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UNDERSTANDING THE DRIVERS OF SUSTAINABLE RURAL GROWTH AND POVERTY REDUCTION IN HONDURAS

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Background

With a population of seven million, Honduras is the second most populous country in Central America. It is also the second poorest country in the region with an annual per capita income of less than US$ 1,000. Two out of every three people in Honduras are poor (per capita income less than US$ 1.50/day); and three out of every four poor people are extremely poor (per capita income less than US$ 1.00/day). Social indicators such as child malnutrition rate (17 percent), life expectancy at birth (66 years), child mortality rate (32 per 1000 births), and literacy rate (less than three-quarters of the population) are among the poorest in Latin America and the Caribbean (LAC) region.

About one-half of all residents in Honduras are classified as rural, and 80 percent of these live in areas classified as hillside areas (Box 1). The majority of these people earn their living from the agricultural sector, as laborers and/or from small landholdings. Poverty is particularly stark in rural areas where the number of poor continues to increase. Rural poverty is primarily the result of a combination of unequal distribution of assets, low factor productivity, inadequate public policies, and vulnerability to natural and economic shocks. 70 percent of landholdings account for 10 percent of land in farms, and 1 percent of farmers own 25 percent of the land. Land and labor productivity are kept low by the low adoption of improved production technologies, unsustainable land use practices, high importance of extensive cattle production, and a still-expanding agricultural frontier. Poor policies and insufficient attention by public programs have left many inhabitants of rural areas without access to key markets and assets, such as land, financial services, support services, basic infrastructure and social services. Economic growth in Honduras historically has been very volatile and continues to suffer from natural shocks, including Hurricane Mitch, destructive and erratic rainfall, and recurrent droughts. Meanwhile, over the past decade, income distribution in rural areas has grown more unequal.

Methodology

Using an asset-base conceptual approach (Figure 1), the regional study "Drivers of Sustainable Rural Growth and Poverty Reduction in Central America", carried out by the

Box 1: Defining "hillsides", "hillside areas", and "valleys"

'Hillsides' are areas with slopes of more than 12 percent. 'Hillside areas' also include flat-floored valleys, 300 to 900 meters in elevation, which are scattered throughout the interior hillsides. 'Valleys' refer mainly to the lowland areas in the north and northwest of the country, which are generally considered as high-potential areas for agriculture. In Honduras, hillside areas account for roughly 80 percent of the total land area, where the major economic activity consists of smallholder farming focusing on production of basic grains, coffee and livestock. Agricultural potential in hillside areas varies with agro-ecological factors, such as elevation, rainfall, and soil characteristics. However, compared to areas with lower slope and elevation, agricultural options in hillside areas are constrained. Rather than profit maximization, food security is the most important objective of most smallholder households living in hillsides areas. Many hillside areas also have less access to transport infrastructure and services.
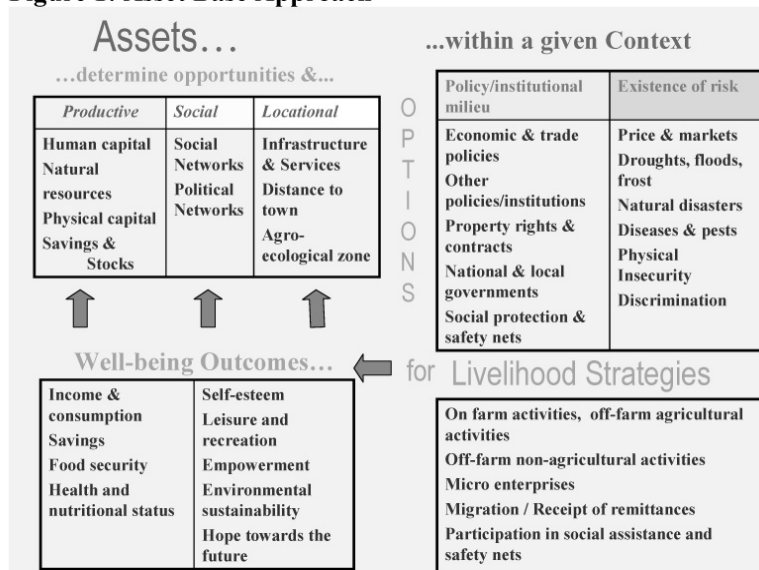
Environmentally and Socially Sustainable Development Unit and the Central American Department in the Latin America and Caribbean Region, investigates how broad-based economic growth can be stimulated in rural Honduras in general hillside areas in particular. "Drivers" are defined as the assets and combinations of assets needed by different types of households located in different geographical areas and following different livelihood strategies, to take advantage of economic opportunities and raise incomes. The asset-base approach is well-suited for understanding and analyzing the Honduran rural economy because of the highly unequal distribution of assets, substantial exposure to natural and economic risks, and ongoing economic, political, and institutional reforms, all of which influence prospects for rural growth and poverty reduction. The historically stark inequalities in the distribution of productive assets among households and geographical areas in rural Honduras are likely to constrain how the poor share in the benefits of growth, even under appropriate policy regimes.

