat flour quality wheat are estimated at 200,000 metric tons, of which 135,000 metric tons is for wheat flour and 65,000 metric tons is for feed quality wheat. FY95–97 Title III sales will cover about 50,000–55,000 metric tons; leaving 80,000–85,000 metric tons for wheat flour that can be met through the Export Enhancement Program,² other donors, and/or other commercial purchases.

The estimated volumes and time of departures from U.S. ports for each year of the program are provided in Table 2.

² The recently approved EEP level is 60,000MT.

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TABLE 2: TENTATIVE SCHEDULE FOR WHEAT SHIPMENTS BY MONTH OF DEPARTURE FROM U.S., PORTS FOR EACH YEAR OF THE PROGRAM

YEAR	MONTH	VOLUME IN METRIC TONS		VALUE PER YEAR IN US\$
		PER MONTH	TOTAL FOR YEAR	
1995	September	25,000	25,000	\$10 m
	November	25,000	50,000	
1996	September	25,000	25,000	\$10 m
	November	25,000	50,000	
1997	September	25,000	25,000	\$10 m
	November	25,000	50,000	

b. Usual Marketing Requirements

The Mission recommends that the Usual Marketing Requirement be set at 19,389MT for wheat/wheat flour, the same level as 1994.

c. Storage Information and Disincentive Analysis

PL 480 wheat imports are imported into Honduras at the northern coastal port of Puerto Cortés. This port has the capacity to accommodate vessels which draw up to 32 feet and normally carry a load of 40,000 metric tons of wheat. One company, Terminales de Cortés, has facilities for discharging grain at Puerto Cortes. The maximum discharge capacity depends on the type of vessel carrying the grain and whether the grain is discharged to railroad cars or trucks. In general, 1,000 metric tons per day can be discharged, but when the carrying vessel can handle grab-discharge and has appropriate cargo gear, the discharge rate could be increased to some 1,500 metric tonnes per day.

Equipment available for the discharge of grains consists of five suction pumps (one D.K. Vacuvator and four Neuro) and associated tubing and equipment. Terminales de Cortes also has two large and four small clam shells which can be utilized on ships that are suitable for grab discharge and have appropriate cargo gear. Storage at Puerto Cortes consists of a 5,000 metric ton warehouse owned by a private milling company.

Adequate truck services are available and are normally used for transporting the wheat from the port to storage and processing facilities in San Pedro Sula and Tegucigalpa. The private millers have a combined storage capacity of over 70,000MTs. The millers process, then sell and distribute the wheat flour to wholesalers and retail bakers.

With respect to possible disincentives, no wheat is produced in Honduras. All consumption must be imported. Imports at the level proposed by the Mission in the Title III program, those of Title II and other donors, plus estimated levels from commercial purchases including the EEP program will not exceed normal import levels.

All PL-480 Title III commodities will be sold at market prices. Vigilance will be maintained against the introduction of any implicit or explicit subsidies in the local purchase prices so as to not depress prices of locally produced substitutes. The policy reforms the GOH undertook in 1990, which liberalized markets, mean that commodities like wheat are now imported at world market prices with the addition of the same tariffs and taxes that are applied to commercial imports. Title III wheat imports thus have the same impact on Honduran producers of substitute grains as would any commercial import.

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

September, 1994

UNITED STATES AGENCY FOR INTERNATIONAL DEVELOPMENT

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AN EVALUATION OF THE 1992-94

HONDURAS TITLE III PROGRAM

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EVALUATION OF THE FY92-94 TITLE III PROGRAM IN HONDURAS

EXECUTIVE SUMMARY

A. Introduction

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

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

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

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

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

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

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

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

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

B. Summary Findings

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

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

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

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

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

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

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

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

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

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

C. Conclusions

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

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

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

D. Recommendations

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

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

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

E. Lessons Learned

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

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

THE USAID/HONDURAS FY92-94 TITLE III PROGRAM EVALUATION

I. Organization of the Evaluation

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

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

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

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

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

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

Section VII discusses the Conclusions.

