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REPORT AND RECOMMENDATION  
OF THE  
PRESIDENT OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
TO THE  
EXECUTIVE DIRECTORS  
ON A  
PROPOSED LOAN  
TO  
THE REPUBLIC OF HONDURAS  
FOR THE  
GUAYAPE REGIONAL DEVELOPMENT PROJECT

May 4, 1978

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CURRENCY EQUIVALENTS

US\$1.00 = L 2.00 (Lempiras)  
L 1.00 = US\$0.50  
L 1,000,000 = US\$500,000

WEIGHT AND MEASURES

Metric System  
and  
1 manzana = 0.7 hectares (ha)

ABBREVIATIONS AND ACRONYMS

|          |  |
|----------|--|
| BANAFOM  | - National Development Bank                          |
| BCH      | - Central Bank of Honduras                           |
| CABEI    | - Central American Bank for Economic Integration     |
| CIDA     | - Canadian International Development Agency          |
| COHDEFOR | - National Forestry Corporation                      |
| DARNO    | - Agricultural Directorate for the North East Region |
| IDB      | - Inter-American Development Bank                    |
| INA      | - National Agrarian Institute                        |
| MNR      | - Ministry of Natural Resources                      |
| SECOPT   | - Ministry of Public Works and Communications        |
| URH      | - Department of Hydrological Resources               |

FISCAL YEAR

January 1 - December 31

HONDURAS

GUAYAPE REGIONAL DEVELOPMENT PROJECT

LOAN AND PROJECT SUMMARY

Borrower: Republic of Honduras

Amount: US\$10.5 million

Terms: Twenty years including five years of grace at an interest rate of 7.5 per annum.

Relending Terms

for Agricultural

Credit Component: Government to BANAFOM at 9 percent; BANAFOM to subborrowers at 11 percent with repayment terms for investment projects not to exceed 16 years including up to 3 years of grace, and for working capital not to exceed 12 months with no grace.

Project

Description:

The project would be the first phase of a Guayape River Watershed scheme for development of the entire Valley. The objective of this first phase is to provide an integrated package of assistance and services for about 1,200 small farmers and 70 agrarian reform settlements with over 1,500 families in selected areas of the Valley. This package will include investment and production credit, extension services, machinery pool services, small scale irrigation schemes for some settlements, rural road improvement, and improved research facilities. The project will include technical assistance and training for the project unit and preparation of an agricultural project for possible future Bank lending. The risks associated with the project are possible lack of farmer acceptance of the technological packages, and weak institutional support because of scarcity of qualified personnel and poor coordination between responsible agencies. In order to deal with these potential problems, a modest sized project has been designed with a project unit which will have adequate staff and authority to carry out the project, and the technology to be utilized will be based on the traditional pattern of farming activities in the project area.

Estimated Cost:

|                               | US\$ Millions |                |              |
|-------------------------------|---------------|----------------|--------------|
|                               | <u>Local</u>  | <u>Foreign</u> | <u>Total</u> |
| <u>On-Farm Investment</u>     |               |                |              |
| Small Farmers                 | 1.5           | 1.2            | 2.7          |
| Rainfed Settlements           | 0.6           | 0.9            | 1.5          |
| Irrigated Settlements         | 1.1           | 0.9            | 2.0          |
| Tractors                      | *             | 0.2            | 0.2          |
| Sub-total                     | 3.2           | 3.2            | 6.4          |
| <u>Supporting Investment</u>  |               |                |              |
| Machinery Pool Equipment      | 0.1           | 0.4            | 0.5          |
| Catacamas Research Station    | *             | 0.1            | 0.1          |
| Rural Roads (35 km)           | 0.4           | 0.5            | 0.9          |
| Sub-total                     | 0.5           | 1.0            | 1.5          |
| <u>Technical Assistance</u>   |               |                |              |
| Consultants                   | *             | 0.5            | 0.5          |
| Project Preparation Study     | *             | 0.8            | 0.8          |
| Sub-total                     | -             | 1.3            | 1.3          |
| <u>Project Administration</u> | 1.8           | 0.6            | 2.3          |
| Total Baseline Costs          | <u>5.5</u>    | <u>6.1</u>     | <u>11.6</u>  |
| <u>Contingencies</u>          |               |                |              |
| Physical                      | 0.2           | 0.2            | 0.4          |
| Price                         | 1.3           | 1.3            | 2.6          |
| <u>Total Project Cost</u>     | <u>7.0</u>    | <u>7.6</u>     | <u>14.6</u>  |

\* Less than US\$0.1 million.

Financing Plan:

|               | (US\$ Millions) |                |              | Percentage |
|---------------|-----------------|----------------|--------------|------------|
|               | <u>Local</u>    | <u>Foreign</u> | <u>Total</u> |            |
| Bank          | 2.9             | 7.6            | 10.5         | 72         |
| Government    | 3.8             | -              | 3.8          | 26         |
| Beneficiaries | 0.3             | -              | 0.3          | 2          |
| Total         | 7.0             | 7.6            | 14.6         | 100        |

| <u>Estimated</u>      |            |             |             |             |             |             |
|-----------------------|------------|-------------|-------------|-------------|-------------|-------------|
| <u>Disbursements:</u> | Bank       | <u>FY79</u> | <u>FY80</u> | <u>FY81</u> | <u>FY82</u> | <u>FY83</u> |
|                       | Annual     | 1.3         | 2.8         | 2.9         | 2.4         | 1.1         |
|                       | Cumulative | 1.3         | 4.1         | 7.0         | 9.4         | 10.5        |

Rate of Return: 21 percent.

Appraisal Report: 1953-H0, dated May 5, 1978,



INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

REPORT AND RECOMMENDATION OF THE PRESIDENT  
TO THE EXECUTIVE DIRECTORS ON A  
PROPOSED LOAN TO  
THE REPUBLIC OF HONDURAS  
FOR THE GUAYAPE REGIONAL DEVELOPMENT PROJECT

1. I submit the following report and recommendation on a proposed loan to the Republic of Honduras for the equivalent of US\$10.5 million for the Guayape Regional Development Project. The loan would have a term of 20 years, including a grace period of 5 years, with interest at 7.5 percent per annum.

PART I - THE ECONOMY 1/

2. A report entitled "Memorandum on Recent Economic Development and Prospects of Honduras" (1856-H0) was distributed to the Executive Directors on January 10, 1978. The main findings of the Report are summarized below. Country data sheets are attached as Annex I.

Long-term Development Trends

3. The long-term growth rate of the Honduran economy has been exceedingly low. Between 1950 and 1975, real per capita GNP grew by only 1 percent a year and was estimated at US\$390 in 1976, one of the lowest levels in the Western Hemisphere. Honduras' poverty is evident from a variety of indicators. Malnutrition is severe: about three-quarters of pre-school children are believed to suffer from protein and caloric deficiencies, and infant mortality is estimated at 118 per thousand live births. It is estimated that roughly 60 percent of the population has no access to piped water and about 80 percent lives without any form of sanitary waste disposal. Furthermore, these are country averages which conceal substantial regional disparities, as living conditions in the rural areas, which account for about two-thirds of the population, are much poorer than in the cities.

4. A major reason for Honduras' poor growth performance has been the continued dependence of the economy on the production and export of a few agricultural commodities, especially bananas, whose prices depend on a fluctuating world market situation and whose output may be greatly influenced by domestic weather conditions. The latter was dramatically illustrated when extensive destruction of the banana plantations by Hurricane Fifi in 1974 reduced the volume of bananas exported in 1975 to about one-half the level of 1973 and contributed to a drop in per capita income of about 3 percent.

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1/ Substantially unchanged from the President's Report for the Second Education Project (P-2243-H0) dated February 23, 1978.

5. There are many reasons for the continued dominance of bananas in the Honduran economy. Known mineral deposits are not extensive. A serious lack of basic infrastructure and deficient development policies in the past have left Honduras' agricultural resources underutilized. In addition, the mountainous topography of the country has made the expansion of the road network slow and costly. There has been progress, however, since 1960, and major achievements include the establishment of a basic transportation network connecting the main population centers, and a considerable expansion of electric power service.

6. Much land suitable for agriculture is still available, and the country has sizeable forest resources, but agricultural output only grew at about 2 percent yearly between 1950 and 1975. Uneven land distribution and deficient credit, technical services and development programs have kept agricultural growth far below its potential.

7. Manufacturing industry, which is highly concentrated in the cities of San Pedro Sula and Tegucigalpa, now accounts for about 16 percent of GDP and provides employment to about 10 percent of the labor force. During the 1960s, the manufacturing sector grew at a low annual rate (3.8 percent) owing to the small size of the domestic market, the lack of infrastructure, and the inability of domestic firms to take advantage of the opportunities offered by the Central American Common Market. Manufacturing growth, however, almost doubled in the 1970s (during 1970-76, real value added grew at an annual rate of 7 percent) because of the increase in both domestic and foreign demand and the consequent expansion and modernization of existing and new plants.

#### Government Development Efforts

8. Since 1972, development efforts have increased substantially and several measures have been taken to lay the basis for the current improved economic outlook over the longer term. A land reform program which began in December 1972 aims at greatly improving land utilization as well as increasing the income and employment of the poorest peasants through the transfer of unutilized or poorly utilized land from large landowners to landless rural families. Another major policy development was the nationalization of timber rights in January 1974. A new forestry law established guidelines for private sector participation in forestry development and created the Corporacion Hondurena de Desarrollo Forestal (COHDEFOR). COHDEFOR is in charge of all forest industry policies and activities, and is expected to exploit forest resources more rationally, increase lumber exports, and provide more employment for rural Hondurans. The third major achievement was an improvement in Government planning and executing capacity, particularly in infrastructure, which has resulted in a substantial increase in public fixed investment from 3.3 percent of GDP in 1972 to 6.6 percent in 1974 and about 7.6 percent in 1976. The Government has also made an effort to increase investment in the social and productive sectors and strengthen public finances through tax reforms and better tax administration. A 1975 tax reform made the tax on coffee exports an ad-valorem tax with marginal rates ranging from



10 percent to 20 percent depending on coffee prices, substituted a 3 percent value added tax for the sales tax, and raised the tax rates on beer, cigarettes and liquor.

#### Recent Economic Developments

9. While Honduras was adversely affected by one of the worst hurricanes in its history in 1974, it had also to contend with the oil price rise of that year and the later OECD recession. As a result, during 1974-75, total GDP remained almost stagnant, severe balance of payments difficulties arose and the country's savings capacity was seriously reduced. Import prices grew almost three times as rapidly as export prices, and the terms of trade deteriorated by about one-fifth. The resource gap, which was equal to about 1 percent of GDP during 1972-73, averaged 11.6 percent during 1974-75. The rise in consumer prices, which had averaged 2.7 percent a year between 1966 and 1973, accelerated to 13 percent in 1974 before declining to 8 percent in 1975.

10. A high level of public investment, the gradual recovery of banana production and the doubling of coffee export prices were the major factors responsible for an improvement of the economic situation in 1976. Real GDP grew at about 6 percent. Merchandise export earnings grew by about 31 percent in current terms over 1975, about half of it as a result of higher coffee prices. Government tax revenues increased from 10.8 percent of GDP in 1972-73 to 12.8 percent in 1976 and, while there was a substantial increase in public current expenditures, public savings were estimated at 2.7 percent of GDP in 1976 compared to an average 2.2 percent in 1972-73. However, as investment expenditures for hurricane reconstruction and development purposes were stepped up considerably, the overall deficit of the Central Government increased from 2.5 percent of GDP in 1970 to 4.9 percent in 1976.

11. In 1977, economic expansion continued, with real GDP growth estimated at about 7 percent, due mainly to the expansion of export volumes (about 9 percent) and of public investment (over 15 percent), and to continuing high coffee prices. The balance of payments improved, with larger coffee and banana export earnings reducing substantially the current account deficit and adding significantly to foreign exchange reserves.

#### Growth Prospects

12. The growth prospects for 1978-82 are good. Real GDP is expected to increase at an annual rate of about 6 percent, barring natural disasters. Real exports should be able to grow at about 7 percent a year, reflecting continued recovery of banana production from the September 1974 hurricane, increased coffee production owing to higher yields and new plantings, expansion of sugar production, an increase of lumber exports made possible by the currently planned expansion of sawmill capacity, increased beef production, also the result of an ongoing program, expansion of fruit and vegetable production for export and promotion of tourism. Coffee prices, although declining from the unusually high 1977 level, are expected to remain above the 1976 level for two

more years. In addition, the Government plans to accelerate economic growth over the medium-term through an ambitious public investment program designed to alleviate the most significant bottlenecks to the country's development process. The presently designed development strategy calls for large public investments in infrastructure, in export diversification through forestry development and tourism, and in agriculture to implement the agrarian reform program and increase productivity.

13. The expansion of the public sector's investment expenditures together with the necessary increase of complementary current expenditures creates a need for additional increases in taxes and the tariffs of public enterprises in the 1979-82 period as well as for careful control of other current expenditures. The Government is developing a series of proposals to mobilize additional domestic resources in support of its development program. However, given the present and foreseeable poverty of the country, even with a greater revenue effort and current outlay control, Honduras needs external assistance in excess of the foreign exchange component of development projects suitable for international finance to enable the Government to implement the public investment program.

14. While real exports are expected to increase at about seven percent a year during 1978-82, Honduras' terms of trade are expected to deteriorate. As the import needs of the economy expand, in particular the imports related to the investment program, the current account deficit is expected to increase to US\$200 million by 1981 and US\$250 million in 1985, and large capital inflows will be required. The bulk of the external financing requirements will have to be met through public borrowing. Honduras will require an estimated total gross capital inflow of US\$900 million for the six-year period 1977-82, of which about US\$255 million will be disbursed from commitments made through the end of 1976.