**Figure 1: Asset Base Approach**

Rather than identifying particular enterprises or sub-sectors that might stimulate growth and poverty reduction, the Honduras study analyzes the types and combinations of assets needed by households to improve their well-being. It looks at households' asset endowments and their livelihood strategies, defined as the ways in which households deploy their assets, including natural, physical, financial, human, social, and location assets, within the context of policies, institutions and risks. Households respond to opportunities, and their asset allocation and resulting livelihood strategies ultimately determine well-being outcomes. The main questions asked are the following: What are the asset bases and livelihood strategies of rural households in Honduras and how do individual assets and combinations of assets influence the choice of livelihood strategies? How do livelihood strategies and asset endowment influence household well-being? How do some current projects fit into the countries' rural development strategies and contribute to improving the asset bases of rural households? On what types of assets or combinations of assets should public investments concentrate in order to have maximum impact on income and poverty reduction, and what is an appropriate sequencing of such investments?

To address these questions, the authors combine spatial analysis, quantitative household analysis, community livelihood studies and project stocktaking exercises. Rural Honduras is characterized by substantial heterogeneity in economic potential and performance of sub-regions. The spatial analysis uses national Geographic Information Systems (GIS) data to illustrate the distribution of people, economic potential and activities, and well-being outcomes across the rural space. The quantitative analysis draws highly from household surveys carried out by the International Food Policy Research Institute (IFPRI) and the University of Wisconsin (Figure 2) and complemented by secondary data regarding rainfall, altitude, population and road densities, and market access. Factor and cluster analysis techniques are used to identify and group different livelihood strategies at the household level; and econometric analysis is used to investigate the determinants of livelihood strategies and the major factors that impact on income. The community studies, also carried out by IFPRI, focused on the diagnosis of problems, limitations and opportunities, resulting in community profiles. Project stocktakings were carried out to link the results of the study to actual project experience in the field and to identify priority investments and actions to enhance households' asset portfolios.

The main conclusions and operational implications of the Honduras study, while pointing towards historical imbalances in public and private investments that have favored high potential areas, strongly support the need for increased focus on the hillside areas in the development of rural strategies. They also draw attention to the importance of asset complementarity and investments with increased cross-sectoral cooperation. These are all necessary to realize project impacts and bridge the gap between conceptual strategies and their timely implementation, to obtain tangible results in terms of a sustainable reduction in rural poverty.

Findings

There exist a limited number of well-defined areas of higher economic opportunity, given their underlying agricultural potential, relatively good access to infrastructure,

and high population densities. Economic potential has a strong spatial pattern in Honduras. Historically, public investments in human and physical assets have been skewed towards areas close to the main cities and along the Northern Coast, the so-called "T of Development." Outside the "T", public investments have been concentrated where agro-ecological conditions are favorable for export agriculture. Most other rural areas, the hillsides in particular, have been excluded from public investments. This has resulted in poverty being highest and deepest outside the "T".

Figure 2: Geographical Coverage of Household Surveys
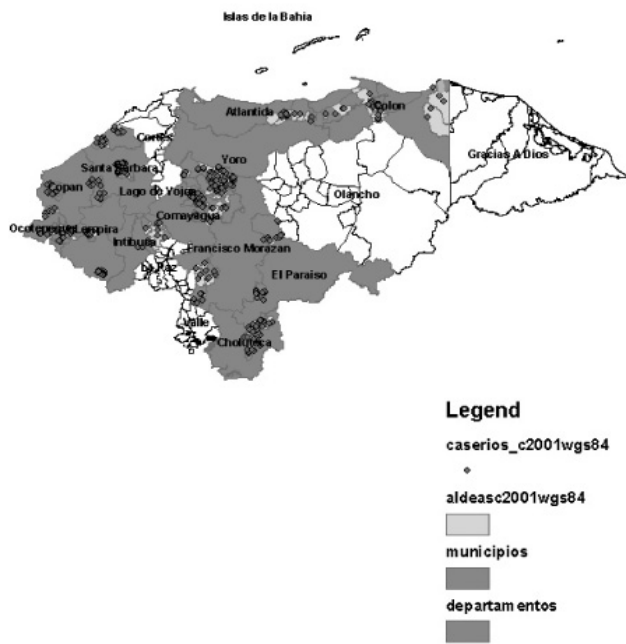
Economic potential does not automatically translate into improved well-being for all households. Poverty rates in the hillsides are high even in areas with relatively good access to infrastructure and high agricultural potential (for example, along the Guatemalan and Salvadoran borders in western and southwestern Honduras), showing that this potential is not being realized — and to the extent to which it is being realized, the poor are not participating, mainly because of missing assets, in addition to poorly functioning institutions and policy shortcomings.