Section VIII discusses the Recommendations.

Section IX discusses the Lessons Learned.

Appendices follow the above sections.

II. Evaluation Methodology

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

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

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

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

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

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

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

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

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

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

IV. Implementation of the 1992-94 Title III Program

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

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

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

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

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

A. Introduction

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

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

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

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

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

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

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

4. The Constraints to Increased Agricultural Sector Growth

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

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

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

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

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

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

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

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

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

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

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

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

B. Expected Impacts of the Price Oriented Reforms

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

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

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

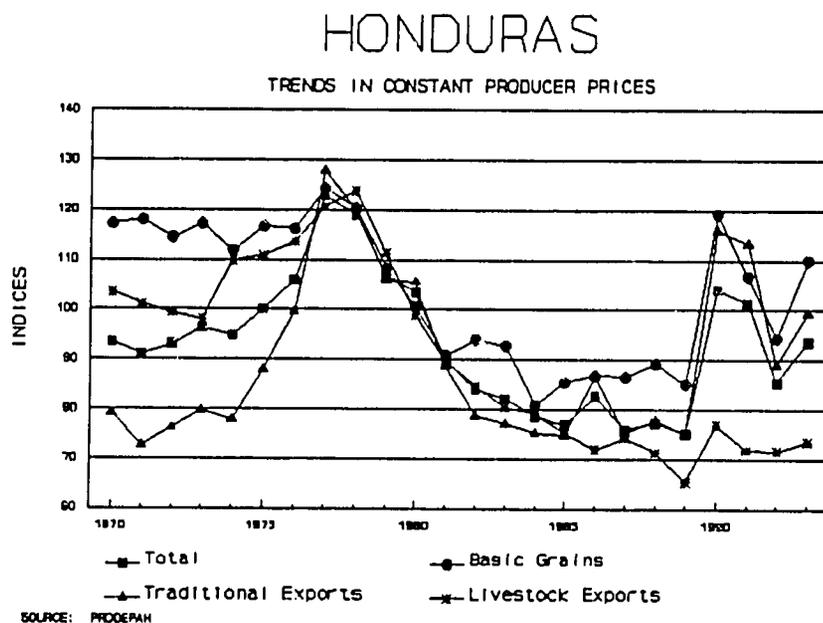
- The incomes of the smaller farmers, who make up the bulk of the poor in Honduras, are expected to increase as a result of improved agricultural incentives, as much as or more than larger farmers because they generally produce import substituting basic grains.
- With household incomes increasing, the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

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

C. Actual Impacts of the Price Oriented Reforms

1. Increases in Real Prices Paid to Producers

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



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

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

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

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

2. Increases in Area Planted

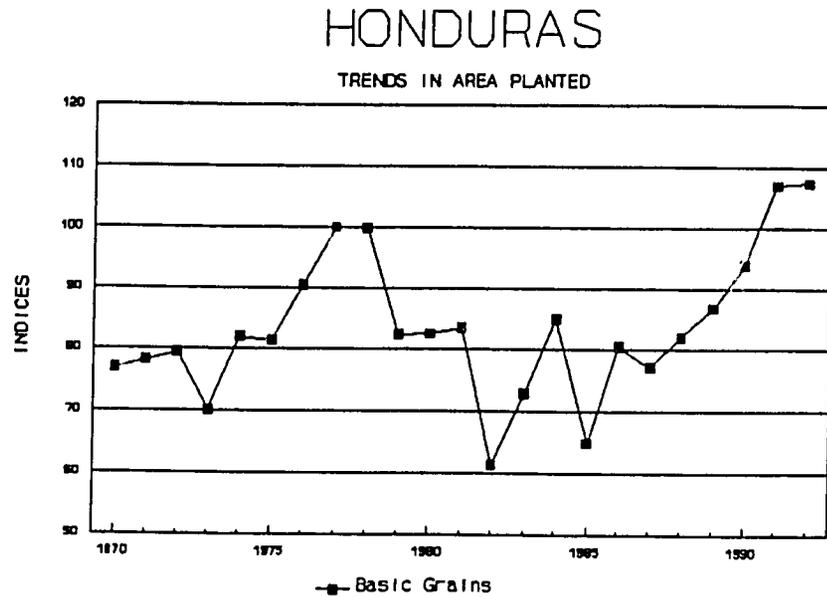
The next indicator is changes in the area planted to different crops. Farmers respond to improved incentives for a crop primarily by increasing the area that they plant to that crop. Area planted is probably the most reliable indicator of the impact of policy changes. It reflects producers' responses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

