

Proj. 5220101 (2)

CAPITAL ASSISTANCE PLAN

Proposal and Recommendations
for the Review of the
Development Loan Committee

HONDURAS - STUDENT LOAN FUND - EDUCREDITO

ADL-113/P-963

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

UNCLASSIFIED

AID-DLC/P-963

May 26, 1971

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Honduras - Student Loan Fund - EDUCREDITO

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed \$2,000,000 to the Government of Honduras to assist in financing the U.S. dollar and local currency costs of an expansion of the activities of EDUCREDITO.

Please advise us as soon as possible but in no event later than close of business on Wednesday, June 2, 1971, if you have a basic policy issue arising out of this proposal.

Rachel R. Agee
Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES I-IV

UNCLASSIFIED

May 26, 1971

HONDURAS - STUDENT LOAN FUND - EDUCREDITO

TABLE OF CONTENTS

	<u>Page No.</u>
PART ONE: SUMMARY AND RECOMMENDATIONS	1
PART TWO: PROJECT	7
Section I. NATURE OF THE PROJECT	7
A. Description of Activity	7
1. Definition	7
2. Limits of AID Financing	8
3. Operating Criteria	8
B. Background of the Project	15
1. Genesis of the Project	15
2. Evaluation of Previous Assistance	15
3. Review and Recommendations of the Country Team	16
4. Opinions of Other Institutions	16
C. Program Justification	16
1. Place of the Project in the Country Program	16
2. Project Contribution to the Economic Development of Honduras	17
3. Building of Democratic Institutions	18
4. Consistency with the CIAP Reviews	18
5. Certification of the USAID Director	19
Section II. PROJECT ANALYSIS	20
A. Borrower	20
1. Principal and Participating Entities	20
2. EDUCREDITO's organization	21
3. EDUCREDITO's management	22
Manpower Development - a related activity	25
Technical Considerations	27
EDUCREDITO's program	27
Technical Assistance	28
3. The demand for loans	29
4. Technical Conclusions	32
D. Economic Evaluation	32
E. Financial Analysis	33
1. Past Operations	33
2. Future Plans	35
3. Alternative Sources of Financing	39
4. Local Cost Financing	39
5. Other Financial Considerations includ- ing prospects for loan repayment	40
6. Financial Conclusions	41

Section III. LOAN ADMINISTRATION	42
A. Project Execution	42
1. Execution Plan and Responsibility for Actions	42
2. USAID Monitoring Responsibilities	42
3. Technical Assistance	43
B. Implementation Procedures	43
1. Target Dates	43
2. Disbursement Procedures	43
3. Procurement Procedures	44
C. Conditions and Covenants	45
Section IV. ISSUES	47
PART THREE: ANNEXES	
Annex I:	
Exhibit 1	IRR Approval
Exhibit 2	USAID Director's Certification
Annex II: Project Details	
Exhibit 1	Borrower's Statutes
Exhibit 2	Borrower's Rules and Regulations
Exhibits 3,4,5	Legal documents pertaining to Borrower's juridical status
Exhibit 6	University-level loans granted by field of study
Exhibit 7	Vocational-level loans granted by field of study
Exhibit 8	Loans granted by country of study
Exhibit 9	Letter from the GOH Minister of Economy and Finance
Exhibit 10	Breakdown of budgeted administrative costs
Exhibit 11	Breakdown of borrower's endowment
Exhibit 12	List of other prospective supporters
Exhibit 13	Biodata of EDUCREDITO personnel
Exhibit 14	Projected cash flow statement
Exhibit 15	Year-end balance sheets 1968-1970
Exhibit 16	CSUCA study table on need for trained personnel
Exhibit 17	EDUCREDITO Loan Application Form
Exhibit 18	Analysis of Loan Application

UNCLASSIFIED

Exhibit 19 Loan Approval Form
Exhibit 20 Information on Students who had
 completed studies as of 12-31-70

Annex III: STATUTORY CHECKLIST

Annex IV: DRAFT LOAN AUTHORIZATION

UNCLASSIFIED

May 26, 1971

HONDURAS
STUDENT LOAN FUND - EDUCREDITO

PART ONE: SUMMARY AND RECOMMENDATIONS

1. Borrower. The Borrower will be the Government of Honduras, acting through the Ministry of Economy and Finance. The Government will re-lend the entire amount of the loan to EDUCREDITO, a non-profit private Honduran organization which operates a student loan fund to help finance studies both in-country and abroad, and which will be responsible for implementing the project.