15. Honduras' public external debt repayable in foreign currency is estimated to be US\$418 million at the end of 1977, US\$766 million if undisbursed commitments are included. In the past, Honduras managed to keep its external debt service ratio fairly low, because foreign loans were almost all on concessionary terms. It is important that the country continue to borrow on reasonably soft average terms, in view of the country's poverty, the fact that it will continue to depend on exports of a few commodities with volatile price prospects, and because, historically, natural disasters have sharply reduced the volume of exports every few years. Even if Honduras is successful in obtaining about two-thirds of the financing it needs for its investment program on terms similar to those offered by the international lending agencies, the debt service ratio is likely to rise from about 6.5 percent in 1977 to about 13 percent by the mid-1980s.

16. Although the IDB was Honduras' largest creditor as of December 31, 1977 with loans outstanding -- including undisbursed -- totaling US\$269.6 million, 71 percent of this estimated total is repayable in local currency, so that IDB's share of the public debt repayable in foreign currency of US\$766 is about 25.1 percent. The Bank Group holds 27.5 percent of the public debt outstanding -- including undisbursed -- repayable in foreign currency. CABEI

accounts for 16.2 percent of the total, the US Government for 15.0 percent, Venezuela for 6.6 percent, privately held debt for about 7.2 percent and other debt for 2.4 percent.

17. In terms of the sectoral thrust of lending by the principal external agencies apart from the Bank, AID has concentrated on agriculture and education, IDB on transport, agriculture and forestry, health, education and housing, and CABEI on transport, industry, power and housing. It is expected that AID and CABEI will continue lending primarily in the same sectors in the future, while IDB would concentrate on agriculture, forestry, transport, industry and power. The lending of the external agencies from 1950-1977 was as follows:

|                               | <u>IBRD</u>  | <u>IDA</u>  | <u>AID</u>   | <u>IDB</u>   | <u>CABEI</u> | <u>TOTAL</u> |
|-------------------------------|--------------|-------------|--------------|--------------|--------------|--------------|
| Total Gross Lending 1950-1977 | <u>177.5</u> | <u>53.2</u> | <u>113.4</u> | <u>294.7</u> | <u>199.2</u> | <u>838.0</u> |
| Gross Lending 1950-1965       | <u>25.9</u>  | <u>12.5</u> | <u>26.7</u>  | <u>27.2</u>  | <u>8.1</u>   | <u>100.4</u> |
| Gross Lending 1966-1977       | 151.6        | 40.7        | 86.7         | 267.5        | 191.1        | 737.6        |
| Sectoral Lending 1966-1977    |              |             |              |              |              |              |
| Transport                     | 88.3         | 5.0         | -            | 32.1         | 74.7         | 200.1        |
| Power                         | 60.3         | 9.5         | -            | -            | 20.9         | 90.7         |
| Telecommunications            | -            | -           | -            | 14.7         | 10.1         | 24.8         |
| Education                     | 3.0          | 3.0         | 10.5         | 17.4         | -            | 33.9         |
| Health                        | -            | -           | 2.6          | 33.2         | 10.2         | 46.0         |
| Housing                       | -            | -           | 5.0          | 12.5         | 16.5         | 34.0         |
| Agriculture and Forestry      | -            | 23.2        | 48.5         | 155.4        | 4.1          | 231.2        |
| Industry                      | -            | -           | 5.0          | 2.2          | 33.2         | 40.4         |
| Other                         | -            | -           | 15.1         | -            | 21.4         | 36.5         |

#### PART II - BANK GROUP OPERATIONS IN HONDURAS

18. Beginning with a loan of US\$4.2 million for roads in 1955, Honduras has to date received sixteen Bank loans totalling US\$177.2 million and ten IDA credits totalling US\$57.6 million, both net of cancellations. As of December 31, 1977, a total of US\$89.0 million remained to be disbursed on eleven operations for ports, electricity, roads, livestock, education and agricultural credit. The proposed loan would raise the total of Bank Group assistance from US\$234.8 million to US\$245.3 million. Execution of projects financed by the Bank Group has, on the whole, been satisfactory. Annex II contains a summary statement of Bank loans and IDA credits as of December 31, 1977, and IFC investments as of January 31, 1978, as well as notes on the execution of on-going projects.

19. In the past, Bank Group lending was heavily concentrated in transport and power, where inadequate facilities hampered the development of the country. The First Livestock Development Credit approved in 1970, however, marked a first step towards the diversification of our lending. Since then, there have been operations for a Second Livestock project; a First Education project, which included as major components primary and secondary teacher training schools and support for vocational training centers and the national agricultural secondary school; a First Agricultural Credit project to finance livestock and crop development with emphasis on assisting agrarian reform settlements through investment credits and a substantial technical assistance program; and a Second Education Project to help finance rural primary schools and agricultural vocational education.

20. In future lending to Honduras, we plan to support the priorities of the Government's investment program by giving increased emphasis to investment in agricultural and rural development to support the agrarian reform. We would also help finance activities to strengthen the balance of payments, while continuing to lend for physical infrastructure where there are still deficiencies to be overcome. A follow-on to the First Agricultural Credit Project and additional rural development projects, now being identified, are planned. Bank Group support is also being considered for an industrial credit project, COHDEFOR's pulp and paper project, and the development of Honduras' tourism potential. In transport, we plan to place emphasis on assisting the construction of a network of feeder and access roads to support the Government's agricultural program. We also hope to help finance power development, including participation in an interim project designed to meet electric power requirements until the large (US\$400 million) El Cajon hydroelectric project comes on stream in the mid-1980s. The latter project, which has been identified as the most economic means of meeting Honduras' long-term demand for power, would generate excess energy that might be sold to neighboring countries in the early years of its operation. It is expected that the Bank, IDB and CABEL will contribute to the El Cajon effort, and the Bank has been helping Honduras contact bilateral sources to seek additional concessional financing.

21. It is expected that the Bank Group share of total external public debt disbursed and outstanding will drop from 29.2 percent in 1976 to 26.4 percent by 1981 because of increasing lending by other external agencies and commercial borrowing. The Bank Group share of debt service in 1976 was 24.6 percent and is projected at about 25.3 percent by 1981.

22. Until recently, IFC's activities in Honduras included a 1964 loan and a share subscription, of US\$295,000 and US\$82,500 respectively, in a tannery, Empresa de Curtidos Centroamericana, S.A. (ECCASA); and a US\$75,000 share subscription in a pilot promotional company, Compania Pino Celulosa de Centro America (COPINO) in 1969. COPINO was established to develop an industrial project based on timber from the Olancho Forest Reserve, but a series of obstacles to project development arose and efforts to go forward with it were virtually halted in 1971. While current plans for the Olancho forest industries project do not include a role for COPINO, the IFC is assisting the Government in creating an organizational structure for the project and selecting a technical partner. In December 1977 the Executive Directors approved a

US\$9.0 million loan, and up to US\$1.0 million equivalent equity investment, for Textiles Rio Lindo, S.A. de C.V. for plant expansion aimed at almost doubling its production capacity.

### PART III - THE SECTOR

#### Land and Water Resources

23. Honduras has a total area of about 112,000 km<sup>2</sup>. Central and western Honduras have a rugged mountainous terrain; the lower, flatter areas, where slopes are under 20 percent, include the Sula Valley and the Aguan Valley on the north coast, the Nacaome-Choluteca plain on the south coast (Pacific), the Guayape Valley in the central part of the country, the Mosquitia region in the east, and many small river valleys.

24. The predominance of steep, rugged terrain limits the agricultural potential, but there are still substantial possibilities for expanding land under cultivation. About 26 percent of the total land area is suitable for agriculture. While only about one-third of this is suitable for intensive cultivation, because of soil conditions or steep slopes, only 28 percent of the land suited to annual crops and about 18 percent of land suited to perennial crops is presently cultivated.

25. The lack of availability of water is a serious constraint to increasing agricultural production because of the long dry periods in most of the country and the rapidly increasing man/land ratio. Irrigation development in Honduras is still in its early stages, and presently most irrigated land is under private ownership. Government irrigation works are few (about 10,000 ha) and are poorly managed and underutilized; however, the problems which have hampered development of irrigation (e.g. a lack of meteorological and water resource information, the absence of an adequate legal framework, a shortage of expert manpower) are now being addressed. A comprehensive water law is under preparation and the Ministry of Natural Resources (MNR) has reorganized and strengthened the Department of Hydrological Resources (URH), which is exploring a number of possible irrigation projects.

#### Agriculture in the Economy

26. Agriculture is the most important sector in the economy. It contributes about one third of GDP, provides employment for approximately two thirds of the economically active population, and generates close to 70 percent of export earnings. The growth of the sector since 1969 has been erratic. Between 1970 and 1973, it grew at an annual rate of only about 2 percent, due to adverse weather conditions and the effect of withdrawal from the Central American Common Market in 1971. In 1974 it declined by almost 9 percent in relation to the previous year primarily as a result of the 1974 hurricane, and in 1975, mainly because of a drought, output dropped by a further 6 percent. In 1976, however, because of favorable weather conditions as well as expansion of the area under cultivation, output increased by 4.0 percent.

27. While major agricultural exports, which consist mainly of bananas, coffee, lumber, sugar, beef and cotton, declined at an average annual rate of 17 percent in real terms during the 1974-75 period for the reasons cited above, total agricultural exports increased by 19 percent in 1976. In that year, bananas contributed over 26 percent to total exports, coffee 25 percent and lumber 9 percent.

28. In 1973 crops accounted for some 65 percent of value added in agriculture; livestock and poultry, 23 percent; forestry, 11 percent; and fisheries, the remainder. In 1973-74, out of the total value of agricultural production, bananas contributed 30 percent; coffee, 15 percent; maize, 10 percent; beef, 8 percent; and milk, 9 percent. Since 1950, the production of bananas and coffee has grown considerably faster than that of corn and beans, the staple food of the rural population. Corn, which is grown in most parts of the country and far exceeds other crops in acreage, is often inter-planted or rotated with beans. Yields of these, as well as most other crops in Honduras, are generally low. Improved seed is not widely used, fertilization is minimal, and pests and diseases take a heavy toll. The major exception is bananas, which account for about 40 percent of the total value of all food crops. Some 65 percent of the crop is produced by two foreign companies, which also carry out their own research. Coffee is grown by many small farmers and serves as a major source of cash income. In spite of traditional production practices and low yields, coffee output has grown steadily because of an expansion of acreage cultivated.

#### Rural Population, Income and Employment

29. About 70 percent of the population, or over two million, lives in rural areas, and about 60 percent of the total labor force, or over 450,000 persons, are estimated to be involved in agriculture. A 1967-68 survey of income and expenditures indicated that the poorest 40 percent of the population was almost all rural. In 1976, about 70 percent of the rural population fell within the Bank's rural poverty target group. Underemployment in the rural sector is substantial and employment in agriculture is highly seasonal.

30. There are few amenities in rural areas, and nutrition and education and health services are particularly deficient. The national average daily caloric intake is approximately 1,850, about 90 percent of the minimum daily requirement, and the poorest 50 percent of the population subsists on an average daily intake of only 1,465 calories. In 1974, about 47 percent of the population was illiterate; 52 percent of agriculture workers had no formal education and another 27 percent had fewer than three years of schooling. Anemia, malaria and intestinal infection are common, rural public water systems are rare, and excreta disposal systems are either unavailable or generally unsanitary.

#### Land Distribution

31. The latest available data on farm size, distribution and land use are derived from the 1965 agricultural census. (There are no reliable data on land ownership.) While there has been some change since that time as a result of

agrarian reform activity, these figures indicate the magnitude of the problem with which the Government is now attempting to deal. The data show that 178,000 farms occupied 2.4 million ha of land. Nearly 70 percent, or 120,000 of these farms were less than 7 ha in size (average 2.5 ha), and they accounted for less than 15 percent of total farm land. About one-third of rural families are landless.

32. The underutilization of productive land stems, to a great extent, from the unequal distribution of land. Many of the larger farms are located on productive soils in regions well served by roads, but are used for grazing or other extensive operations. Small farmers, on the other hand, tend to occupy hilly, inaccessible areas where soils are unsuited for intensive crop production, and, consequently, they usually grow annual subsistence crops. As a result of this pattern of land distribution and use, as well as inadequate agricultural research and extension services, marketing and support infrastructure, and a lack of timely and steady supply of inputs, the small farm subsector is characterized by low productivity, a traditional and inefficient technological base, and underemployed resources.

#### Agrarian Reform

33. The skewed distribution of landholdings and the extreme poverty of the rural population have given rise to numerous land invasions and increasing agrarian unrest in the past decade. Three fairly well-organized peasant organizations have emerged claiming a total membership of over 100,000, and these organizations have provided strong political support for agrarian reform.

34. The Government which took office in December 1972 gave the highest priority to the problems of rural poverty and land reform. It moved immediately to adopt a temporary land reform measure (Decree 8) which provided for obligatory government leasing of un- and underutilized land to groups of landless peasants. Under this measure more than 23,000 families were settled on about 75,000 ha during the 1973-74 period.

35. Decree 8 was replaced in January 1975 by a comprehensive agrarian reform law (Decree 170). Under this law, allowable maximum farm sizes range from 100 ha in irrigation districts to 2,000 ha in the least developed areas of the country. Areas larger than the indicated maximums are subject to expropriation if: (a) within six months of the date of the law, the land is not operated directly by the owner; (b) within three years (by January 1978), the farm is not exploited to the efficiency standards specified by the law; and (c) the land is in excessively fragmented units. Lands leased under Decree 8 were automatically expropriated. Land in bananas, sugarcane, African oil palm, coffee, pineapple, citrus and tobacco are not subject to expropriation as long as efficient production is maintained.

36. Implementing regulations were issued and land expropriation and redistribution was started under Decree 170 at the end of 1975. In the 1975-76 period about 21,500 families received over 65,000 ha of land.