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

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

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

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



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

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

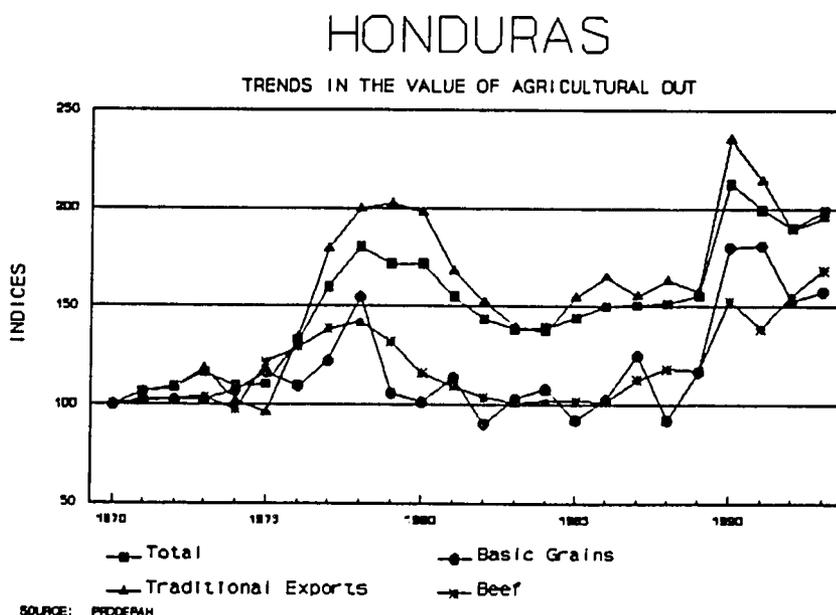
With prices and production both increasing, the total value of the output of the agricultural sector also increased dramatically as a result of the 1990 policy changes (37 percent between 1989 and 1990 compared to -1.1 percent per year for the period from 1980 to 1989). The value of grain production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

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

4. Value Added in Agriculture

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

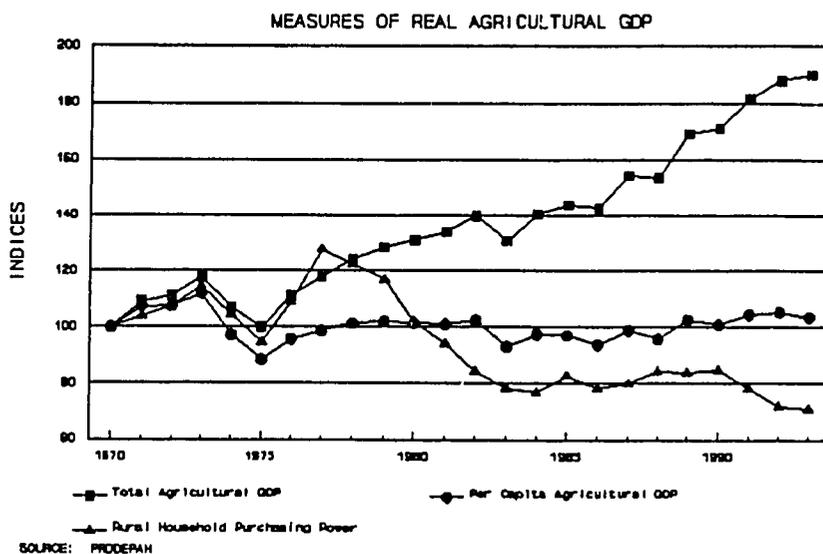


The value added measure has shortcomings. It is a much more difficult number to estimate than the value of agricultural output. Since some of the value added may go as payments to the owners of land who live in urban areas, it is not a perfect measure of the income available to rural people. It provides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