2. Loan:

- A. Amount - Not to exceed US \$2,000,000.
- B. Terms - A 40-year repayment period including a grace period of 10 years and an amortization period of 30 years, with annual interest of 2% during the grace period and 3% during the amortization period.
- C. Local Cost Component - Up to the equivalent of \$600,000 will be made available for financing a portion of the local currency costs of the project.

3. Description of the Project:

- A. The project for which A.I.D. financing is proposed consists of an expansion of EDUCREDITO, which lends to students wishing to undertake or continue vocational or university level studies either in Honduras or abroad. Most of the A.I.D. funds will be used for sub-loans to provide seed capital for a revolving loan fund.
- B. The proposed loan will assist in the financing

UNCLASSIFIED

of: (i) sub-loans to students to complete programs of study, (ii) technical assistance to EDUCREDITO and, (iii) a portion of EDUCREDITO's administrative expenses during the loan disbursement period of five years.

C. This project is to be coordinated with manpower development and research activities to be performed by a separate Honduran organization explained below in Section II, page 25.

4. Purpose:

The purpose of the project is to expand and develop an institution which channels resources to help increase the number of Hondurans with professional and managerial skills. EDUCREDITO is already making an effective contribution by providing loans to those who have the capability to continue or complete their education but who for economic reasons might not otherwise be able to do so.

5. Financial Plan:

The following table shows the overall plan over a five-year period for sources and uses of funds for the project: (in thousands of dollars)

	<u>AID LOAN</u>		<u>GOH LOAN</u>	<u>OTHER LOCAL</u>	<u>TOTALS</u>
	\$	LC	LC	LC	\$ + LC
Sub-loans	1,375	450	250	70	2,145
Adm. Expenses	-	125	-	130	255
Tech. Assistance	25	25	-	-	50
TOTALS	1,400	600	250	200	2,450

UNCLASSIFIED

Page 3 of 48

6. Other Sources of Funds:

- A. The IBRD and IDB indicated in their letters of January 26 and February 18, 1971 respectively that they were not interested in financing this project. The Exim Bank determined on January 21, 1971 that it was not interested in the project. The Central American Bank for Economic Integration (CABEI) is not interested in the project due to the need for concessionary terms and the fact that programs of this type are not now within the scope of the Bank.
- B. Other U.S. or free world financing is not available for the project due to its nature.

7. Statutory Criteria:

All statutory criteria applicable to this loan have been or will be met. See Annex III for details.

8. Views of the Country Team:

The Country Team has concluded that this project directly supports the most important objective of the Mission's Country Assistance Program, which is to encourage the development of the human resources necessary to carry out, and to participate in, the development process. Both the Government of Honduras and the Mission have recognized the fact that the principal obstacle to economic development in Honduras is a lack of skilled managers, technicians, professionals and teachers. The CFS and other program documents have all indicated this need for qualified manpower to be vitally important.

9. Issues:

The Mission's Capital Assistance Committee has studied the issues mentioned in the IRR for this loan, those raised in the IRR approval and others connected

UNCLASSIFIED

UNCLASSIFIED

Page 4 of 48

with similar projects in different Latin American countries. The Mission believes that the important issues have been resolved during the Intensive Review and detailed discussions of these points appear throughout the Capital Assistance Paper. The Mission believes that the most important issue is whether EDUCREDITO has the capability to undertake an expansion of this size, to which our answer is yes. Please refer to Section IV, Issues, for a discussion of this particular question.

10. Loan Administration:

This loan will be monitored by the Mission Training and Manpower Development Officer with the assistance of the Capital Development Officer and the Education Advisor. Close contact has already been established by the Mission and by the Government of Honduras with EDUCREDITO in connection with its formation, organization, initial financing, and preparation of the application for this loan. Disbursements will be made in both dollars and local currency through established A.I.D. procedures. Training financed under the loan will be in Code 941 countries only. Technical assistance will be partially provided by ICETEX of Colombia, with which EDUCREDITO has already established contacts.