Overall, in the 1973-76 period about 22 percent of landless families received land under the agrarian reform. For 1977, the government planned to settle about 10,000 families on about 60,000 ha, and plans call for the settlement of 12,000 families per year in the future.

37. Farmers are not settled individually, but in groups (asentamientos), and they work on a joint basis. The larger farm size makes it possible to take advantage of economies of scale in providing credit and other inputs. While adverse weather conditions during the 1974-75 period made it impossible to evaluate fully the performance of the new settlements, the results to date have been mixed. Some settlements have disintegrated because of poor organization, inadequate government assistance programs or because they were set up on poor or insufficient land. Others have achieved good production rates. Overall, about 50 percent of the land included in the agrarian reform is farmed compared with a 22 percent national average for land in farms. There is good potential for increased productivity as demonstrated by the fact that when price supports for basic grains were raised for the 1975/76 season, agrarian reform settlements responded with substantially increased production.

38. The Government has set up technical assistance, credit, training and other programs to support its agrarian reform efforts, and it has been assisted in this by the USAID's agriculture sector and other loans, the IDB's Aguan Valley Development loans and by various UNDP projects. The Government programs have only shown limited results, however, primarily because of the institutional weaknesses and lack of coordination described below. Although land distribution must continue if a viable agrarian reform is to be accomplished and rural living standards improved, complementary programs must be given the highest priority. A number of essential measures must be taken, including: (a) establishing an effective institutional framework to coordinate and execute well designed investments programs for the development of the small farm subsector; (b) training and properly organizing small landholders and landless campesinos into cooperatives or other functional groups; and (d) conducting applied research to develop high yield and disease resistant crop varieties, and low-cost production systems and improved farming practices for the small farm subsector.

#### Government Agricultural Sector Strategy

39. The National Development Plan for 1974-78 has two broad objectives for agriculture: (a) improvement of agricultural incomes for lower income groups; and (b) acceleration of agricultural production and export growth. On the production side, the Government's plans call for bringing additional areas into diversified production and shifting land already in use to higher value crops. In addition, the Government plans to increase productivity and production of basic grains, vegetables, oils, and livestock to exploit more fully the scope for increased exports and import substitution. The agrarian reform program will be the Government's principal tool to help achieve these goals and to reduce poverty and improve income distribution in rural areas. The Government has placed high priority on the program in terms of resource allocation and has sought, and is receiving, substantial external assistance to accelerate it.



### Sector Institutions

40. In the public sector, the Ministry of Natural Resources (MNR), the Agrarian Reform Institute (INA), and the National Development Bank (BANAFOM) are the principal institutions providing assistance to agriculture. Although the MNR is charged with establishment of overall sectoral priorities, it has not been able to accomplish this effectively because of the division of operating responsibilities among a number of institutions. The MNR is also responsible for the formulation of specific projects, the provision of extension and machinery and research services, and through the DRH, for irrigation projects, as noted above. The MNR has recently been reorganized and decentralized to improve service. The extension service has been expanded and improved in recent years, but still requires further expansion, training and better organization to enable it to respond effectively to the needs of the small farmers and agrarian reform settlements. On-going assistance from the Bank, USAID and the IDB is designed to help accomplish these objectives.

41. INA is responsible for the implementation of the agrarian reform program. It identifies expropriable land, takes the steps necessary to acquire it, organizes campesino groups, and trains and provides guidance to them in operating their settlements until they achieve full cooperative status and gain title to the land. Although it has distributed a substantial amount of land, it tends to move slowly. It is now being reorganized to improve administrative procedures, and its professional staff is being upgraded.

42. BANAFOM is the major source of agricultural credit, providing over 80 percent of lending to agriculture from banking institutions, and almost all lending to small farmers and agrarian reform settlements. BANAFOM has also been responsible for government industrial lending, marketing and price stabilization programs.

43. Small farmer lending, which was initiated in 1952 by BANAFOM, has been financed primarily by USAID and the IDB, but has not been very successful, in part because of poor administration by BANAFOM, and in part because of the weakness of complementary Government programs to provide technical assistance, agricultural inputs and marketing services. BANAFOM also has serious financial problems which stem from inadequate management of its marketing activities and rising overdues and defaults on its credit operations, not only from its small farmer/agrarian reform clients but from larger farmers as well.

44. Since the small farmer/agrarian reform program is the Government's highest priority and the great majority of agrarian reform settlements (65 percent) and small farmers (80 percent) have not yet received any assistance, action is now being taken to strengthen and reorganize BANAFOM to provide effective support for this program and to improve its other agricultural lending activities. USAID and IDB are actively involved in assisting the Government in this task. In late 1976, BANAFOM established a special committee to review difficult loan cases and make recommendations for required action (write-offs, rescheduling or legal action), and this process is now underway, but should be accelerated. It has been decided to terminate BANAFOM's

industrial lending and make it strictly an agricultural bank. Also the Government has recently approved a draft Decree that would set up a new Marketing Institute (Instituto de Comercializacion y Mercado de Granos) for the grain stabilization program. BANAFOM's agricultural lending program will be restructured, and a special program for small farmer/agrarian reform lending, that would be closely coordinated with other government support programs, will be created. It is expected that the Marketing Institute decree will become effective shortly, but the details of the reorganization of BANAFOM's lending activities are still being worked out. In order that the Bank may have a continuing dialogue with the Government on the future organization and role of BANAFOM, it has been agreed that the Government would keep the Bank informed on the progress of the proposed reorganization and give it sufficient opportunity to comment on the final reorganization proposal (section 4.08 of the draft Loan Agreement).

#### Sector Coordination

45. Authority and responsibility in providing public services to agriculture are fragmented and duplication of effort sometimes occurs among agencies. Both at the pre-project and at the project implementation stages, coordination is weak. The Government has recently taken steps to deal with this problem by creating a coordinating committee within the Presidency chaired by the Secretary of the Planning Council. This committee will have a technical secretariat to assist it in preparing the agriculture sector budget, coordinating annual work plans and supervising their execution.

#### Previous Bank Agricultural Projects

46. To date, IDA has provided three credits to Honduras, totaling US\$23.2 million, for agricultural development. Two of these credits (197-HO of March 1970 and 434-HO of October 1973) were for commercial livestock development with the objective of diversifying and strengthening the balance of payments by increasing beef exports. The first loan was evaluated in the Operations Evaluation Audit dated February 28, 1978. It was concluded that, while the project did help increase livestock production and beef exports, it did so in part through more extensive production rather than primarily through improved production techniques as originally contemplated. Although the second project has not yet been audited, it was noted in the audit of the first project that since it was basically a continuation of the first project, there may have been a conflict with the agrarian reform (which was beginning about the time the second project was appraised), to the extent that one of the principal targets of the reform was extensive livestock production on land better suited for cropping.

47. The evidence is still not available to determine whether livestock project activities impeded the agrarian reform program to any significant extent; however, the Bank's lending objectives for agriculture in Honduras have changed since approval of the Second Project. The US\$14 million First Agricultural Credit (628-HO) approved in May 1976 has as one of its principal objectives the strengthening of the agrarian reform. It provides credit to agrarian reform settlements and commercial farmers for crop and mixed crop/livestock development as well as technical assistance and equipment to

strengthen INA and the extension service. It also provides a training program for local technicians. The Bank has recently approved subloans of about US\$1.5 million for agrarian reform settlements under this Credit.

#### PART IV - THE PROJECT

48. The staff appraisal report (No. 1953 dated May 5, 1978) entitled "Guayape Regional Development Project," is being distributed separately to the Executive Directors. Supplementary data are contained in Annex III. The project was appraised in October/November 1977, and negotiations were held in Washington, April 18-20, 1978. The principal representatives for the Borrower were Mr. Mario Daccarett, Director of the Agricultural Directorate for the Northeast Region (DARNO), and Mr. Angel Ordonez, Director of Public Credit of the Ministry of Finance.

##### A. Project Area

49. The project area, the Guayape Valley, is located in the central part of the Department of Olancho, in east central Honduras. The Valley has an area of 93,000 ha and a population of 47,000, 60 percent of whom live in rural areas. In terms of land capability, close to 50 percent of the area is suitable for sustained agriculture without major limitations, while the remainder is mainly suited to pastures. There are large unutilized water resources, and most of the flat areas are covered with good deep, well-drained soils suitable for irrigation. There is substantial potential for crop diversification and increased production.

50. The Valley is included in the Government's plans as a priority area for development, and the proposed loan would help finance a first phase project. At the same time the Canadian International Development Agency (CIDA) is financing a master plan, which is expected to begin later this year, that would provide the basis for a second phase Guayape project aimed at the integral development of the entire watershed.

51. Of the total of over 5,000 farms in the Guayape, about 3,900 or almost 80 percent are under 20 ha and represent only 15.5 percent of the total area. There are some 60 agrarian reform settlements with an area of about 4500 ha. On average there are about 20 to 25 families per settlement, and about 3 to 4 ha per family. Over the next three years the Government plans to add about 25 settlements annually. Agriculture is at a low level of development in the project area. The small farm subsector is characterized by low productivity and a high level of underemployment. Small farmers grow mainly basic grains using primitive farming techniques, relying on local unimproved seeds with minimum use of fertilizers and pesticides. Corn is the most important crop; however, in recent years, rice has expanded, and sorghum is becoming more and more popular, replacing corn and, to a certain extent, beans. Soybeans have been introduced recently and have shown promising initial results. Cotton is grown only in the larger farms, since Government authorization is necessary to grow cotton, and permits are now only granted to those growing more than 10 ha because areas of that size can be sprayed from the air.

52. Irrigated agriculture has not been developed until now, although the first scheme, "La Puzunca" (300 ha) is scheduled to be constructed shortly, and further extension of irrigation (about 12,000 ha) will be considered under the CIDA financed study. It has been agreed that since the Puzunca scheme will serve some of the agrarian reform settlements to be included in the project it will be completed by April 1, 1979 (section 3.04(b) of the draft Loan Agreement).

53. MNR operates a small research station in the Guayape at Catacamas, where limited variety testing, fertilization, and herbicide trials are carried out. The station, however, lacks proper buildings and laboratory facilities and experienced research personnel. The research program should be strengthened and oriented toward the major crops of the valley and development of farming systems more suitable for the small farm subsector.

54. There is a road network in the Valley, consisting of 123 km of all-weather roads that link the two main towns (Juticalpa and Catacamas) with the more important villages; however, additional all-weather roads are needed in the project area. The reconstruction of the road from Tegucigalpa to Catacamas is presently being carried out under the Bank financed Seventh Highway Project (signed December 1976).

55. Electricity, water supply, and waste disposal systems are presently available only in Juticalpa and Catacamas. However, electricity supply will shortly be increased, and the distribution network will be expanded to reach most villages in the Valley; 13 health centers, financed through an IDB loan, are being established; and the IDA education credit approved in March 1978 will support the expansion of rural educational facilities in the Valley.

#### B. Project Objectives

56. The proposed project, which would serve as the first phase of the Guayape River Watershed Development Scheme, would help set up an integrated system for production of basic grains, soybeans, and cotton by providing assistance to about 1,500 families grouped in 70 agrarian reform settlements as well as 1,200 independent small farmers. <sup>1/</sup> The Government places high priority on the project as a prototype operation to develop methods of program coordination and delivery of credit, technical assistance and other inputs to small farmers and agrarian reform settlements. If successful, this approach would be used for the second phase project to be prepared with assistance from CIDA. With a proven institutional structure, it will be possible in a second project to expand production and infrastructure programs and to provide complementary social infrastructure on the basis of the CIDA study's analysis of regional needs.

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<sup>1/</sup> Defined as families with less than 20 ha of land who derive at least 75 percent of family income from farming and whose farm assets do not exceed the equivalent of US\$30,000.

C. Project Description

57. Project components are as follows:

(1) Subloans for On-farm Investments and Agricultural Production for:

- (a) 1,200 small farmers
- (b) 54 rainfed agrarian reform settlements
- (c) 16 irrigated agrarian reform settlements

58. Agrarian reform settlements would receive subloans for land clearing, farm machinery and equipment, and grain stores. Additionally, small scale irrigation works based on diversion, pumping or groundwater schemes will be financed for some agrarian reform settlements. Independent small farmers would receive loans for motorized back pack sprayers, farm tools and small grain stores. The project would also provide about 20 tractors to agrarian reform settlements that demonstrate need and the capability to operate and maintain a tractor efficiently. Production credit would be made available to cover costs of improved seeds, agricultural chemicals, hired labor, and machinery services.

59. Development of farms under rainfed conditions would be based on a more diversified cropping pattern, going from just corn to corn, beans, soybeans, sorghum and cotton. Likewise, development of irrigated agriculture as a pilot program would focus on a diversified cropping pattern including soybeans, cotton and rice. It has been agreed that the Government would grant cotton growing permits to small farmers, provided that they have adequate programs of insect control administered under the technical supervision of the project unit. Also, the Government would undertake a pest control study under terms of reference satisfactory to the Bank for cotton growing areas in the Department of Olancho to provide a basis for a control program for the project area when it is completed. Since it is too late to do the study in the 1978 growing season it would be done in 1979, and the study and program would be submitted to the Bank for comment by March 1, 1980 (section 4.06 of the draft Loan Agreement).

(2) Supporting Services:

- (a) machinery pool equipment including four tractors, four land levellers, four grain harvesters and one truck;
- (b) expansion of the Catacamas Research Station;
- (c) construction and improvement of about 35 km of rural roads; and
- (d) road maintenance equipment.

60. The machinery to be purchased would expand the MNR's machinery pool service to ensure that farmers in the project have access to heavy machinery services. Funds for the research station would finance construction of facilities and the purchase of equipment.

(3) Technical Assistance:

- (a) 120 man/month of consultants' services to support Project Unit Activities; and
- (b) a project preparation study.