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

The index of real value added in agriculture increased from 100 in 1975 to 189.9 in 1993, but approximately 20 percent of that increase occurred in the three years following the 1990 reforms. When one looks at per capita income distribution, however, one gets a different picture. In per capita terms, the real value added by the agricultural sector appears, over the longer-term, just to be managing to keep even with population growth. If one looks more closely, however, one can see that per capita agricultural GDP was below par during the 1980s and has been above par since the 1990 price reforms.

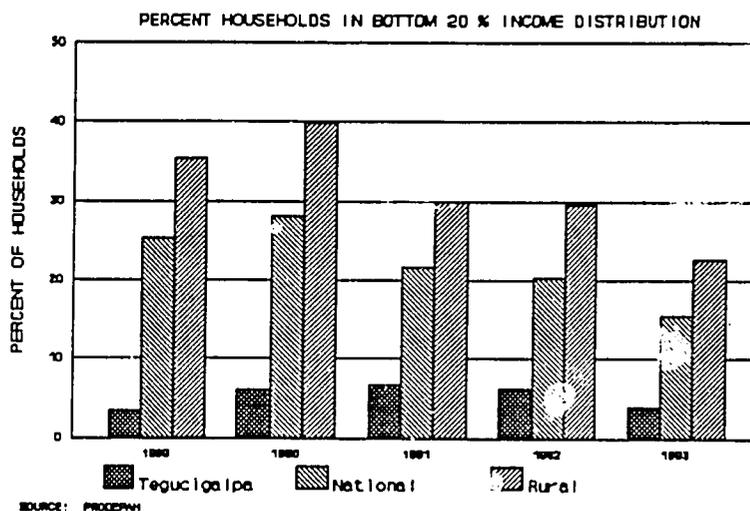
HONDURAS



5. Increases in Household Incomes

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

HONDURAS



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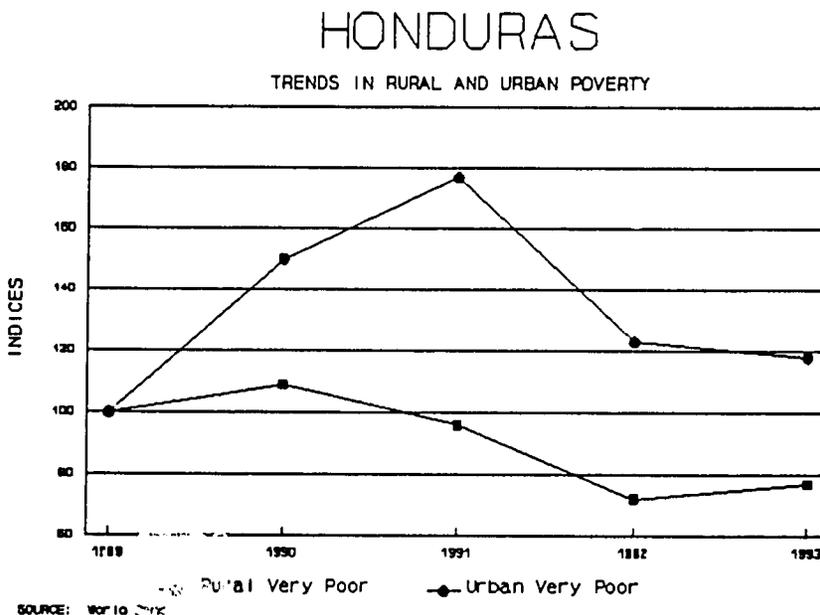
Interpreting from the data from this survey, one can infer the impact of the policy changes on the households for the nation as a whole; on urban versus rural households; and within the rural areas, on households at the lower level of the income distribution versus those at the higher level.