11. Recommendations:

On the basis of the conclusion by the Mission that the project is technically, economically, and financially justified and sound, it is recommended that a loan to EDUCREDITO for an amount not to exceed \$2,000,000 be authorized subject to the following terms and conditions:

- A. Loan Terms: Borrower shall repay the loan to the Agency for International Development (AID) in United States dollars within forty (40) years from the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars interest of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter on the outstanding balance.

UNCLASSIFIED

UNCLASSIFIED

Page 5 of 48

B. Other Terms and Conditions:

1) The GOH and EDUCREDITO shall execute a sub-loan agreement acceptable to A.I.D. making the entire amount of the loan available to EDUCREDITO in order that it may carry out the project. The terms of this sub-loan agreement shall not be modified except as may be mutually agreed by A.I.D., the GOH, and EDUCREDITO.

2) Training, technical assistance and all other procurement financed under the loan shall have its source and origin in countries included in A.I.D. Geographic Code 941, including Honduras.

3) Annually, throughout the A.I.D. loan disbursement period, EDUCREDITO shall present to A.I.D. for review, a plan, including a cash budget, for the management during the following year of the sub-loan revolving fund established through repayments of loans previously made, together with appropriate financial statements covering the previous year's operations.

4) Loan-funded technical assistance required for further improvement of EDUCREDITO's operations will be obtained as appropriate during the loan implementation period on terms and conditions mutually agreed upon by EDUCREDITO and A.I.D.

5) During the A.I.D. loan disbursement period, any proposed substantial changes to be made by EDUCREDITO to the present student selection criteria, standard sub-loan terms, or other matters which would have a major effect on modifying EDUCREDITO's current established operating procedures shall receive prior approval by A.I.D.

6) EDUCREDITO shall inform A.I.D. of any operational changes made during the A.I.D. loan disbursement period which involve matters of personnel policy such as staffing, salary levels and administrative costs.

UNCLASSIFIED

UNCLASSIFIED

Page 6 of 48

7) Semi-annually during the first year, and annually each year thereafter during the A.I.D. loan disbursement period, a joint review of the progress of the program will be held by representatives of A.I.D., EDUCREDITO, and the Government of Honduras.

8) Except as A.I.D. may otherwise agree in writing, the amount of the loan used to finance Local Currency Costs shall not exceed the equivalent of \$600,000.

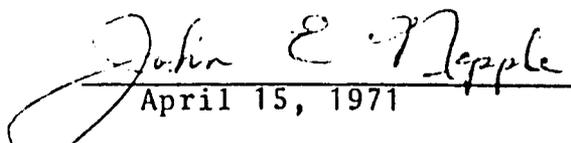
9) Disbursements under the A.I.D. loan shall be subject to the condition that the total amount disbursed under the loan shall at no time exceed the dollar equivalent of ten (10) times the total cash receipts of local donations to EDUCREDITO received subsequent to March 9, 1971.

10) The loan shall be subject to such other terms and conditions as the Borrower, EDUCREDITO, and A.I.D. shall consider appropriate.

12. Composition of the Mission's Capital Assistance Committee:

Chairman: *Harry L. Barr, Capital Development Officer
Members: *Robert D. Brandt, Training & Manpower
Development Officer
*Raymond L. San Giovanni, Education Advisor
Bernard L. Riedel, Controller
Charles B. Wiggin, Jr., Private Development
Officer
Richard Rueda, Embassy Economic Officer
Thomas J. Mehen, Program Officer
*Robert R. Parker, Regional Legal Advisor
Harlan Hobgood, Public Administration Advisor

APPROVED: John E. Nepple, Acting Mission Director


April 15, 1971

*Drafting Officers

Rate of Exchange: 1 Lempira = US \$0.50

UNCLASSIFIED

UNCLASSIFIED

Page 7 of 48

PART TWO: The Project

Section I - Nature of the Project

A. Description of Activity

1. Definition

This project constitutes an expansion and strengthening of EDUCREDITO, a student loan fund organization, by providing the external assistance necessary to enable it to carry out its goals and objectives related to the development of human resources and to become a self-sustaining financially stable institution.

EDUCREDITO was formed in 1968 to carry out a student loan program with funds obtained from government and private contributions and loans. The portfolio of sub-loans to students has increased to approximately \$270,000 (authorized) as of the end of 1970. A.I.D. loan assistance has now been requested by EDUCREDITO in order that it can greatly increase its sub-lending capabilities and reach a point of financial self-sufficiency. For the past 2 1/2 years, EDUCREDITO has been functioning with limited resources which were obtained through private contributions and a loan from the GOH using A.I.D. two-step funds.