61. Consultant assistance for the Project Unit and training of local staff would be provided by four resident specialists in irrigation, agriculture, extension and credit. The project would also help finance a regional development study for the Aguan Valley. The Government has been carrying out a large scale agricultural investment program in the Aguan, and a comprehensive regional development study with emphasis on flood control and irrigation is urgently needed. The UNDP has prepared a plan for undertaking such a study which is estimated to cost US\$2.0 million and which will take about three years to complete. Because the UNDP does not have sufficient funds, the Government has requested Bank assistance in financing this study. It will be executed by the UNDP and is expected to identify and prepare future projects for possible Bank financing. It has been agreed that the consultants and the terms of reference for the studies to be undertaken in preparing the regional plan will be satisfactory to the Bank, and the execution of a project agreement satisfactory to the Bank between the UNDP and the Government will be a condition of disbursement for this component (section 3.07(b) and Schedule 1, section 4(e) of the draft Loan Agreement).

(4) Project Administration:

62. The following administrative items would be financed under the project: costs of buildings, equipment and vehicles, overhead costs, incremental administrative costs of DARNÓ, and establishment of a monitoring and evaluation system for the project. Funds would also be supplied for overseas training of some of the technical staff of the Project Unit.

D. Project Cost and Financing

63. The total cost of the project is estimated at US\$14.6 million, of which US\$7.6 million, or 52 percent, represents foreign costs. The proposed loan of US\$10.5 million represents 72 percent of total project costs, and will finance all foreign exchange expenditures and US\$2.9 million of local costs. The balance of financing for the project would be provided by the Government (26 percent) and project beneficiaries (2 percent). Local cost financing is justified for the reasons discussed in paragraph 13 above. A project cost breakdown is shown in the Loan and Project Summary at the beginning of this report.

64. The cost of consultant services is estimated at US\$5,000 per man/month. Physical contingencies have been calculated at 20 percent of the investment cost of irrigation facilities and 10 percent of base costs on all other investment items. Price increases have been estimated at 7 percent for 1978-82 for local costs. For foreign exchange costs related to technical

assistance, price increases are estimated at 8 percent for 1978, 7.5 percent for 1979, and 7 percent for 1980-82. Price increases for all other foreign exchange costs are estimated at 7 percent for 1978, 6.5 percent for 1979, and 6 percent for 1980-82.

E. Project Administration

1. Project Unit

65. A Project Unit would be established within MNR to be responsible for project implementation. This Unit will provide extension and credit services in order to deliver an integrated service package to the small farmers and agrarian reform settlements. The Project Unit would be headed by a Project Director who would report directly to the Minister of Natural Resources, and who would have extensive experience in administration and agriculture, with emphasis on the small farm sector and irrigation development. It is the Government's intention to have the Project Director also be the Director of DARNO in order to ensure full coordination of the activities of DARNO and the Project Unit. It has been agreed that the Project Director, who has already been selected and is now beginning to organize the Unit and select staff, would spend at least 80 percent of his time on the Project; that separate sub-directors would be appointed to handle day to day activities of the Project Unit and DARNO; and that any replacement for the Project Director would be subject to Bank approval (section 3.06 of the draft Loan Agreement). The establishment of the Project Unit and the appointment of the sub-directors would be conditions of loan effectiveness (section 6.01 of the draft Loan Agreement).

66. The Project Director would be supported by a staff consisting of one economist/statistician, 25 credit and extension agents, one irrigation engineer, one agricultural engineer, three irrigation extension agents, and administrative and support staff. It has been agreed that salaries would be set at levels necessary to attract qualified staff and that such staff would be hired on a timely basis (sections 3.01 and 3.06(e) of the draft Loan Agreement). In order to provide initial staff for the Project Unit, the Government would transfer permanently four extension agents from MNR and three credit agents from BANAFOM to the Project Unit as a condition of loan effectiveness (section 6.01 of the draft Loan Agreement). The Project Unit would also be supported by four internationally recruited specialists in agriculture, credit, extension and irrigation. It has been agreed that these four specialists would be contracted by November 1, 1978, with qualifications and under terms and conditions satisfactory to the Bank (section 3.07 of the draft Loan Agreement).

67. It has been agreed that MNR would provide sufficient autonomy to the Project Unit for efficient administration (Schedule 5 of the draft Loan Agreement). In order to facilitate administrative procedures, the Project Unit would be provided with a revolving fund amounting to US\$50,000, which could be drawn on by the Project Director when money was needed to prevent serious delays in implementation of the project. Establishment of this fund with regulations for its operation approved by the Bank would be a condition of loan effectiveness (section 6.01(d) of the draft Loan Agreement).

## 2. Program Coordination

68. BANAFOM would act as a fiscal agent for the credit component, disbursing and collecting subloans under a subsidiary agreement with the Borrower, and the MNR would enter into an agreement satisfactory to the Bank with BANAFOM providing for its participation in the credit program (sections 3.01(d) and 3.02 of the draft Loan Agreement). The execution of these agreements would be conditions of disbursement for the credit component (Schedule 1, section 4 of draft Loan Agreement). The Ministry of Public Works (SECOPT) would be responsible for execution of the road component, and the signing of a coordination agreement between the MNR and SECOPT would be a condition of disbursement for this component (section 3.01(d) of the draft Loan Agreement). In regard to the road program, it has been agreed that the Government would submit a proposal by December 1, 1978 identifying 35 kms of roads to be financed under the project, that such roads would be maintained by SECOPT, and that maintenance equipment financed under the project would only be used for maintenance of project area roads (sections 3.03 and 4.03 of the draft Loan Agreement).

69. In addition, the Project Unit would, by December 1, 1978, enter into cooperation agreements satisfactory to the Bank with the URH to provide technical support for the development of irrigation schemes, and with INA under which INA would agree to use its best efforts to set up at least 15 new agrarian reform settlements in Guayape each year which should be sufficient to insure that the project targets for lending to agrarian reform settlements can be met. INA will also support and assist the participation of agrarian reform settlements in the project (section 3.04 and 3.05 of the draft Loan Agreement). It has been agreed that the MNR would train machinery pool staff, stock necessary spare parts, keep separate accounts and monitor costs and revenues, and maintain machinery service tariffs at a level sufficient to cover capital and operational costs (section 4.04 of the draft Loan Agreement). Finally, it was agreed that by January 1, 1979 the MNR would submit a research proposal for Catacamas for Bank comment, and employ an agronomist and two agricultural engineers to help carry out the research (section 4.05 of the draft Loan Agreement).

## 3. Lending Policies and Procedures

70. Subloan maturities for on-farm investment including machinery and equipment, would not exceed 16 years, including grace periods of up to three years. Subloan maturities for production credits would not exceed 12 months, with no grace period. The interest rate of subloans would be 11 percent, which is a real positive rate at the current level of inflation in Honduras, and the interest rate normally charged by banks for agricultural lending. Previous borrowers from BANAFOM who are in arrears may borrow under the project provided they agree to repay existing debt in the Valley on a rescheduled basis (in some cases write-offs may be justified), and it has been agreed that BANAFOM, by March 1, 1979, would carry out a detailed arrears analysis and make adequate provision for write-offs and rescheduling of such debt (section 4.09 of the draft Loan Agreement). Security for subloans would ordinarily be in the form of chattel mortgages on the estimated crop value and on machinery and equipment. Since most of agrarian reform settlements in the project area would not have legal status or land title, an INA guarantee plus the joint



and several liability of each member of the group would be additionally required. <sup>1/</sup> Beneficiaries would make financial contributions equivalent to make financial contributions equivalent to five percent of the on-farm cash investment costs. All the above matters have been agreed to (Schedule 6 of the draft Loan Agreement.)

71. The Government would assume the financial and exchange risks and BANAFOM would receive a margin of 2% on outstanding subloan balances for its participation. A Credit Committee composed of the Project Unit Director, as Chairman; the local BANAFOM Chief; and the INA regional representative would approve subloans (Schedule 6 of the draft Loan Agreement).

72. USAID has earmarked US\$7.5 million of uncommitted funds of its Agricultural Sector Loan for agrarian reform settlements throughout the country and, to date, funds have been committed to eight settlements in the project area. In order to minimize problems which might arise if two somewhat different programs were carried out at the same time in the Valley, and because demand for these funds is high in other areas of the country, it has been agreed that, during project execution, no further AID agricultural credit funds, or funds under any other government financial assistance program would be committed in the project area (Section 4.10 of the draft Loan Agreement).

#### Procurement and Disbursement

73. Contracts for the purchase of vehicles, road equipment, tractors and farm machinery and equipment would total US\$1.4 million, excluding contingency. Individual contracts for such items in excess of US\$100,000 equivalent would be procured through international competitive bidding according to Bank procedures. Purchases of less than US\$100,000, and furniture and office equipment which would total US\$90,000, excluding contingencies, would be procured through local competitive bidding procedures, which have been found to be acceptable to the Bank. Procurement of farm inputs would be carried out by farmers through normal commercial channels to accommodate their timing requirements and because of the small size of individual purchases. Since road work would be scattered throughout the area and include mainly the improvement of existing roads, this work would be undertaken by SECOPT on force account. Civil works for project facilities and irrigation systems would be carried out through local competitive bidding procedures which have been found to be acceptable to the Bank.

74. Disbursements would be made over a four and a half year period to cover 67 percent of subloans for on-farm investment and agricultural production, civil works and project administration expenditures; 100 percent of foreign expenditures or 85 percent of local expenditures representing the estimated foreign exchange cost of vehicles and equipment; and 100 percent of expenditures for consultant services and overseas training.

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<sup>1/</sup> INA generally holds title to the property until the settlement achieves cooperative status and is granted title.

### Project Benefits

75. The proposed project will improve farm income for lower income groups which fall within the Bank's rural poverty target group and increase agricultural production in the Guayape Valley, and is thus in line with Bank agriculture sector lending objectives in Honduras. The project, by providing efficiently organized and directed assistance to agrarian reform settlements, should help consolidate this program in the Guayape Valley and lay the basis for extension of similar organizational techniques in other areas of the country. It will also provide experience in the development of small scale irrigation projects, while developing water resources more fully in the valley, and bringing additional areas into diversified agricultural production. The expenses of project administration and supporting investment (i.e., machinery pool services, rural roads and the research station expansion) average about US\$2,100 per project beneficiary; however, this figure does not take into account the fact that the supporting investment would also benefit other farmers in the valley. The credit component, which is of course recoverable, averages about US\$3,000 per beneficiary. At these levels of investment it should be financially feasible to replicate this type of project in other areas.

76. The project would include both a high value export commodity (cotton) and import substitution products (basic grains and soybeans). Through a system of integrated production of such crops the project would transform small subsistence farmers into commercial entrepreneurs. At full development, it is expected that the average annual family net cash income would increase from a pre-project US\$579 equivalent to US\$2,519 equivalent for small independent farmers, and from US\$227 equivalent to US\$1,962 equivalent for agrarian reform participants with irrigation, or US\$959 equivalent without irrigation. The annual incremental value of production at full development would be about US\$8 million and the financial rates of return on incremental farm investment range from 26 percent for irrigated agrarian reform settlements to 43 percent for rainfed small farms. At full development, the project will contribute a net of about US\$24,000 equivalent annually to Government revenues. The project will be directly responsible for the generation of 333,000 man-days of hired labor, equivalent to 1,280 full-time jobs, and would substantially reduce underemployment of beneficiaries in the project area.

77. The economic rate of return of the project over 20 years is estimated at 21 percent. All costs have been included except for price contingencies and the Aguan Valley project preparation study, the latter having no direct relation to production under the project. Sensitivity analysis indicates that with a 10 percent increase in costs or a 10 percent decrease in benefits the rate of return would drop to 15 and 14 percent, respectively.

### Project Risks

78. Because the Government's past efforts and experience with other projects dealing with small farmers have yielded limited results, the proposed project has been designed on a modest scale to develop experience and capability on which to base a more comprehensive future program in the Guayape

Valley. The main risks confronting the project would be possible lack of acceptance of proposed technological packages; limited capacity of the institutions involved in project execution; and shortfalls in attaining production targets due to technical problems and adverse weather conditions. To minimize these risks, the proposed technological packages are based on the improvement of existing farming systems in the project area. Introduction of high value crops (cotton, rice, sorghum and soybeans) to small farmers and agrarian reform settlements will be carried out on a gradual basis. Farmers would be assisted in effectively utilizing the proposed technological packages and credit through a delivery system in which extension agents combine expertise in both credit and production. To overcome institutional weakness the project would be managed by a Project Unit with adequate authority and with highly qualified personnel supported by technical assistance.

79. There is also a risk in regard to the irrigation component. Since the country has very limited experience with irrigation development, the proposed project would include a pilot irrigation scheme to introduce simple irrigation techniques to small farmers, to determine viable irrigation farming systems, and to build up local management and technical expertise. Nevertheless, there is some uncertainty as to the settlements' willingness to participate in an investment program for irrigation development, since no results are currently available in the project area on the viability of irrigation systems. In view of this, the irrigation component would have to be monitored closely and modifications may have to be introduced during project implementation.

#### Environmental Impact

80. The main focus of the project would be on productive activities which would improve land and water management. Except for cotton production, agricultural chemicals would have minimal effect on the environment, since close supervision and instruction will help assure that the necessary precautions are taken in their use. Presently, large quantities of chemical pesticides are used in commercial cotton production, and their increased use can have detrimental effects on the environment and human health. The cotton pest control study to be undertaken would be the basis for a control program for the project, and might provide the basis for similar programs in other areas. Small farmers will begin growing cotton prior to completion of the study since it will not be ready until the 1980 growing season; however it is expected that even before the study is completed these farmers would use a more limited number of sprayings, and the Project Unit and DARNO would monitor the use of chemical pesticides to ensure that they are handled properly.

