

# **Rural Poverty in Honduras: Despite Progress, an Ongoing Challenge**

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## ***Abstract***

*The Republic of Honduras is with approximately 7.7 million inhabitants the second most populated country in Central America. Honduras is also the second poorest country in Central America. Even though poverty affects the country as a whole, Honduras' poverty is essentially a rural problem. This article analyzes rural poverty in Honduras by first providing some empirical background of Honduras and its economic history. It then analyzes the obstacles that cause this extreme rural poverty and finally it presents possible solutions to reduce rural poverty in Honduras by attacking the problem of rural poverty at its core.*

## **I. Introduction**

In rural areas in Honduras poverty affects 63 percent of the population and 50 percent of rural households are subject to extreme poverty.<sup>1</sup> This means that half of the rural population lacks the basic necessities to maintain a healthy lifestyle. This article analyzes rural poverty in Honduras and how it affects rural communities and consequently the country as a whole. Among the main factors that add to rural poverty in Honduras, a lack of assets (human, capital, financial...), lack of access to non-farm jobs and opportunities, geographic isolation, and low agricultural productivity are among the most important contributors. Therefore, providing access to strong education and infrastructure to create economic opportunities for the poor in non-agricultural sectors, giving rural areas the needed resources to stimulate agriculture (assets), and providing the proper infrastructure to connect remote areas to opportunities and services in urban areas are important factors that can help reduce Honduras's rural poverty.

This article focuses on two major policies: first, increasing the participation of the rural poor in non-agricultural employment opportunities by subsidizing rural education, and second, improving infrastructure in rural areas (such as roads) to facilitate their access to this opportunities and to improve rural living conditions. This article is divided into a brief literature review on rural poverty in Honduras, an empirical background of Honduras history of economic growth, a discussion of

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<sup>1</sup> International Fund for Agricultural Development (IFAD) (undated).

possible solutions and interventions to reduce the severe problem of rural poverty, and some conclusions.

## II. Brief Literature Review

Even though many of the sources point out that rural poverty in Latin America has been reduced over the last thirty years, others point out that success has been uneven across countries. There is a decent amount of literature on rural poverty in Honduras; but the majority of the literature is based on a broad look of rural poverty in Latin America and the Caribbean as a whole. However, the majority of the literature on Honduras agrees that Honduras's rural poverty is among the most severe in Central America.

Furthermore, most of the sources link Honduras' rural poverty to the same essential problems: lack of physical and human capital, low agricultural productivity, low non-agricultural employment, and geographical isolation. However, many sources agree that these problems result from a combination of government failures and market imperfections. Also, they suggest that economic growth brings about an increasing regional concentration of economic activities, which excludes the rural poor.

Moreover, some sources argue that the effect of education in agriculture is relatively small and that the effect of geographical isolation is also small in income per capita differences. Another major problem that the literature points out is the impact that rural family characteristics (especially size) can have on GDP per capita and rural poverty. Therefore, most of the literature comes to a consensus and points out that strong education to prepare people for non-agricultural employment and a multi-dimensional and asset approach along with effective government policy are major poverty reduction strategies. Even though the majority of the literature agrees with the prior assumptions, there is a constant debate about their effectiveness. Furthermore, some sources point out that the poverty reduction achieved over the last thirty-years has been due to migration and not rural economic development.

- Ramón López and Alberto Valdés (2000)<sup>2</sup> synthesize six case studies of rural poverty in Latin America (Chile, Colombia, El Salvador, Honduras, Paraguay, and Peru) and present several studies that examine land, labor and poverty in each country. The case studies are based on rural household survey data that includes demographics, farm production, household income and expenditures. They focus on the effects that economic growth and government failures have on the rural poor, who lag behind on every aspect. They also point out the influence that human and physical capital, education for nonfarm employment, and family planning can have on poverty reduction.
- De Janvry and Sadoulet (2000) focus on rural poverty in Latin America, its determinants and possible exit paths. Janvry and Sadoulet stress that even though rural poverty in Latin America has declined over the last three decades, success has been uneven across countries and rural poverty remains huge (including in Honduras). They also point out that reduction in the number of rural relative to urban poor has been mainly the outcome of migration, not of successful rural development. Furthermore they present four possible exit paths out of poverty: migration, successful agricultural development, a pluriactive path (the diversification of activities carried