Poverty is widespread and deep in rural Honduras, particularly in hillside areas. Hillside areas account for the majority of land area, and often have agro-ecological constraints that make them less suitable for agriculture. Most poor households in hillside areas have limited assets on which to base their livelihood choices. They are often locked into livelihood strategies based on production of basic grains and small livestock for subsistence needs in areas that are not suited for such strategies. Under these circumstances, achieving sustainable agricultural growth is challenging. The hillside regions are also characterized by a shortage of population centers (cities or towns) that could be poles for economic activities and social services. The physical distance from urban centers and towns, together with the lack of road infrastructure and transport services, and households' lack of other assets such as land, education and skills, and access to credit, limits more remunerative off-farm employment opportunities.

Overlap between high poverty rates and high poverty densities in some hillside areas means that investments there should reach significant proportions of the country's rural poor. Many hillside areas in Honduras show both high rates of poverty and high population densities (leading to high poverty density). For example, the western areas around Copán, the southern areas in Valle and Choluteca, and the province of Comayagua have both high poverty rates and high poverty densities. By explicitly targeting these areas in rural investment programs, significant proportions of the rural poor can be reached while minimizing the problem of leakages to the non-poor.

Agriculture alone cannot solve the rural poverty problem, but those remaining in the sector need to be more efficient, productive and competitive. Many hillside households have strong social and cultural bonds to traditional farming production systems and consumption patterns (food security), but most of these people are locked into strategies based on the production of basic grains and small livestock for subsistence needs in areas that are not suited for such strategies. Households pursuing livelihood strategies based primarily on basic grains on small parcels of land are caught in a cycle of poverty. Strategic actions involving food security, security and access to land and forests, infrastructure provision, improved natural resource management, non-agricultural rural employment and migration are needed to increase land and labor productivity, achieve broad-based and sustainable agricultural growth and reduce rural poverty.

Infrastructure improvements are essential components of an asset-base growth and poverty reduction strategy. The study found clear evidence of positive effects of road and market access on livelihood decisions and household income. Better market access and higher road densities lead to higher household income, and improved market access can to some extent compensate for insufficient access to land and education. Historical under-investment in poor households' assets and inadequate provision of public infrastructure and services in hillside areas mean that major investments are required to augment asset bases. Significant investments in rural infrastructure occurred during the 1990s, but many poor households and communities still lack access to basic infrastructure and services.

Recommendations

Hillside areas should be a major target of national rural poverty reduction strategies. Despite the challenges, high poverty density in hillside areas, and the fact that some 80 percent of all rural poor are located in these areas, should make these areas a target of national rural poverty reduction strategies. Even though conditional cash transfer programs have been shown to be effective tools for poverty reduction, their impact is necessarily limited and eventually the productivity of land and labor need to be raised. Asset bases of the poor need to be strengthened before they can benefit from growth-related spillovers, and this implies a need for funding from the central government and public investments, which should be coordinated with local governments.

Agriculture should form an integral part of the rural growth strategy in hillside areas. Over the past 25 years, agriculture has not been a strong engine of growth in rural Honduras. However, high reliance of rural households on agricultural and related income means that any strategy targeted to these areas will have to build upon the economic base created by agriculture. But broad-based agricultural growth is constrained by unequal access to land, degradation of natural resources, absence of technologies for productivity enhancements, and weak institutions for technical assistance and dissemination of market information. The extent to which agricultural growth will be able to lower rural poverty depends on how these critical shortcomings are addressed. The Government of Honduras should give priority to the implementation of an operational strategy to enhance land security and expand access to land, including the planned completion of a national land policy. Food security can be improved by investments in infrastructure, provision of market information, and new technologies for sustainable production.

The participation of poor hillside households in the market economy can be facilitated by increasing market access and reducing transaction costs. Linkages to market-oriented agriculture are extremely weak in the hillsides. Off-farm employment is limited because of the physical distances from urban centers and towns and the lack of good road infrastructure and transport services. There therefore is a need to consider the strengthening of satellite urban centers and towns outside of the "T of development". This would provide better access to product and factor markets, help lower transactions costs associated with distance, and increase opportunities for off-farm employment. Based on the econometric results of the study that show the importance of credit and education for a self-employment-based livelihood strategy, programs to assist individual and small group micro-enterprises might have a positive influence on rural growth.

The transition should be made from geographically untargeted investments in single assets to a more integrated and geographically-based approach of asset enhancement with proper complementarities. To achieve a level playing field and give the rural poor a chance to participate in the global economy, minimal levels of key assets are needed. But household-level heterogeneity limits the appropriateness of "cookie-cutter approaches" to policies and programs designed to foster broad-based growth. Investment strategies should be formulated on broad regional bases, but options within regions should be tailored to local asset bases and other conditions. An important issue for targeting public investments is to identify the combinations of assets that best enable households to take advantage of an area's growth potential and contribute to improvements in their well-being. Therefore, a multisectoral and spatially differentiated investment program is required to upgrade and improve access to household assets. Land access and security are key contributors to livelihoods of the rural poor. Secure land rights can improve food security and enhance risk-bearing ability, both of which can contribute to agricultural growth. Technical assistance, training, capacity building, and inputs are needed for sustainable intensification of traditional agriculture and promote crop and livestock diversification, and improved forestry practices.

Notes

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