#### PART V - LEGAL INSTRUMENTS AND AUTHORITY

81. The draft Loan Agreement between the Republic of Honduras and the Bank and the Recommendations of the Committee provided for in Article III, Section 4(iii) of the Articles of Agreement are being distributed to the Executive Directors separately. Special conditions of the project are listed in Section III of Annex III. Special conditions of effectiveness of the Loan Agreement are creation of the Project Unit, appointment of sub-directors for the Project Unit and DARNO, transfer of initial permanent staff to the Project Unit from the MNR and BANAFOM, and creation of a revolving fund.

82. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Bank.

PART VI - RECOMMENDATION

82. I recommend that the Executive Directors approve the proposed loan.

Robert S. McNamara  
President

Attachments

April 28, 1978

TABLE 3A  
- SOCIAL INDICATORS DATA SHEET

| LAND AREA (THOU KM <sup>2</sup> )                           | HONDURAS  |          |                      |                            |              |               |
|---|-----------|----------|----------------------|----------------------------|--------------|---------------|
|   | HONDURAS  |          |                      | REFERENCE COUNTRIES (1970) |              |               |
|   | 1960      | 1970     | MOST RECENT ESTIMATE | PARAGUAY                   | DOMINICAN RE | COSTA RICA*** |
| TOTAL   | 112.1     |          |                      |                            |              |               |
| AGRIC.  | 28.7      |          |                      |                            |              |               |
| GNP PER CAPITA (US\$)                                       | 170.0*    | 250.0*   | 390.0*/a             | 360.0*                     | 380.0*       | 580.0*        |
| <b>POPULATION AND VITAL STATISTICS</b>                      |           |          |                      |                            |              |               |
| POPULATION (MID-YR, MILLION)                                | 1.9       | 2.5      | 3.0/a                | 2.2                        | 4.1          | 1.7           |
| POPULATION DENSITY PER SQUARE KM.                           | 17.0      | 22.0     | 27.0/a               | 6.0                        | 83.0         | 34.0          |
| PER SQ. KM. AGRICULTURAL LAND                               | 69.0      | 89.0     | 104.0/a              | 14.0                       | 174.0        | 93.0          |
| <b>VITAL STATISTICS</b>                                     |           |          |                      |                            |              |               |
| CRUDE BIRTH RATE (/THOU, AV)                                | 54.0      | 51.5     | 49.3                 | 41.8                       | 47.3         | 41.8          |
| CRUDE DEATH RATE (/THOU, AV)                                | 26.5      | 19.1     | 14.6                 | 10.8                       | 13.4         | 9.1           |
| INFANT MORTALITY RATE (/THOU)                               | ..        | ..       | 118.0/b              | 93.8                       | 103.0        | 62.0          |
| LIFE EXPECTANCY AT BIRTH (YRS)                              | 41.0      | 49.4     | 53.5                 | 59.0                       | 52.2         | 66.8          |
| GROSS REPRODUCTION RATE                                     | ..        | 3.4      | 3.3                  | 3.2                        | 3.5          | 2.8           |
| <b>POPULATION GROWTH RATE (%)</b>                           |           |          |                      |                            |              |               |
| TOTAL   | 3.0       | 2.7**    | 2.7**                | 2.5/a                      | 2.9/a        | 3.4           |
| URBAN   | 5.3/a     | ..       | 5.1/c                | 2.8                        | 5.6          | 5.2/a         |
| <b>URBAN POPULATION (% OF TOTAL)</b>                        |           |          |                      |                            |              |               |
|   | 23.0      | ..       | 31.4                 | 35.7                       | 39.8         | 36.5          |
| <b>AGE STRUCTURE (PERCENT)</b>                              |           |          |                      |                            |              |               |
| 0 TO 14 YEARS   | 47.8      | 48.1     | 48.1                 | 46.4                       | 47.5         | 47.4          |
| 15 TO 64 YEARS  | 49.7      | 49.2     | 49.1                 | 50.4                       | 49.4         | 49.3          |
| 65 YEARS AND OVER   | 2.5       | 2.7      | 2.8                  | 3.2                        | 3.1          | 3.3           |
| <b>AGE DEPENDENCY RATIO</b>                                 |           |          |                      |                            |              |               |
|   | 1.0       | 1.0      | 1.0                  | 1.0                        | 1.0          | 1.0           |
| <b>ECONOMIC DEPENDENCY RATIO</b>                            |           |          |                      |                            |              |               |
|   | 1.6/b     | 1.5/a    | 1.8/d                | 1.6                        | 1.7          | ..            |
| <b>FAMILY PLANNING</b>                                      |           |          |                      |                            |              |               |
| ACCEPTORS (CUMULATIVE, THOU)                                | ..        | 20.7     | 83.4                 | ..                         | 36.8         | 40.2          |
| USERS (% OF MARRIED WOMEN)                                  | ..        | ..       | ..                   | ..                         | ..           | ..            |
| <b>EMPLOYMENT</b>   |           |          |                      |                            |              |               |
| TOTAL LABOR FORCE (THOUSAND)                                | 570.0     | 700.0/b  | 760.0/e              | 700.0                      | 1100.0       | ..            |
| LABOR FORCE IN AGRICULTURE (%)                              | 67.0      | 62.3/b   | 60.3/e               | 53.0                       | 55.5         | ..            |
| UNEMPLOYED (% OF LABOR FORCE)                               | 6.0       | 8.0      | ..                   | ..                         | 14.0/b       | ..            |
| <b>INCOME DISTRIBUTION</b>                                  |           |          |                      |                            |              |               |
| <b>% OF PRIVATE INCOME REC'D BY-</b>                        |           |          |                      |                            |              |               |
| HIGHEST 5% OF HOUSEHOLDS                                    | ..        | 28.0/c   | ..                   | 30.0                       | 26.3/c       | ..            |
| HIGHEST 20% OF HOUSEHOLDS                                   | ..        | 60.6/c   | ..                   | 62.0                       | 54.3/c       | ..            |
| LOWEST 20% OF HOUSEHOLDS                                    | ..        | 2.5/c    | ..                   | 4.0                        | 4.3/c        | ..            |
| LOWEST 40% OF HOUSEHOLDS                                    | ..        | 8.4/c    | ..                   | ..                         | 12.4/c       | ..            |
| <b>DISTRIBUTION OF LAND OWNERSHIP</b>                       |           |          |                      |                            |              |               |
| % OWNED BY TOP 10% OF OWNERS                                | ..        | ..       | ..                   | ..                         | 62.7         | ..            |
| % OWNED BY SMALLEST 10% OWNERS                              | ..        | ..       | ..                   | ..                         | 1.8          | ..            |
| <b>HEALTH AND NUTRITION</b>                                 |           |          |                      |                            |              |               |
| POPULATION PER PHYSICIAN                                    | ..        | 3710.0/d | 3360.0               | 2340.0                     | 1710.0       | 1630.0        |
| POPULATION PER NURSING PERSON                               | 19120.0/c | 9120.0   | 1540.0/f             | 2310.0                     | 11720.0      | 1690.0        |
| POPULATION PER HOSPITAL BED                                 | 620.0/c   | 570.0    | ..                   | 620.0                      | 350.0        | 250.0         |
| <b>PER CAPITA SUPPLY OF -</b>                               |           |          |                      |                            |              |               |
| CALORIES (% OF REQUIREMENTS)                                | 84.0      | 99.0     | 90.0                 | 121.0                      | 91.0         | 110.0         |
| PROTEIN (GRAMS PER DAY)                                     | 53.0      | 58.0     | 56.0                 | 74.0                       | 50.0         | 63.0          |
| -OF WHICH ANIMAL AND PULSE                                  | 21.0/d    | 25.0     | ..                   | 41.0                       | 29.0         | 35.0          |
| <b>DEATH RATE (/THOU) AGES 1-4</b>                          |           |          |                      |                            |              |               |
|   | 14.0      | 10.0     | 9.0                  | 6.9                        | 17.0         | 4.6           |
| <b>EDUCATION</b>  |           |          |                      |                            |              |               |
| <b>ADJUSTED ENROLLMENT RATIO</b>                            |           |          |                      |                            |              |               |
| PRIMARY SCHOOL  | 67.0      | ..       | 90.0                 | 109.0                      | 103.0        | 110.0         |
| SECONDARY SCHOOL  | 8.0       | 12.0     | 16.0                 | 17.0                       | 19.0         | 28.0          |
| <b>YEARS OF SCHOOLING PROVIDED (FIRST AND SECOND LEVEL)</b> |           |          |                      |                            |              |               |
|   | 12.0      | 12.0     | 12.0                 | 12.0                       | 12.0         | 11.0          |
| <b>VOCATIONAL ENROLLMENT (% OF SECONDARY)</b>               |           |          |                      |                            |              |               |
|   | 24.0      | 18.0     | ..                   | 6.0                        | 5.0          | 10.0          |
| <b>ADULT LITERACY RATE (%)</b>                              |           |          |                      |                            |              |               |
|   | 47.0      | ..       | 53.0                 | 79.0                       | 50.0         | ..            |
| <b>HOUSING</b>  |           |          |                      |                            |              |               |
| <b>PERSONS PER ROOM (URBAN)</b>                             |           |          |                      |                            |              |               |
|   | 1.8       | ..       | ..                   | ..                         | ..           | ..            |
| <b>OCCUPIED DWELLINGS WITHOUT PIPED WATER (%)</b>           |           |          |                      |                            |              |               |
|   | 88.0/e    | ..       | 60.0                 | 89.0                       | ..           | ..            |
| <b>ACCESS TO ELECTRICITY (% OF ALL DWELLINGS)</b>           |           |          |                      |                            |              |               |
|   | 15.0      | ..       | ..                   | ..                         | ..           | ..            |
| <b>RURAL DWELLINGS CONNECTED TO ELECTRICITY (%)</b>         |           |          |                      |                            |              |               |
|   | 2.0       | ..       | ..                   | ..                         | ..           | ..            |
| <b>CONSUMPTION</b>  |           |          |                      |                            |              |               |
| RADIO RECEIVERS (PER THOU POP)                              | 68.0      | 57.0     | 54.0                 | 71.0                       | 40.0         | 72.0          |
| PASSENGER CARS (PER THOU POP)                               | 3.0       | 5.0      | 5.0                  | 7.0                        | 10.0         | 23.0          |
| ELECTRICITY (KWH/YR PER CAP)                                | 52.0      | 127.0    | 158.0                | 91.0                       | 227.0        | 594.0         |
| NEWSPRINT (KG/YR PER CAP)                                   | 0.4       | 1.1      | 0.7                  | 1.8                        | 1.0          | 6.4           |

SEE NOTES AND DEFINITIONS ON REVERSE

NOTES

Unless otherwise noted, data for 1960 refer to any year between 1959 and 1961, for 1970 between 1968 and 1970, and for Most Recent Estimate between 1973 and 1975.

\* GNP per capita data are based on the World Bank Atlas methodology (1974-76 basis).

\*\* Interannual growth rate (1961 and 1974 censuses); largely due to emigration of El Salvadorians resident, in Honduras the population growth rate was lower than the rate of natural increase.

\*\*\* Costa Rica has been selected as an objective country for Honduras because both countries are small, open economies, dependent on agricultural exports and both have special trade relationships with other Central American countries. Yet Costa Rica has achieved a much higher standard of living and a more even distribution of the benefits of development than Honduras.

|                       |                              |    |  |  |  |  |          |  |
|-----------------------|------------------------------|----|--|--|--|--|----------|--|
| <u>HONDURAS</u>       | 1960                         | /a | 13 important urban centers;  | /b   | Ratio of population under 15 and 65 and over to total labor force; | /c   | 1963;    |  |
|                       |                              |    | /d   | 1961-63;   | /e   | Piped water inside.                            |          |  |
|                       | 1970                         | /a | Ratio of population under 15 and 65 and over to labor force 10 years and over;       | /b   | Labor force 10 years and over;                                     |  |          |  |
|                       |                              |    | /c   | 1967-68 per capita income;   | /d   | Registered, not all practicing in the country. |          |  |
|                       | <u>MOST RECENT ESTIMATE:</u> | /a | 1976;  | /b   | IBRD mission estimate;   | /c   | 1970-74; |  |
|                       |                              |    | /d   | Ratio of population under 15 and 65 and over to labor age 10 years and over; | /e   | Labor force age 10 years and over;             | /f       | Personnel in government services only. |
| <u>PARAGUAY</u>       | 1970                         | /a | Due to emigration population growth rate is lower than the rate of natural increase. |  |  |  |          |  |
| <u>DOMINICAN REP.</u> | 1970                         | /a | Due to emigration population growth rate is lower than the rate of natural increase; |  |  |  |          |  |
|                       |                              |    | /c   | Santo Domingo urban only.  |  |  |          |  |
| <u>COSTA RICA</u>     | 1970                         | /a | 1963-74.   |  |  |  |          |  |

RB, January 9, 1978

DEFINITIONS OF SOCIAL INDICATORS

Land Area (thou km<sup>2</sup>)

Total - Total surface area comprising land area and inland waters.  
Agric. - Most recent estimate of agricultural area used temporarily or permanently for crops, pastures, market & kitchen gardens or to lie fallow.

GNP per capita (US\$) - GNP per capita estimates at current market prices, calculated by same conversion method as World Bank Atlas (1973-75 basis); 1960; 1970 and 1975 data.

Population and vital statistics:

Population (mid-year million) - As of July first; if not available, average of two end-year estimates; 1-60, 1970 and 1975 data.

Population density - per square km - Mid-year population per square kilometer (100 hectares) of total area.

Population density - per square km of agric. land - Computed as above for agricultural land only.

Vital statistics

Crude birth rate per thousand, average - Annual live births per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970, and five-year average ending in 1975 for most recent estimate.

Crude death rate per thousand, average - Annual deaths per thousand of mid-year population; ten-year arithmetic averages ending in 1960 and 1970 and five-year average ending in 1975 for most recent estimate.

Infant mortality rate (/thou) - Annual deaths of infants under one year of age per thousand live births.