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<sup>2</sup> Ramón López is an Agricultural Research Economics Professor at the University of Maryland. Alberto Valdés is an Agricultural Advisor for the World Bank.

out by a household in order to secure its economy and welfare), and assistance. De Janvry and Sadoulet (2000) also stress the importance of regional development, decentralization and participation.

- Jansen, Siegel, Alwang and Pichón (2008) point out that the vast majority of the rural population lives in remote hillsides with limited agricultural potential. Consequently, a central theme of this literature is that agriculture cannot serve as the sole engine of poverty reduction. In addition, they point out that in order to reduce poverty in rural areas, the rural population must participate in non-agricultural activities, which improve household income per capita. They call attention to the lack of assets in rural areas and how this affects their livelihoods. Finally, they present a balance between agriculture and a multi-sectoral approach towards poverty reduction such as investment in human capital, an asset based approach and public investment to connect excluded rural areas to urban areas and non-agricultural employment opportunities.
- Villa and Lobo (2009) analyze rural poverty in Honduras by analyzing its characteristics and its macroeconomic as well as microeconomic indicators. They discuss the actions that have been taken to deal with rural poverty in the past and in the present. They also discuss new possible rural poverty reduction strategies and approaches.

### III. Empirical Background

Even though Honduras has experienced economic growth since the beginning of the 2000s, it still lacks far behind economically and it still has high poverty rates compared to most other Central American countries. Honduras is the second most populated country in Central America with 7.7 million inhabitants, but it is also the second poorest country after Nicaragua.<sup>3</sup> In terms of nominal GDP, Honduras' economy is ranked 106<sup>th</sup> in the world and 18<sup>th</sup> in Latin America and in the Caribbean. As of 2010, Honduras was ranked 123<sup>rd</sup> in the world in terms of GDP per capita (PPP).<sup>4</sup> Even though Honduras' GDP per capita has been increasing since the 1960s (see Figure 1), still 63 percent of the rural population is affected by poverty. Likewise, 50 percent of rural households are affected by extreme poverty due to low agricultural productivity. Consequently, compared to Latin America and the Caribbean as a whole, Honduras has lacked far behind in terms of GDP per capita growth (see Figure 1).

Honduras' low economic growth (which is clearly visible in Figure 1) throughout the 2000s was the result of an economic structural adjustment beginning the 1990s: "The traditional economic income substitution model was gradually replaced by an export growth-led model focused on market and trade liberalization".<sup>5</sup> However, even though the government has achieved a higher level of economic stability since it opened its doors to international trade, this progress has not resulted in improved living conditions or reduced poverty for the country's huge proportion of poor people. Furthermore, while the population is divided almost evenly between rural and urban areas, poverty is essentially a rural problem. Poverty is prevalent in central hillside areas in the interior highlands of Honduras, which are home to 75 percent of the rural population.<sup>6</sup> Ultimately,

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<sup>3</sup> International Fund for Agricultural Development (IFAD) (undated).