The specific objective of this project is to develop EDUCREDITO into a viable self-sustaining institution in order to continue its sub-loan program designed to contribute to the development of Honduran manpower resources and their effective utilization by providing seed capital and financing technical assistance to EDUCREDITO.

In addition to the sub-lending activities already being carried out, an important related activity will also be started during FY1972. It consists of a manpower

UNCLASSIFIED

UNCLASSIFIED

development and research program to be carried out and coordinated by the Centro Cooperativo Técnico Industrial (CCTI), a private Honduran organization instrumental in the founding of EDUCREDITO. Details of this related project are included in Section II beginning on page 25 under Manpower. The Mission has recently obtained the services of a full-time Training and Manpower Development Officer who is in charge of monitoring and developing these activities in connection with both CCTI and EDUCREDITO.

2. Limits of A.I.D. Financing:

The A.I.D. loan funds to be made available to EDUCREDITO by the Government of Honduras through a sub-loan agreement will be used for: (in thousands of dollars)

	<u>Dollars</u>	<u>L/C</u>	<u>Total</u>
Sub-loans to students	1,375	450	1,825
Administrative expenses	-	125	125
Technical Assistance	25	25	50
	<u>1,400</u>	<u>600</u>	<u>2,000</u>

3. Operating Criteria:

EDUCREDITO has been operating since July, 1968 and has established an effective system of operations including procedures for review of loan applications, approval of loans, accounting and financial management, and disbursements. It is obvious that with a relatively small portfolio of slightly over 100 loans as of December, 1970, control procedures for this program can be and in fact are largely carried out on an individual case basis. Within this limited scope, EDUCREDITO's administrative system has developed very well. In addition, the lending criteria, terms, interest rates, etc., up to this time have been by all appearances satisfactory, primarily because during this period of operations, administrative expenses of EDUCREDITO have been very low (about \$11,000 in 1970). The GOH loan for the local currency equivalent of \$250,000 made to

UNCLASSIFIED

Page 9 of 48

EDUCREDITO on January 9, 1969 and private contributions (\$31,000) have formed EDUCREDITO's financial base up to this point.

As of December 31, 1970, EDUCREDITO had granted 105 loans for a total of \$269,603.05 of which \$140,141.85 had been disbursed. Of these students, 16 had already completed their study programs, received certificates (in the case of vocational studies) or completed degree programs (in the case of university-level studies) and had begun to repay their loans. Specific information on these 16 cases is shown in Annex II, Exhibit 20 and is discussed below. A total of \$8,839.86 had been collected in loan repayments as of 12/31/70.

The Mission believes that the experience which EDUCREDITO has had with these 105 cases does provide a sound base upon which future plans and forecasts may be made, since this experience has not been characterized by any special circumstances, rather, by normal operations over a 2-year period of time. EDUCREDITO intends to continue operating in much the same way as has already been done.

a. Criteria for sub-loans:

It is EDUCREDITO's policy to make loans only in cases where such a loan will either enable a student to start and to finish a definite study program or to continue and complete a program in which he is already engaged. No loans are made which would carry a student only part way. Obviously, this policy makes sense from many viewpoints but the reason upon which EDUCREDITO places the most emphasis is that EDUCREDITO's Statutes require that a student return to Honduras and work after completing a study program, not only in order to encourage repayment of loans, but also to assure that these additional trained personnel will contribute to the development of their own country rather than migrating overseas.

Loans up to this time have been granted for vocational,

UNCLASSIFIED

UNCLASSIFIED

Page 10 of 48

undergraduate, and graduate studies. The Loans completely or partially cover costs of tuition, room and board, transportation, personal expenses, life insurance, and intensive language training depending on each particular case. EDUCREDITO regulations state that loans will be granted to Honduran citizens of limited economic resources who can prove that they have obtained an overall academic average of at least 70% and are unable to finance their own studies, and that their field of specialization is of a professional or technical nature.