Life expectancy at birth (yrs) - Average number of years of life remaining at birth; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Gross reproduction rate - Average number of live daughters a woman will bear in her normal reproductive period if she experiences present age-specific fertility rates; usually five-year averages ending in 1960, 1970 and 1975 for developing countries.

Population growth rate (%) - total - Compound annual growth rates of mid-year population for 1950-60, 1960-70 and 1970-75.

Population growth rate (%) - urban - Computed like growth rate of total population; different definitions of urban areas may affect comparability of data among countries.

Urban population (% of total) - Ratio of urban to total population; different definitions of urban areas may affect comparability of data among countries.

Age structure (percent) - Children (0-14 years), working-age (15-64 years), and retired (65 years and over) as percentages of mid-year population.

Age dependency ratio - Ratio of population under 15 and 65 and over to those of ages 15 through 64.

Economic dependency ratio - Ratio of population under 15 and 65 and over to the labor force in age group of 15-64 years.

Family planning - acceptors (cumulative, thou) - Cumulative number of acceptors of birth-control devices under auspices of national family planning program since inception.

Family planning - users (% of married women) - Percentages of married women of child-bearing age (15-44 years) who use birth-control devices to all married women in same age group.

Employment

Total labor force (thousand) - Economically active persons, including armed forces and unemployed but excluding housewives, students, etc.; definitions in various countries are not comparable.

Labor force in agriculture (%) - Agricultural labor force (in farming, forestry, hunting and fishing) as percentage of total labor force.

Unemployed (% of labor force) - Unemployed are usually defined as persons who are able and willing to take a job, out of a job on a given day, remained out of a job, and seeking work for a specified minimum period not exceeding one week; may not be comparable between countries due to different definitions of unemployed and source of data, e.g., employment office statistics, sample surveys, compulsory unemployment insurance.

Income distribution - Percentage of private income (both in cash and kind) received by richest 5%, richest 20%, poorest 20%, and poorest 40% of households.

Distribution of land ownership - Percentages of land owned by wealthiest 10% and poorest 10% of land owners.

Health and Nutrition

Population per physician - Population divided by number of practicing physicians qualified from a medical school at university level.

Population per nursing person - Population divided by number of practicing male and female graduate nurses, "trained" or "certified" nurses, and auxiliary personnel with training or experience.

Population per hospital bed - Population divided by number of hospital beds available in public and private general and specialized hospital and rehabilitation centers; excludes nursing homes and establishments for custodial and preventive care.

Per capita supply of calories (% of requirements) - Computed from energy equivalent of net food supplies available in country per capita per day; available supplies comprise domestic production, imports less exports, and changes in stock; net supplies exclude animal feed, seeds, quantities used in food processing and losses in distribution; requirements were estimated by FAO based on physiological needs for normal activity and health considering environmental temperature, body weights, age and sex distributions of population, and allowing 10% for waste at household level.

Per capita supply of protein (grams per day) - Protein content of per capita net supply of food per day; net supply of food is defined as above; requirements for all countries established by USDA Economic Research Services provide for a minimum allowance of 60 grams of total protein per day, and 20 grams of animal and pulse protein, of which 10 grams should be animal protein; these standards are lower than those of 75 grams of total protein and 23 grams of animal protein as an average for the world, proposed by FAO in the Third World Food Survey.

Per capita protein supply from animal and pulse - Protein supply of food derived from animals and pulses in grams per day.

Death rate (/thou) ages 2-4 - Annual deaths per thousand in age group 1-4 years; to children in this age group; suggested as an indicator of malnutrition.

Education

Adjusted enrollment ratio - primary school - Enrollment of all ages as percentage of primary school-age population; includes children aged 6-11 years but adjusted for different lengths of primary education; for countries with universal education, enrollment may exceed 100% since some pupils are below or above the official school age.

Adjusted enrollment ratio - secondary school - Computed as above; secondary education requires at least four years of approved primary instruction; provides general, vocational or teacher training instructions for pupils of 12 to 17 years of age; correspondence courses are generally excluded.

Years of schooling provided (first and second levels) - Total years of schooling; at secondary level, vocational instruction may be partially or completely excluded.

Vocational enrollment (% of secondary) - Vocational institutions include technical, industrial or other programs which operate independently or as departments of secondary institutions.

Adult literacy rate (%) - Literate adults (able to read and write) as percentage of total adult population aged 15 years and over.

Housing

Persons per room (urban) - Average number of persons per room in occupied conventional dwellings in urban areas; dwellings exclude non-permanent structures and unoccupied parts.

Occupied dwellings without piped water (%) - Occupied conventional dwellings in urban and rural areas without inside or outside piped water facilities as percentage of all occupied dwellings.

Access to electricity (% of all dwellings) - Conventional dwellings with electricity in living quarters as percent of total dwellings in urban and rural areas.

Rural dwellings connected to electricity (%) - Computed as above for rural dwellings only.

Consumption

Radio receivers (per thou pop) - All types of receivers for radio broadcasts to general public per thousand of population; excludes unlicensed receivers in countries and in years when registration of radio sets was in effect; data for recent years may not be comparable since most countries abolished licensing.

Passenger cars (per thou pop) - Passenger cars comprise motor cars seating less than eight persons; excludes ambulances, hearses and military vehicles.

Electricity (kwh/yr per cap) - Annual consumption of industrial, commercial, public and private electricity in kilowatt hours per capita, generally based on production data, without allowance for losses in grids but allowing for imports and exports of electricity.

Newsprint (kg/yr per cap) - Per capita annual consumption in kilograms estimated from domestic production plus net imports of newsprint.

**HONDURAS**  
**ECONOMIC DEVELOPMENT DATA**

ANNEX 1  
Page 3 of 4

(Amounts in millions of U.S. dollars)

|   | Actual      |         | Projected  |         | Average Annual Growth Rates |         |         | As Percent of GDY                |         |         |       |
|---|-------------|---------|------------|---------|-----------------------------|---------|---------|----------------------------------|---------|---------|-------|
|   | 1970        | 1976    | 1981       | 1985    | 1970-76                     | 1976-81 | 1981-85 | 1970                             | 1976    | 1981    | 1985  |
| <b>NATIONAL ACCOUNTS</b>                                |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>At 1967-69 Prices and Exchange Rates</b>             |             |         |            |         |                             |         |         |                                  |         |         |       |
| Gross Domestic Product                                  | 678.1       | 831.8   | 1,106.7    | 1,345.2 | 3.5                         | 5.8     | 5.0     | 100.9                            | 101.9   | 102.5   | 103.4 |
| Gains from Terms of Trade (+)                           | -6.0        | -15.7   | -27.0      | -45.2   | -                           | -       | -       | -0.9                             | -1.9    | -2.5    | -3.4  |
| Gross Domestic Income                                   | 672.1       | 816.1   | 1,079.7    | 1,300.0 | 3.4                         | 5.7     | 4.8     | 100.0                            | 100.0   | 100.0   | 100.0 |
| Import (incl. NFS)                                      | 222.5       | 249.7   | 342.5      | 405.0   | 1.9                         | 6.5     | 4.3     | 33.1                             | 30.5    | 31.7    | 31.2  |
| Exports ("import capacity)                              | -178.9      | -217.5  | -300.5     | -364.6  | 3.3                         | 6.7     | 4.9     | 26.6                             | 26.6    | 27.8    | 28.0  |
| Resource Gap  | 43.5        | 32.2    | 42.0       | 40.4    | .                           | .       | .       | 6.5                              | 3.9     | 3.9     | 3.2   |
| Consumption Expenditures                                | 569.1       | 688.3   | 883.0      | 1,033.4 | 3.2                         | 5.1     | 4.0     | 84.7                             | 84.0    | 81.8    | 79.5  |
| Investment Expenditures (including stocks)              | 116.5       | 163.0   | 238.7      | 307.0   | 1.8                         | 8.0     | 6.5     | 21.8                             | 19.9    | 22.1    | 23.6  |
| Domestic Savings  | 103.0       | 130.8   | 196.7      | 266.6   | 4.1                         | 8.5     | 7.9     | 15.3                             | 16.0    | 18.2    | 20.4  |
| National Savings  | 88.4        | 116.2   | 163.0      | 210.0   | 4.7                         | 7.0     | 6.5     | 13.2                             | 14.2    | 15.1    | 16.2  |
| <b>MERCHANDISE TRADE</b>                                |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>Annual Data at Current Prices</b>                    |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>As Percent of Total</b>                              |             |         |            |         |                             |         |         |                                  |         |         |       |
| Imports (cif)   |             |         |            |         |                             |         |         |                                  |         |         |       |
| Capital Goods   | 55.3        | 138.8   | 269.0      | 443.3   | 16.5                        | 14.1    | 13.3    | 24.8                             | 29.8    | 29.0    | 31.1  |
| Petroleum, Oil & Lubricants                             | 14.7        | 48.2    | 117.7      | 195.4   | 21.9                        | 19.5    | 13.5    | 6.6                              | 10.4    | 12.7    | 13.7  |
| Other Intermediates                                     | 84.5        | 175.7   | 353.1      | 530.0   | 13.0                        | 15.0    | 10.7    | 38.0                             | 37.7    | 38.0    | 37.1  |
| Consumption Goods                                       | 68.2        | 102.9   | 188.6      | 258.5   | 6.7                         | 12.9    | 8.2     | 30.5                             | 22.1    | 20.3    | 18.1  |
| Total Merchandise Imports (cif)                         | 222.7       | 465.6   | 928.4      | 1,427.2 | 13.1                        | 14.8    | 11.3    | 100.0                            | 100.0   | 100.0   | 100.0 |
| Exports   |             |         |            |         |                             |         |         |                                  |         |         |       |
| Primary Products  | 128.3       | 272.8   | 535.5      | 815.0   | 13.4                        | 14.4    | 11.1    | 72.0                             | 67.6    | 67.9    | 64.6  |
| Petroleum Derivatives                                   | 6.2         | 1.1     | 3.3        | 4.3     | -25.0                       | 24.6    | 6.8     | 3.5                              | 0.3     | 0.4     | 0.3   |
| All Other Goods   | 43.6        | 129.6   | 244.5      | 441.5   | 19.9                        | 14.0    | 15.3    | 24.5                             | 32.1    | 31.7    | 35.2  |
| Total Merchandise Exports (fob)                         | 178.1       | 403.5   | 788.3      | 1,260.8 | 14.6                        | 14.3    | 12.5    | 100.0                            | 100.0   | 100.0   | 100.0 |
| Merchandise Trade Indices                               |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>Average 1967-69 = 100</b>                            |             |         |            |         |                             |         |         |                                  |         |         |       |
| Export Price Index                                      | 105.9       | 202.8   | 278.3      | 360.9   | 11.4                        | 6.5     | 6.7     |                                  |         |         |       |
| Import Price Index                                      | 109.8       | 203.1   | 286.4      | 371.2   | 10.8                        | 7.1     | 6.7     |                                  |         |         |       |
| Terms of Trade Index                                    | 96.4        | 99.9    | 97.2       | 97.2    | 0.6                         | -0.6    | -       |                                  |         |         |       |
| Exports Volume Index                                    | 99.5        | 117.7   | 167.6      | 206.6   | 2.8                         | 7.3     | 5.4     |                                  |         |         |       |
| <b>VALUE ADDED BY SECTOR</b>                            |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>Annual Data at 1967-69 Prices and Exchange Rates</b> |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>Average Annual Growth Rates</b>                      |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>As Percent of Total</b>                              |             |         |            |         |                             |         |         |                                  |         |         |       |
| Agriculture   | 242.8       | 253.7   | 308.8      | 364.5   | 0.7                         | 4.0     | 4.2     | 35.8                             | 30.4    | 27.9    | 27.1  |
| Industry and Mining                                     | 147.8       | 214.5   | 303.2      | 375.4   | 6.4                         | 7.2     | 5.5     | 21.8                             | 25.7    | 27.4    | 27.9  |
| Services  | 287.5       | 366.5   | 494.6      | 605.3   | 4.1                         | 6.2     | 5.2     | 42.4                             | 43.9    | 44.7    | 45.0  |
| Total   | 678.1       | 831.8   | 1,106.7    | 1,345.2 | 3.5                         | 5.8     | 5.0     | 100.0                            | 100.0   | 100.0   | 100.0 |
| <b>PUBLIC FINANCE</b>                                   |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>As Percent of GDP</b>                                |             |         |            |         |                             |         |         |                                  |         |         |       |
| (Central Government)                                    |             |         |            |         |                             |         |         |                                  |         |         |       |
| Current Revenues  | 88.8        | 125.2   | 181.5      | 228.6   | 5.9                         | 7.7     | 5.9     | 13.2                             | 15.0    | 16.4    | 17.0  |
| Current Expenditures                                    | 74.6        | 121.0   | 154.9      | 201.8   | 8.4                         | 5.1     | 6.8     | 11.1                             | 14.5    | 14.0    | 15.0  |
| Savings   | 14.2        | 4.2     | 26.6       | 26.8    | -19.4                       | 44.6    | 0.2     | 2.1                              | 0.5     | 2.4     | 2.0   |
| Other Public Savings                                    | 7.5         | 17.8    | 22.2       | 25.6    | 15.5                        | 4.5     | 3.6     | 1.1                              | 2.2     | 2.0     | 1.9   |
| Public Sector Capital Investment                        | 45.4        | 63.4    | 108.5      | 125.1   | 5.7                         | 11.3    | 3.6     | 6.7                              | 7.6     | 9.8     | 9.3   |
| <b>CENTRAL GOVERNMENT</b>                               |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>(As % of Total Expenditures)</b>                     |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>CURRENT EXPENDITURE DETAILS</b>                      |             |         |            |         |                             |         |         |                                  |         |         |       |
|   | Actual      |         | Budgeted   |         |                             |         |         | As Percent of Total              |         |         |       |
|   | 1970        | 1974    | 1977       |         |                             |         |         | Actual                           | Program |         |       |
|   | 1969-73     | 1975-76 | 1977-82    |         |                             |         |         | 1969-73                          | 1975-76 | 1977-82 |       |
| Education   | 26.1        | 31.3    | 24.3       |         |                             |         |         | 20.6                             | 32.0    | 15.2    |       |
| Other Social Services                                   | 14.6        | 16.0    | 14.4       |         |                             |         |         | 3.8                              | 4.9     | 5.4     |       |
| Agriculture   | 5.2         | 4.4     | 12.4       |         |                             |         |         | -                                | 2.1     | 9.5     |       |
| Other Economic Services                                 | 9.9         | 11.8    | 9.3        |         |                             |         |         | 22.7                             | 22.0    | 36.2    |       |
| Administration and Defense                              | 30.9        | 24.5    | 25.2       |         |                             |         |         | 52.9                             | 38.7    | 29.3    |       |
| Other   | 13.3        | 12.0    | 14.4       |         |                             |         |         | -                                | 0.3     | 2.4     |       |
| Total Current Expenditures                              | 100.0       | 100.0   | 100.0      |         |                             |         |         | 100.0                            | 100.0   | 100.0   |       |
| <b>SELECTED INDICATORS</b>                              |             |         |            |         |                             |         |         |                                  |         |         |       |
|   | 1965-73     | 1973-76 | 1976-81    | 1981-85 |                             |         |         |                                  |         |         |       |
| Average ICOR  | 4.18        | 5.82    | 3.91       | 4.36    |                             |         |         |                                  |         |         |       |
| Import Elasticity                                       | 1.12        | 1.22    | 1.15       | 1.15    |                             |         |         |                                  |         |         |       |
| Average National Savings Rate                           | 0.14        | 0.24    | 0.15       | 0.15    |                             |         |         |                                  |         |         |       |
| Marginal National Savings Rate                          | 0.17        | 0.15    | 0.18       | 0.21    |                             |         |         |                                  |         |         |       |
| <b>DETAIL ON PUBLIC SECTOR</b>                          |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>INVESTMENT PROGRAM (FIXED)</b>                       |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>As Percent of Total</b>                              |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>FINANCING OF CAPITAL EXPENDITURES</b>                |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>As Percent of Total</b>                              |             |         |            |         |                             |         |         |                                  |         |         |       |
| Public Sector Savings                                   |             |         |            |         |                             |         |         | 39.9                             | 34.4    | 44.0    |       |
| Capital Revenues  |             |         |            |         |                             |         |         | 4.3                              | 1.8     | 1.9     |       |
| External Financing (net)                                |             |         |            |         |                             |         |         | 40.4                             | 60.0    | 49.1    |       |
| Internal Borrowing (net)                                |             |         |            |         |                             |         |         | 15.4                             | 3.8     | 5.0     |       |
| Total Financing   |             |         |            |         |                             |         |         | 100.0                            | 100.0   | 100.0   |       |
| <b>LABOR FORCE AND OUTPUT PER WORKER</b>                |             |         |            |         |                             |         |         |                                  |         |         |       |
| <b>Total Labor Force</b>                                |             |         |            |         |                             |         |         |                                  |         |         |       |
|   | In Millions |         | % of Total |         |                             |         |         | Value Added Per Worker           |         |         |       |
|   | 1976        | 1976    | 1976       | 1976    |                             |         |         | (1976 Prices and Exchange Rates) |         |         |       |
|   |             |         |            |         |                             |         |         | In US Dollars                    |         |         |       |
| Agriculture   | 0.485       | 60.3    |            |         |                             |         |         | 1976                             | 1976    |         |       |
| Industry  | 0.119       | 14.8    |            |         |                             |         |         | 660                              | 48.7    |         |       |
| Services  | 0.199       | 24.9    |            |         |                             |         |         | 2529                             | 186.5   |         |       |
| Total   | 0.803       | 100.0   |            |         |                             |         |         | 2352                             | 173.5   |         |       |
|   |             |         |            |         |                             |         |         | 1356                             | 100.0   |         |       |