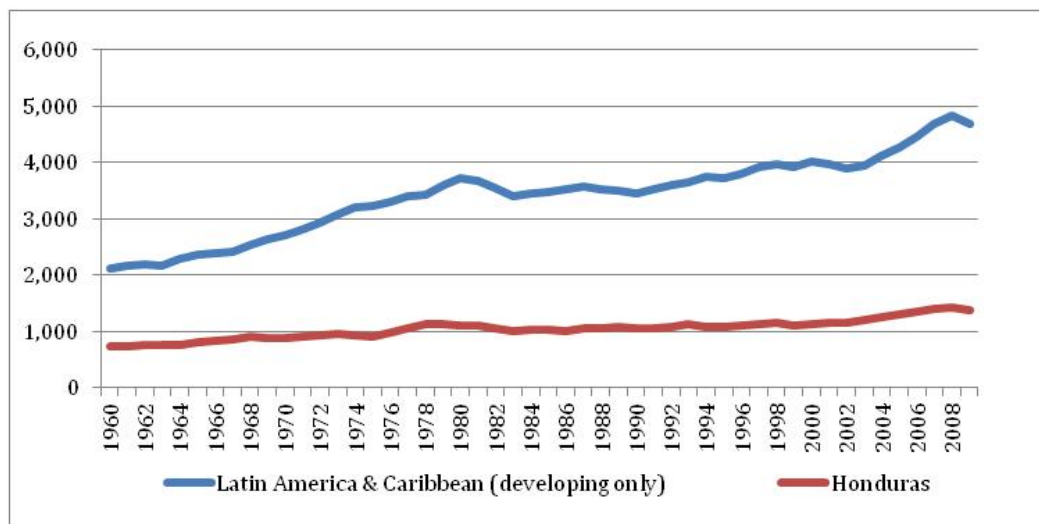
<sup>4</sup> See: [http://en.wikipedia.org/wiki/List\\_of\\_countries\\_by\\_GDP\\_\(PPP\)\\_per\\_capita](http://en.wikipedia.org/wiki/List_of_countries_by_GDP_(PPP)_per_capita).

<sup>5</sup> Jansen, Siegel, Alwang and Pichón (2008), p. 223.

<sup>6</sup> International Fund for Agricultural Development (IFAD) (undated).

Honduras' rural poverty is among the most severe in Central America and the Caribbean after Haiti, Bolivia and Nicaragua.

**Figure 1: GDP per capita in constant 2000 dollar, 1960-2009**



Source: Created by author based on data from World Bank (2011).

### III.1. Employment and Agriculture

The fact that most of the poor live in remote rural areas makes rural poverty harder to deal with because of this so-called geographic isolation. Therefore, most of the rural population in Honduras lacks connection with opportunities in non-agricultural sectors, which are important to improve per capita income and to reduce poverty in rural households. “Throughout Latin America, rural households that diversify their economic activities into occupations outside the agricultural sector tend to earn higher income than those who rely exclusively on primary agricultural production.”<sup>7</sup> However, Honduras population still relies greatly on agriculture because of their lack of connection to non-farm employment opportunities.

Even though currently the agricultural sector accounts for a small percentage of GDP (12.5 percent), Honduras economy has been supported in the past strongly by the agricultural sector. As of 1999, agriculture still accounted for 22 percent of GDP.<sup>8</sup> In addition, due to the high number of rural population, many of these families depend on agriculture as the main source of income and subsistence. Consequently, the agricultural sector employs 39 percent of the population and subsistence farmers make up 70 percent of agricultural based families. Therefore, like many countries of Central America such as Nicaragua, Honduras population is mostly economically vulnerable. Natural disasters and climate changes expose Honduras population, especially the rural, to food and job insecurity<sup>9</sup>. Consequently, the rural population must participate in non-agricultural activities in order to assure their sustainability if natural disasters affect agriculture.