At the present time, EDUCREDITO's rules and regulations contain a limitation of a maximum of three years on the period of study which will be financed under any given loan. This limitation was established for several reasons. First of all, EDUCREDITO feels that since educational credit of this type is a new activity in Honduras, it is risky since the experience of EDUCREDITO up to now can really be termed experimental. In this particular case, it appears that the experiment as such has been a success. In addition, EDUCREDITO's resources up to now have been limited and this limitation also enables EDUCREDITO to serve more students. The Director also points out that in many cases, a student or his parents can look for other sources of financing for education through "extraordinary effort". He feels that "keeping the pressure on" the sub-borrowers in this way encourages this type of supplemental assistance.

However, since the A.I.D. loan will provide sufficient funding for EDUCREDITO's program, EDUCREDITO will now consider an increase in this limitation which will in some cases make loans to individual students more suitable to his particular educational program. It is anticipated that this change may be made during the first year of operations with A.I.D. loan funds.

Loans made up to March 31, 1971 have the following terms: 3% annual interest has been charged during the time the student is in school. These interests costs are capitalized and added to the principal of the loan. When studies end, the student is given a three-month

UNCLASSIFIED

UNCLASSIFIED

Page 11 of 48

grace period during which time he is presumably to return to Honduras, find a job and settle. He then begins making monthly payments on his loan. Annual interest during this amortization period is 6%, and a student is given up to 5 years to repay depending on his salary level and certain other factors. Two significant changes to the present EDUCREDITO sub-loan policies have taken place during the Intensive Review. As a result of financial projections recently carried out, EDUCREDITO raised the 3% grace period interest to 6% effective on loans made after April 1, 1971. This was done since it was apparent that with a 3% interest rate, there would not be sufficient income generated to make EDUCREDITO self-sufficient in a reasonable period of time and the cash flow projections made with this low rate were unsatisfactory. Second, it was decided by EDUCREDITO personnel that the 5-year maximum repayment period after studies end would in some cases place a severe repayment burden on the sub-borrower. Thus, this maximum term for sub-loans was increased to 8 years. However, it should be emphasized that the decision on what the loan terms will be in each case depends more upon the student's ability to pay than it does on what the student may feel to be convenient for him. EDUCREDITO's policy is to encourage repayments in as short a period as is practical.

b. EDUCREDITO's sub-loan process:

The procedures used by EDUCREDITO to receive, analyse, and decide upon loan applications can be summarized as follows: Students who are interested in a loan are asked to complete an application form, a translation of which is included in Annex II, Exhibit 17 of this paper, which provides information on the student's educational and financial background, and upon his plans for study. He also must present a series of accompanying documents such as birth certificate, letters of reference, transcripts, etc. Details of the documents required are contained in Annex II, Exhibit 1.

UNCLASSIFIED

UNCLASSIFIED

Page 12 of 48

This package of information is then studied by the Secretary-Treasurer of the Funding Committee in preparation for submittal to the Funding Committee for approval. This review process is very important because the information and request presented by the student are often unrealistic from a number of standpoints. For example, many times the student has not accurately estimated the costs of further education, has chosen a program which may not be suitable for him for one reason or another, or may have proposed a program which EDUCREDITO could accept if it were modified and recast in a different form, in order to put his proposal more in line with his overall educational needs. At this juncture, the importance of counseling must be considered. At present, this job falls upon the Director and the Secretary-Treasurer of EDUCREDITO, to assist the student in rethinking the proposal that he has presented, how carefully he has estimated all of the costs of one or two years at college in a foreign country, whether he has adequate knowledge of the foreign language, whether he has in fact come to the decision on the degree program or career of his choice after having thoroughly considered the alternatives available to him. This counseling role must in the future be expanded in order to insure that EDUCREDITO can give as much and even more attention to each individual applicant as is being given now.

These interviews with the student also give EDUCREDITO's staff a chance to evaluate him and to determine how much of his own or his family's financial resources can logically be applied to financing him. In answer to the question of how much is logical, the only reply really possible is that this is a subjective judgement which must be made by the student and the Funding Committee. EDUCREDITO's decision on this point for each particular case obviously depends upon comparing each loan application to previous cases, thus heavily basing the determination upon past experience. It should suffice to say that based upon the Mission's review of many individual cases, in general the amount of self-help financing involved is very significant,

UNCLASSIFIED

UNCLASSIFIED

Page 13 of 48

especially taking into account the fact that a student maybe asked to finance one or more years of study completely on his own to prove his worthiness to EDUCREDITO.