. not applicable  
- nil or negligible.

BALANCE OF PAYMENTS, EXTERNAL ASSISTANCE AND DEBT  
(In millions of US dollars at current prices)

|                                    | Actual |        | Estimated 1/ | Projected |         | Actual  |                       |                |       |
|------------------------------------|--------|--------|--------------|-----------|---------|---|-----------------------|----------------|-------|
|                                    | 1970   | 1975   | 1977         | 1981      | 1985    | 1970  | 1975                  | 1976           |       |
| <b>SUMMARY BALANCE OF PAYMENTS</b> |        |        |              |           |         | <b>DEBT AND DEBT SERVICE</b>                      |                       |                |       |
| Export (including NFS)             | 196.5  | 443.1  | 617.5        | 864.7     | 1,390.8 | Public Debt Outstanding and disb. (end of year)   | 90.1                  | 264.1          | 334.9 |
| Imports (including NFS)            | 244.3  | 509.0  | 615.0        | 985.5     | 1,521.4 | Interest on Public Debt                           | 2.5                   | 10.2           | 15.1  |
| Resource Balance (X-M)             | -47.8  | -65.9  | 2.5          | -120.8    | -130.6  | Repayment on Public Debt                          | 3.1                   | 6.4            | 13.4  |
| Interest (net)                     | -2.5   | -15.1  | -18.7        | -42.5     | -89.0   | Total Public Debt Service                         | 5.6                   | 16.6           | 28.5  |
| Direct Investment Income           | -20.0  | -41.1  | -41.3        | -55.5     | -60.0   | Burden on exports(%)                              |                       |                |       |
| Workers' Remittances               | -      | -      | -            | -         | -       | Public Debt Service                               | 2.9                   | 4.8            | 6.4   |
| Current Transfers (net)            | -6.6   | 13.2   | 15.0         | 20.0      | 30.0    | Debt Service + Direct Investment Income           | 13.1                  | 9.7            | 15.7  |
| Balance on Current Account         | -61.8  | -108.9 | -42.5        | -198.8    | -249.6  | Average Terms of Public Debt:                     |                       |                |       |
| Private Direct Investment          | 8.4    | 7.6    | 15.0         | 35.0      | 60.0    | Interest as % Prior Year DO&D                     | 3.9                   | 5.9            | 5.7   |
| Public M & LT Loans                |        |        |              |           |         | Amort.as % Prior Year DO&D                        | 4.8                   | 3.7            | 5.0   |
| Disbursements                      | 28.7   | 84.2   | 100.5        | 170.7     | 249.5   | IBRD Debt Outstanding & Disbursed                 | 30.0                  | 56.7           | 67.4  |
| Repayments                         | -3.1   | -13.3  | -21.5        | -38.5     | -57.7   | IBRD as % of Public DOD                           | 33.2                  | 21.4           | 20.1  |
| Net Disbursements                  | 25.6   | 70.9   | 79.0         | 132.2     | 191.8   | IBRD as % of Public Debt Service                  | 38.5                  | 35.1           | 23.4  |
| Other M&LT Loans                   |        |        |              |           |         | IDA Debt Outstanding & Disbursed                  | 15.2                  | 28.7           | 30.4  |
| Net Disbursements                  | 2.4    | 11.7   | 12.3         | 31.0      | 50.0    | IDA as % of Public DOD                            | 16.9                  | 10.9           | 9.1   |
| Private Long-term Capital (net)    | 4.3    | 18.5   | 19.0         | -         | -       | IDA as % of Public Debt Service                   | 1.1                   | 2.0            | 1.2   |
| Capital Transactions n.e.i.        | 15.4   | 23.2   | -            | -         | -       |   |                       |                |       |
| Change in Reserves (-increase)     | 7.7    | -23.0  | -82.8        | 0.6       | -12.2   |   |                       |                |       |
| <b>LOAN COMMITMENTS</b>            |        |        |              |           |         | <b>Estimated Debt Outstanding as of Dec/31/77</b> |                       |                |       |
| Official Grants and Grant-like     | 5.3    | 7.3    |              |           |         | <b>EXTERNAL DEBT</b>                              | <b>Disbursed Only</b> | <b>Percent</b> |       |
| Public M&LT Loans                  |        |        |              |           |         | IBRD  | 87.5                  | 21.0           |       |
| IBRD                               | 5.5    | 35.0   |              |           |         | IDA   | 32.3                  | 7.7            |       |
| IDA                                | 8.1    | 14.0   |              |           |         | Other Multilateral                                | 117.1                 | 28.0           |       |
| Other Multilateral                 | 9.1    | 38.1   |              |           |         | Governments                                       | 131.1                 | 31.4           |       |
| Governments                        | -      | 29.7   |              |           |         | Suppliers   | 15.1                  | 3.5            |       |
| Suppliers                          | -      | 11.2   |              |           |         | Financial Institutions                            | 34.8                  | 8.3            |       |
| Financial Institutions             | -      | 17.0   |              |           |         | Total M&LT Public Debt                            | 418.9                 | 100.0          |       |
| Total Public M&LT Loans            | 22.7   | 145.0  |              |           |         | Total M&LT Public Debt (including undischursed)   | 766.0                 | 183.2          |       |

1/ Preliminary



THE STATUS OF BANK GROUP OPERATIONS IN HONDURAS

A. STATEMENT OF BANK LOANS AND IDA CREDITS 1/ (Net of Cancellations)  
(As of March 31, 1978)

| Loan or<br>Credit<br>No. | Year | Borrower                                   | Purpose                        | US\$ million amount |             |             |
|--------------------------|------|--|--------------------------------|---------------------|-------------|-------------|
|                          |      |  |                                | Bank                | IDA         | Undisbursed |
|                          |      | Fourteen loans and credits fully disbursed |                                | 52.1                | 24.0        |             |
| 767                      | 1971 | Emp. Nacional<br>Portuaria                 | Ports                          | 9.0                 | -           | 1.3         |
| 841                      | 1972 | Emp. Nacional de<br>Energia Electrica      | Generation and<br>Transmission | 12.3                | -           | 1.0         |
| 896                      | 1973 | Honduras                                   | Roads                          | 18.8                | -           | 1.7         |
| 434                      | 1973 | Honduras                                   | Second Live-<br>stock Dev.     | -                   | 6.6         | 2.4         |
| 452                      | 1974 | Honduras                                   | Education                      | -                   | 3.0         | 0.5         |
| 954                      | 1974 | Honduras                                   | Education                      | 3.0                 | -           | 2.3         |
| 1081                     | 1975 | Emp. Nacional de<br>Energia Electrica      | Generation and<br>Transmission | 35.0                | -           | 8.8         |
| 628                      | 1976 | Honduras                                   | Agricultural<br>Credit         | -                   | 14.0        | 13.6        |
| 1341/2                   | 1976 | Honduras                                   | Highways                       | 35.0                | -           | 32.1        |
| 1395/6                   | 1977 | Honduras/Emp.<br>Nacional Portuaria        | Ports                          | 12.0                | -           | 12.0        |
| 696                      | 1977 | Honduras                                   | Ports                          | -                   | 5.0         | 5.0         |
| 770 1/                   | 1978 | Honduras                                   | Education                      | -                   | 5.0         | 5.0         |
|                          |      | Total                                      |                                | 177.2               | 57.6        | 85.8        |
|                          |      | of which has been repaid                   |                                | <u>23.7</u>         | <u>0.7</u>  |             |
|                          |      | Total now outstanding                      |                                | 153.5               | 56.9        |             |
|                          |      | Amount sold                                | 4.5                            |                     |             |             |
|                          |      | of which has been repaid                   | <u>2.5</u>                     | <u>2.0</u>          | <u>-</u>    |             |
|                          |      | Total now held by Bank<br>and IDA /1       |                                | <u>151.5</u>        | <u>56.9</u> |             |
|                          |      | Total undisbursed                          |                                | 59.3                | 26.5        | 85.8        |

1/ Not yet effective.

B. STATEMENT OF IFC INVESTMENTS  
(As of March 31, 1978)

| <u>Year</u> | <u>Obligor</u>   | <u>Type of Business</u> | <u>Amount in US\$ million</u> |               |              |
|-------------|--|-------------------------|-------------------------------|---------------|--------------|
|             |  |                         | <u>Loan</u>                   | <u>Equity</u> | <u>Total</u> |
| 1964/66     | Emp. de Curtidos<br>Centroamericana<br>S.A (ECCASA)                                    | Tannery                 | 0.30                          | 0.08          | 0.38         |
| 1969/70     | Cia. Pino Celulosa<br>de Centroamerica<br>(COPINO)                                     | Pulp and Paper          | -                             | 0.07          | 0.07         |
| 1977/78     | Textiles Rio Lindo,<br>S.A. de C.V.  | Textiles                | <u>9.00</u>                   | <u>1.00</u>   | <u>10.00</u> |
|             | Total gross commitments<br>less cancellations,<br>termination, repayments<br>and sales |                         | 9.30                          | 1.15          | 10.45        |
|             |  |                         | <u>6.30</u>                   | <u>0.15</u>   | <u>6.45</u>  |
|             | Total commitments now held<br>by IFC   |                         | <u>3.00</u>                   | <u>1.00</u>   | <u>4.00</u>  |
|             | Total undisbursed  |                         | <u>3.00</u>                   | <u>1.00</u>   | <u>4.00</u>  |

/1 Prior to exchange adjustments.

C. PROJECTS IN EXECUTION

Loan/Credit No.

Ln. 767      Second Port Project: US\$6.0 million Loan of June 25, 1971, and US\$3.0 million Supplemental Loan of July 30, 1975; Date of Effectiveness: February 22, 1972; Closing Date: June 30, 1978.

The project consists of the expansion of Puerto Cortes on the North Coast of Honduras, and the construction of the new port of San Lorenzo, in the South. The Puerto Cortes expansion was completed in March 1975, but the San Lorenzo port was delayed about 18 months as a result of Government reconsideration of its location. The Bank provided additional financing of US\$3.0 million, which was necessary to cover the increased cost of the San Lorenzo port resulting from the high level of inflation during the period of the delay. Construction of this port is now proceeding satisfactorily and should be completed shortly.