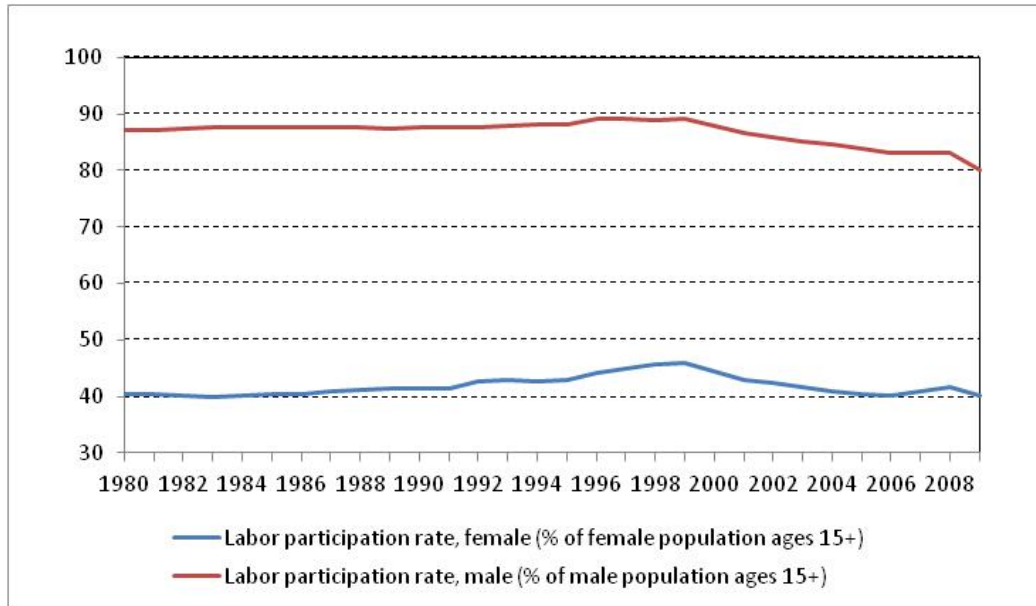
<sup>7</sup> Jansen, Siegel, Alwang and Pichón (2008), p. 224.

<sup>8</sup> See: [http://en.wikipedia.org/wiki/Economy\\_of\\_Honduras](http://en.wikipedia.org/wiki/Economy_of_Honduras).

<sup>9</sup> See: <http://www.usaid.gov/hn/economy.html>.

This is why participation in non-farm employment is one of the main topics of this article's discussion in the next section.

**Figure 2: Female and Male Labor Participation Rates, 1980-2009**



Source: Created by author based on data from World Bank (2011).

As pointed out in the USAID (2006) report, Honduras has a labor participation rate of 67 percent, which means that labor is low and underutilized. Even though low labor participation rates are common in Latin America because of underemployment, low labor participation is problematic for economic growth. Furthermore, as the female labor participation rate is about half of that of males (see Figure 2), there also is an inequality of employment opportunities between females and males.

### **III.2. Violence and Government Instability**

Honduras is also one of the most violent countries in the world because it is a key transit point for drug trafficking and has more gang members, or *maras*, than all other Central American countries combined. Violence and government corruption are two of the main obstacles that make Honduras private sector lag behind because citizens lack confidence in their business environment. Therefore, many citizens and foreign investors retreat from taking the risk of opening businesses and of doing business with Honduras government. As pointed out in USAID (2006, pp. 16-17), based on the 2005 Transparency International Corruption Perceptions Index, Honduras scored a 2.6 in corruption of a possible 10 (with 10 being the lowest level of corruption). By contrast, Chile scored a 7.3 and Costa Rica a 4.2.<sup>10</sup> The poor are also the most affected by violence and government instability and corruption, because without security they cannot protect their land and

<sup>10</sup> USAID (2006), pp. 16-17.

with government corruption and instability they do not receive the aid they need to help reduce poverty.

### **III.3. Education**

Even though public education in Honduras is free for children between the ages of 7 and 14, the public education system is characterized by lack of schools, understaffing, and lack of funds for school equipment. The lack of funding of the public education system is evident based on student to teacher ratio, which normally in Honduras are about 34.4 students per teacher in urban areas. This ratio is substantially higher than the average in countries like Costa Rica, which has an average of 22.6 students per teacher.<sup>11</sup> This implies that there is a big difference in school staffing between Honduras and the neighboring countries of Central America.

Furthermore, rural students are the most disadvantaged in terms of education because schools in rural areas are harder to reach and, therefore, have less resources and teachers than in urban schools. As pointed out by the USAID report, rural classrooms can have as much as 80 students per teacher (2006). By the same token, education expenditure for primary education in Honduras in 2005 was only 2.37 percent of GDP, which is low relative to the average 2.93 percent of the rest of the region (USAID, 2006, p. 35). Ultimately, Honduras needs to increase spending on rural public education, in order to empower the young rural population so that they can have more opportunities throughout their life. Education is crucial for the reduction of poverty.