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

6. Reductions in Poverty Levels

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

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



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

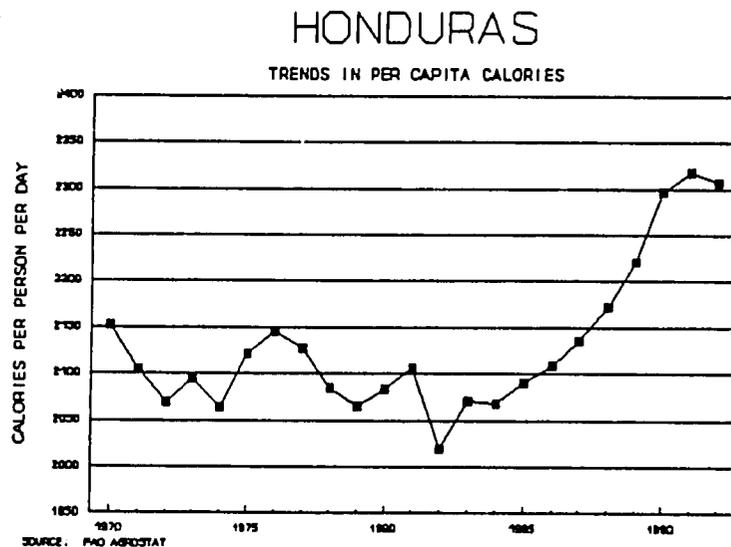
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urban population. Furthermore, the proportion of poor in the rural areas started to decline in 1991, and by early 1993 was substantially lower than at the beginning of the adjustment period -- 23 percent lower, in fact. The urban poor, on the other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

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

7. Increases in Per Capita Calorie Availabilities --

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



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

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8. Increases in Non-Traditional Agricultural Exports

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

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

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

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

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

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

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

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

A. Specific Sector Support

1. Projects GOH/USAID

a. Export Development and Services (522-0207)

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

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

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

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

b. Forestry Development (522-0246)

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

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

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

c. Small Farmer Organization Strengthening (522-0252)

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

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

d. Irrigation Development (522-0268)

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

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

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

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

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

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

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

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

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

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

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

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

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

h. Honduran Environmental Protection Fund (522-0385)

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



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

B. GOH Counterpart to the USDA Screwworm Eradication Program

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

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

C. GOH Counterpart to USAID CRSP Programs

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

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

D. PRAF

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

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

E. Honduran Agricultural Research Foundation (FHIA)

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

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

G. GENERAL SECTOR SUPPORT

1. GOH Environment Ministry (SEDA)

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

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

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

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

VII. Conclusions

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

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

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

VIII. Recommendations

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

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

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

IX. Lessons Learned

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

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

Food Security Involves the Following Three Interrelated Components:

Aspects of Food Security:

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

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

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

Levels of Food Security:

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

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

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

Food Security Timeframe:

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

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

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

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PL 480 Title III: Food Security Analytical Framework

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

Availability

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

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

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

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

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

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

Access

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

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

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

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

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

Utilization

- Does the activity help reduce the incidence and duration of

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disease - particularly diarrheal, respiratory and vector borne diseases?

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

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

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

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

LOGICAL FRAMEWORK FOR THE HONDURAS 1992-94 TITLE III PROGRAM

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

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

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

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

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

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

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

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

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

RELATIONSHIP OF LC SUPPORTED ACTIVITIES TO PROGRAM PURPOSES

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

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FOOD FOR DEVELOPMENT PROGRAM

PL-480 TITLE III - MULTI-YEAR AGREEMENT

CY 1993 THROUGH CY 1995

**LOCAL CURRENCY PROGRAMMING
(LEMPIRAS)**

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

Current Exchange Rate = \$1.00/L.3.00

* Proposed

File: T3LCUSB

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

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

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Acronyms

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

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