Ln. 841      Fifth Power Project: US\$12.3 million Loan of June 28, 1972; Date of Effectiveness: December 1, 1972; Closing Date: June 30, 1978.

About 90 percent of the project has been completed with the installation of the La Ceiba diesels, the interconnection to Nicaragua and other project works and studies. Full completion will be delayed by about 3 years beyond the original estimate, the main delay resulting from the slow preparation of an expanded load dispatch and communication system for control of energy transfers with Nicaragua and from the addition of a geothermal resource study. Project costs have increased by 14.3 percent (about US\$2.3 million) and will be financed by a loan from the OPEC Special Fund and internal cash generation of the Borrower. The current closing date of June 30, 1978 will have to be extended to allow completion of the project.

Ln. 896      Sixth Highway Project: US\$18.8 million Loan of May, 30, 1973; Date of Effectiveness: August 27, 1973; Closing Date: December 31, 1978.

The construction of the Tegucigalpa-Talanga Road, the main project component, has been completed. The Comayagua-La Libertad Road, 80 Km of feeder roads, and technical and economic studies for 430 Km of feeder roads have also been finished. Preparation engineering studies of rural roads to be selected on the basis of the recently completed highway master plan financed by the Bank will delay completion of project works until late 1978 or about one and one-half years behind schedule.

Loan/Credit No.

Cr. 434 Second Livestock Project: US\$6.6 million Credit of October 29, 1973; Date of Effectiveness: January 18, 1974; Closing Date: June 30, 1979.

Commitments under this project slowed during 1975 because of uncertainty resulting from the implementation of the Agrarian Reform Law. The project is now proceeding satisfactorily, however, and total commitments are equivalent to 83 percent of IDA funds allocated to the lending program, with the balance expected to be committed shortly for two major sub-loans (Isletas agrarian reform banana plantation and the Tegucigalpa abattoir). Because of delays in signing these two sub-loans on the part of beneficiaries, only 61 percent of IDA funds were disbursed as of December 1977, but the credit is expected to be fully disbursed by the original closing date.

Ln. 954  
Cr. 452 First Education Project: US\$3.0 million Loan and US\$3.0 million Credit, both of January 9, 1974; Date of Effectiveness: April 8, 1974; Closing Date: June 30, 1978.

Implementation of this project is proceeding in a satisfactory manner. The agricultural training centers are completed and courses for small farmers and their wives will begin in early 1978. The construction of the extension to the agricultural school at Catacamas and of INFOP's vocational training centers at San Pedro Sula and Tegucigalpa will be completed by mid-1978. All teacher training facilities are in operation, except one teacher training school and three related primary application schools which should be completed by the closing date or soon thereafter. Funds for technical assistance and fellowships have not been completely used, due to delays in selecting and approving candidates, but efforts are being made to accelerate commitment of these funds. All project works are expected to be substantially completed by the original closing date of June 30, 1978. A slight extension of this date may be needed, mainly to complete disbursements for technical assistance and fellowships.

Ln. 1081 Sixth Power Project: US\$35.0 million Loan of January 27, 1975; Date of Effectiveness: May 5, 1975; Closing Date: December 31, 1979.

The project is nearing completion. While the Rio Lindo Power Plant extension is expected to be completed 2 to 3 months ahead of schedule, civil works on the major river diversion works were delayed compared with the appraisal estimate. All but the Yure diversion works have now been finished. The project is expected to be completed below appraisal cost estimates.

Loan/Credit No.

Cr. 628 First Agricultural Credit Project: US\$14.0 Million Credit of July 2, 1976; Date of Effectiveness: November 30, 1976; Closing Date: June 15, 1981.

This credit, which includes funds for agrarian reform settlements as well as for individual farmers, is proceeding satisfactorily. US\$250,000 of IDA funds have been committed and substantially disbursed. Commitments of about US\$3.5 million have been made for the provision of technical services under agreements with MNR, the National Agrarian Institute and the Pan American Agricultural School at Zamorano.

Ln. 1341/  
1342 Seventh Highway Project: US\$35.0 million Loan (including US\$7.0 million on Third Window Terms) of December 16, 1977; Date of Effectiveness: March 16, 1977; Closing Date: December 31, 1981.

The project is proceeding satisfactorily. The three major construction contracts have been awarded and work begun, and contracts have been awarded for the purchase of maintenance equipment. Preparation of the Highway Master Plan is complete.

Ln. 1395/  
1396 Third Port Project: US\$12.0 million Loan (including US\$5.0 million on Third Window Terms) and US\$5.0 Credit, both of April 22, 1977; Date of Effectiveness: December 22, 1977; Closing Date: December 31, 1980.

Cr. 696

This loan finances the construction of Puerto Castilla on the North Coast and the expansion of San Lorenzo in the south. The civil works contract was recently awarded for Puerto Castilla and the borrower is negotiating an extension of the contract for construction of San Lorenzo to cover the expansion program.

Cr. 777 Second Education Project: US\$5.0 million credit of April 6, 1978; Terminal Date for Effectiveness: July 6, 1978; Closing Date: June 30, 1982.

The borrower is now in the process of satisfying the conditions for effectiveness.

HONDURAS

GUAYAPE REGIONAL DEVELOPMENT PROJECT

SUPPLEMENTARY PROJECT DATA SHEET

Section I: Timetable and Key Events

- |   |                |
|---|----------------|
| (a) Time taken to prepare project:      | Six months     |
| (b) Agency which prepared project:      | FAO/CP         |
| (c) First presentation to the Bank:     | January 1977   |
| (d) Departure of appraisal mission:     | October 1977   |
| (e) Planned completion of negotiations: | April 1978     |
| (f) Planned date of effectiveness:      | September 1978 |

Section II: Special Bank Implementation Actions

None proposed.

Section III: Special Conditions

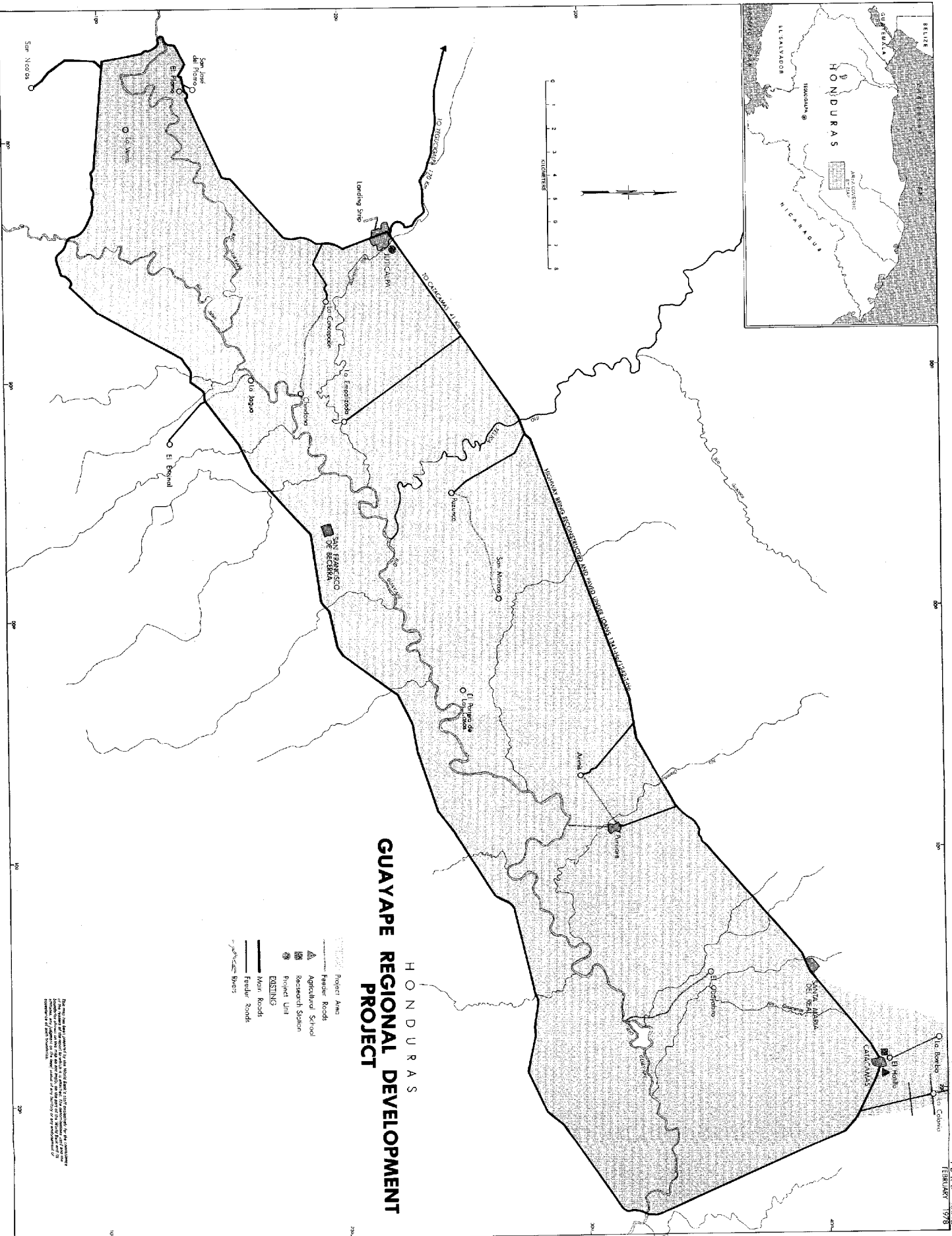
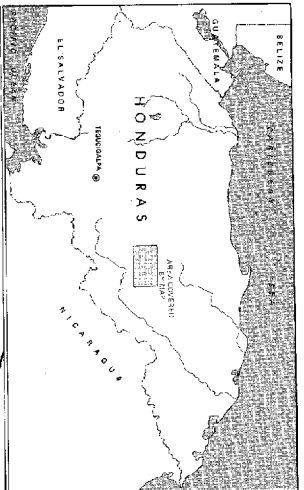
It has been agreed that:

- (a) MNR would provide sufficient autonomy to the Project Unit for efficient day-to-day administrative decision-making; the Project Director would spend at least 80 percent of his time on the project; any replacement for the Project Director would be subject to Bank approval; the Project Unit would be provided with the necessary staff whose remuneration would be adequate to attract qualified personnel; and by November 1, 1978 the Project Unit would contract consultants in agriculture, credit, extension and irrigation under terms and conditions satisfactory to the Bank (paras. 65, 66 and 67);
- (b) by December 1, 1978 the Project Unit would enter into cooperation agreements satisfactory to the Bank with URH for the irrigation program and with INA for the participation of farmer groups, and the URH would complete the La Puzunca irrigation scheme by April 1, 1979 (paras. 69 and 52);
- (c) the MNR would train machinery pool staff, stock necessary spare parts, keep separate accounts and monitor cost and revenues and maintain machinery service tariffs at a level sufficient to cover capital and operation costs, and by January 1, 1979 it would submit a research proposal for the Catacamas Station for Bank comment and employ an agronomist and agricultural engineers for Catacamas (para. 69);

- (d) the Project Unit would provide subloans to project beneficiaries according to the lending procedures and the terms and conditions approved by the Bank; and financial assistance to small farmers and agrarian reform settlements in the project area would not be committed under any financial assistance program of the borrower other than the project (paras. 70 and 710);
- (e) by March 1, 1979, BANAFOM would carry out a detailed arrears analysis by category of sub-borrowers in the project area and make adequate provision for write-off and rescheduling of existing debts as well as intensification of credit supervision and collection in the project area (para. 70);
- (f) the Government would keep the Bank informed on the progress of the proposed reorganization of BANAFOM and give the Bank sufficient opportunity to comment on final proposals for such reorganization (para. 44);
- (g) by December 1, 1978, the Government would submit a proposal identifying about 35 km of roads that would be included in the project to the Bank for comments; project area roads would be maintained by SECOPT's General Directorate for Highway Maintenance; and maintenance equipment financed under the project would be utilized only for maintenance of project area roads (para. 68);
- (h) the Government would grant cotton growing permits to small farmers with less than 10 ha in the project area provided they have adequate programs of insect control, and would undertake a cotton pest control study under terms of reference satisfactory to the Bank and present it and a control program for use in the project area to the Bank for comment by March 1, 1980 (para. 59);
- (i) conditions of effectiveness would be that: (i) the project unit be established; (ii) sub-directors for DARN0 and the Project Unit be appointed; (iii) three credit agents and four extension agents be transferred to the Project Unit from BANAFOM and the MNR respectively; and (iv) a US\$50,000 equivalent revolving fund be created with regulations satisfactory to the Bank (paras. 65, 66 and 67); and
- (j) conditions of disbursement under the credit program and the road component would be that operational agreements, satisfactory to the Bank, had been signed by the MNR and the participating agencies responsible for these components; and that the Government and BANAFOM had signed a subsidiary agreement (para. 68); a condition of disbursement for the studies to be undertaken in preparing the Aguan regional plan would be execution of a project agreement satisfactory to the Bank between the UNDP and the Government: consultants and terms of reference would be satisfactory to the Bank (para. 61).







# GUAYAPE REGIONAL DEVELOPMENT PROJECT

## HONDURAS

- Project Area
- Feeder Roads
- Agricultural School
- Research Station
- Project Unit
- EXISTING**
- Main Roads
- Feeder Roads
- Rivers

This map was prepared by the Guayape Regional Development Project, under the leadership of the Inter-American Development Bank, with technical assistance from the United States Agency for International Development. The map is based on aerial photography and ground surveys conducted in 1978. It is intended for general information and is not to be used for navigation or other purposes without the express permission of the project.