Finally, education is not only crucial to reduce poverty, but it also provides a multi-dimensional impact for the country as whole. Education shapes society by inspiring good morals and important family values. Likewise, even primary and secondary education provides a discipline and common knowledge that children would not receive without proper primary and secondary education. In a society like Honduras, which has suffered from government corruption and abuse, education is crucial to protect society from the government's misdeeds. By educating the people, especially the poor, people become active in civic life, which makes them aware of the government's actions and at the same time reduces their chances of being abused or tricked by the government. Furthermore, education serves as fuel for economic growth. More educated people means better jobs and wages and a stronger labor force. At the same time, education results in higher productivity, higher income per capita, more businesses and poverty reduction. Consequently, education is crucial not only for the reduction of poverty, but for the sake of the country's economic and social stability and growth.

## **IV. Key Interventions and Solutions**

### **IV.1. Education and Non-agricultural Activities**

Agriculture in rural areas in Honduras is characterized by low productivity combined with low access to technology and assets.<sup>12</sup> Agricultural growth and employment in the agricultural sector are important for the rural poor, but higher agriculture growth alone is not sufficient to reduce rural poverty substantially in Honduras. Therefore, participation in non-agricultural sectors, along with higher agricultural productivity, must go hand in hand to reduce rural poverty in Honduras: "Throughout Latin America, rural households that diversify their economic activities into

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<sup>11</sup> USAID (2006), p. 35.

<sup>12</sup> International Fund for Agricultural Development (IFAD) (undated).

occupations outside the agricultural sector tend to earn higher income than those who rely exclusively on primary agricultural production. However, a salient characteristic of rural Honduras is the relative lack of non-agricultural activities compared to other countries of Central America.”

<sup>13</sup> In 1997, non-agricultural activities in Honduras accounted only for 22 percent of rural income, compared to 60 percent in Costa Rica, 42 percent in Nicaragua and 38 percent in El Salvador.<sup>14</sup> Therefore, this proves that it is important to empower the rural poor in Honduras in order for them to diversify their source of income to improve their standard of living by participating in non-agricultural activities.

However, in order to increase participation in non-agricultural sectors, the government must focus on subsidizing education in rural areas. Even though education contributes only somewhat to agricultural productivity, higher returns of schooling are obtained in non-farm employments.<sup>15</sup> Furthermore, research suggests that in Honduras, every year of schooling raises income by 10 percent, with upper secondary education having the highest returns because acquiring higher professional skills allow people to sell their labor at a higher price.<sup>16</sup> Nevertheless, Honduras has a problem of lack of funding for public education as mentioned in the previous page in section III.3. Furthermore, rural students are the most disadvantaged in terms of education because schools in rural areas are harder to reach and, therefore, have less resources and teachers than in urban schools. As pointed out by the USAID report, rural classrooms can have as much as 80 students per teacher (2006). The USAID report goes on to argue that: “In 2005 the education expenditure for primary education was 2.37 percent of GDP, which is low in absolute terms as well as low relative to the LMI-LAC average of 2.93 percent” (USAID, 2006, p. 35). Therefore, government must reset its priorities and increase spending in education, which is essential for the reduction of poverty.

This means that by subsidizing rural education and, therefore, opening new opportunities for the rural population in non-agricultural sectors the rural poor have the opportunity to improve the status of the household, even if it means only an improvement from “extremely poor” to merely “poor”.<sup>17</sup> Furthermore, Honduras’ workforce has a low participation rate of only 67 percent of the population. This means that subsidizing education to create opportunities for the poor in non-farm sectors not only reduces rural poverty; it also enlarges the workforce participation, which is a positive factor for the country’s economy as a whole. The question that remains now is how should Honduras deal with geographical isolation in order to provide the rural poor education effectively and to facilitate their access to other economic sectors?

## **IV.2. Dealing with Geographical Isolation and Lack of Infrastructure**

Rural poverty predominates in the central hillsides in the interior highlands of Honduras. Therefore, access to these rural areas can become a challenge for the effectiveness of government policies that can reduce rural poverty and improve living standards (education, electricity, clean water, etc.). Likewise, the rural poor are limited to their surroundings and have problems accessing other economic sectors and markets in order to take advantage of non-farm opportunities. Therefore, in order to reduce rural poverty, the government must connect these isolated rural areas

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<sup>13</sup> Jansen, Siegel, Alwang and Pichón (2008), p. 224.

<sup>14</sup> Jansen, Siegel, Alwang and Pichón (2008), p. 225.

<sup>15</sup> López and Valdés (2000), p. 199.

<sup>16</sup> Jansen, Siegel, Alwang and Pichón, 2008, p. 235.

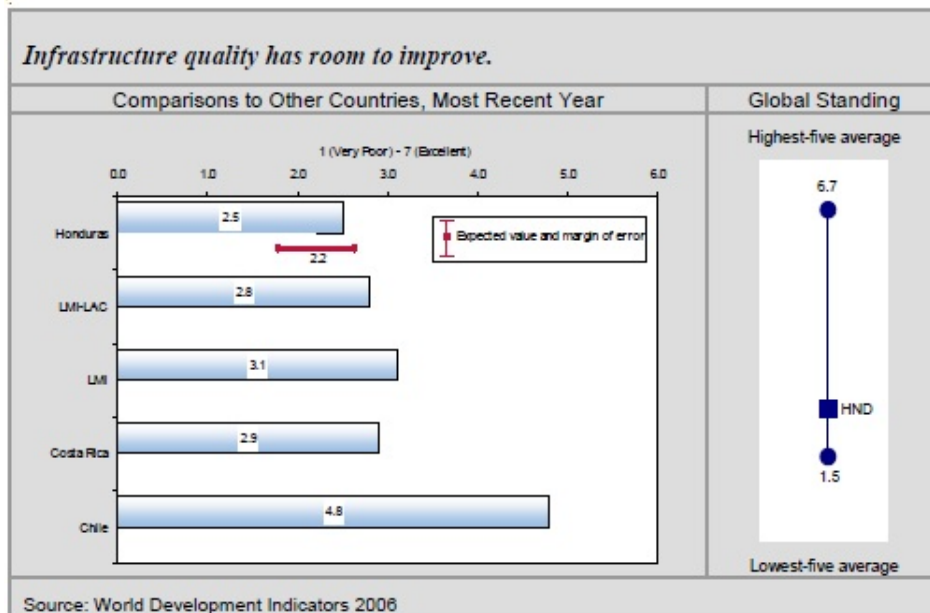
<sup>17</sup> López and Valdés (2000), p. 201.

with economically prosperous areas, through an improvement and expansion of the country's infrastructure.

A key example of a problem that lack of proper physical infrastructure in Honduras causes is the lack of access to roads: “many rural communities in Honduras are isolated from major (primary or secondary) roads and/or are isolated during the rainy season when roads are impassable, especially in the hillside areas where the road network is less well developed than in the valleys.”<sup>18</sup> This means that many rural communities are isolated from non-farm economic activity, employment opportunities, and new markets for agricultural products that are crucial to improve income per capita and reduce household poverty. Likewise, if people are isolated from roads in the hillside areas, they have difficulty accessing medical services, proper education and other professional services, which makes their living conditions even more difficult to withstand.

The author has seen this lack of well-developed roads in the hillside areas of Honduras, when he visited Honduras in March 2010 and March 2011. A trip of a few miles from El Progreso (a partly industrialized city) to a community called Monte Verde (in the high mountains of the Department of Intibuca) took about 6 hours in a pick-up truck. For most of the rural population it does not make sense to even try to reach urban areas. Therefore, in order to promote non-agricultural employment opportunities in order to reduce poverty, government must reach out to the poor and connect them through the use of infrastructure, such as properly paved roads and more accessible public transportation, to allow the rural poor to take advantage of opportunities outside their communities.

**Figure 3: Overall Infrastructure Quality Index**



Source: USAID (2006), Figure 3.12, p. 30.

<sup>18</sup> Jansen, Siegel, Alwang and Pichón (2008), pp. 231-233.



Other problems are the lack of electricity and lack of water and sanitation infrastructures in Honduras' rural areas. Even though 70 percent of the rural population is covered by water and sanitation infrastructure, access and services for this type of infrastructure are not always available.<sup>19</sup> Furthermore, electricity coverage in rural areas is around 20 percent, which is extremely low compared to the urban 80 percent.<sup>20</sup> This means that people do not have as much electricity for machinery and to operate capital, which affects productivity. Also, lack of electricity makes people rely exclusively on sunlight, which limits their hours of work and production. As shown in Figure 3, Honduras has a low infrastructure quality index and plenty of room to improve its infrastructure.

Access to safe water, sanitation, and electricity are essential for poverty reduction because they promote health and a better standard of living, which are crucial in order for a person to produce income. If a person were sick, he/she would not be able to work and if he/she does not work then he/she does not produce income, which makes the person poorer. That is why strong infrastructure is essential for poverty reduction and that is why the government should focus on subsidizing this type of physical capital.

Finally, basic social infrastructures (clinics, schools teachers, and even school materials) are scarce and difficult to access in rural areas. As mentioned above in section III.3, rural students are the most disadvantaged in terms of education because schools in rural areas are harder to reach and, therefore, have less resources and teachers than in urban schools. In rural areas school is not consistent because of the difficulty teachers have of reaching the schools. Also, schools in rural areas are small and, therefore, many students take class together in a single room with a single teacher. As pointed out by the USAID (2006) report, rural classrooms can have as much as 80 students per teacher. Likewise, clinics lack medics and proper equipment and technology.<sup>21</sup> If a person suffers an emergency, she/he is vulnerable to suffer death because of lack of medical assistance.

Therefore, subsidizing physical and social capital is essential to reduce poverty and to improve standards of living. Physical capital gives the poor access to new opportunities outside the rural areas, as well as social capital (education), and, capital that deals with health related issues (such as clinics and sanitation infrastructure) are essential to improve standards of living to make the rural population capable of taking advantage of those outer opportunities that education and physical capital would provide. Therefore, in order to reduce poverty substantially, the government of Honduras must focus on connecting rural areas to urban areas to give the poor access to the world beyond their surroundings.

## **V. Conclusion**

Based on the analysis of this article, it can be concluded that there must be a multi-dimensional strategy in order to substantially reduce Honduras' chronic poverty problem. Even though the government has achieved a higher level of economic stability since it opened its doors to international trade, extreme poverty still affects a high percentage of Honduras' population. Furthermore, many rural areas still lack proper sanitation infrastructure and access to a strong education. Consequently, this means that the government must restructure its public spending strategy by directing more of its public spending to the poor rural areas of Honduras' hillsides.

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<sup>19</sup> Jansen, Siegel, Alwang and Pichón (2008), pp. 231-233.

<sup>20</sup> Jansen, Siegel, Alwang and Pichón (2008), p. 231.

<sup>21</sup> Jansen, Siegel, Alwang and Pichón (2008), pp. 231-233.

As part of the multi-dimensional strategy to reduce Honduras chronic poverty problem, there has to be a major improvement in rural education, which would allow an increased involvement of the poor in non-agricultural sectors. There also have to be more initiatives to improve infrastructure (such as roads and sanitation infrastructure) to connect the poor to non-agricultural employment opportunities and to improve rural living conditions. Investing in the poor is not only good for the poor; it is a positive investment for the country as a whole. Honduras' government must break the chains of government corruption and attack poverty before it is too late. As long as the poor are set aside from the rest of the population, they will continue to be poor and they would continue to be a burden for the country as a whole. Therefore, Honduras' government must put an end to this economic inequality not only for the sake of the poor, but also for the sake of the whole country.

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