After interviews with the applicant and a thorough evaluation of his loan application, the Secretary-Treasurer prepares an Analysis of Application, to be presented to the Funding Committee. Translations of this document, and of the resolution of the Funding Committee entitled the "Loan Approval Form" are contained in Exhibits 18 and 19. Again, here, it is obvious that the recommendations of the Secretary-Treasurer and the decisions of the Funding Committee are primarily based upon past experience and the personal judgement of the committee members, all of whom the Mission feels are well-qualified for these positions. Biodata of these persons is contained in Annex II, Exhibit 13.

For each approved loan application, the student executes a standard sub-loan agreement with EDUCREDITO which obligates the student to obey all the rules and regulations of EDUCREDITO. After signature, this document is then notarized and becomes a legal instrument, giving EDUCREDITO legal recourse to collect the debt if necessary. Disbursements are made in many cases directly to the institutions such as for tuition, room and board, travel expenses, etc. For personal expenses, the student is mailed a check every two months, in advance. To guarantee his loan, each student must obtain either two cosigners or some other guarantee taking due consideration of the applicant's background.

Loans are collected through monthly payments by check or in cash. In the case of an overdue loan, an established procedure has been developed which has thus far resulted in no losses and only one overdue loan which is now being paid 5 months in arrears. The delinquency rate as of December 31, 1970 was 1.3%. This procedure for dealing with delinquent accounts involves telephone calls, letters to the borrower, then to his

UNCLASSIFIED

UNCLASSIFIED

Page 14 of 48

co-signers, and, finally, legal action.

Under EDUCREDITO's statutes, students are obligated to return to Honduras to work after completing their studies. Should the student decide not to return to Honduras at that time, the loan becomes immediately due and the interest rate is increased to the prevailing commercial rate in Honduras at the time. For further details, see Exhibits 1 and 2.

c. Other Functions of EDUCREDITO:

At the present time EDUCREDITO, in addition to operating the loan program, is performing some counseling to students as described above, but as the organization develops, it will incorporate other forms of technical assistance including orientation, placement and guidance.

EDUCREDITO intends to place greatly increased emphasis on placement services for students who have completed their programs and at present, gives the student letters of recommendation to present to prospective employers.

Exhibit 20 shows a detailed breakdown of activities of those students who had completed their studies through 1970 and the Mission feels that although this is a small sample, it is indicative of the types of positions that EDUCREDITO students can be expected to continue occupying in the future. This type of follow-up activity by EDUCREDITO must obviously be continued and expanded as the program grows.

As of December 31, 1970, 105 loans had been made for study in various fields such as business administration, agronomy, medicine, architecture, engineering, forestry, as well as various vocational fields. Foreign countries of study included the U.S.A., Mexico, Canada, Guatemala, Nicaragua, France, and Spain. Please refer to Annex II, Exhibits 6, 7, and 8 for lists of loans granted according to fields and countries of study.

UNCLASSIFIED

UNCLASSIFIED

Page 15 of 48

B. Background of the Project:

1. Genesis of the Project:

Following an organizational meeting on July 22, 1968, EDUCREDITO was officially established on August 12, 1968, by Presidential Decree No. 47. EDUCREDITO's organization and administration are the responsibilities of the General Assembly composed of representatives from government and the private sector. The Funding Committee is responsible for approval of loans and also is composed of similar representatives.

From its inception to the present time, EDUCREDITO has functioned under the wing of the Centro Cooperativo Técnico Industrial (CCTI) and has been very fortunate in having had an extremely capable and dedicated management and staff. EDUCREDITO is one of many activities which have been founded by CCTI during the last ten years and because of its character and degree of success thus far, the Mission is now proposing that EDUCREDITO be assisted through an A.I.D. loan. As is obvious from a reading of the documents related to EDUCREDITO's formation in Annex II, the short time which was necessary for EDUCREDITO to obtain official recognition by the GOH and its rate of growth during the past 2 1/2 years, EDUCREDITO has a broad base of support within many sectors of the Honduran community. The Mission feels that this is due in a large part to its being a private entity and to its dedicated staff.

In late 1970, EDUCREDITO initiated discussions with A.I.D. about the possibility of a loan to finance expansion. An IRR was prepared and submitted in December, 1970 and EDUCREDITO submitted its formal A.I.D. application on March 9th, 1971. The principal difference between the proposed loan and EDUCREDITO's request is that the A.I.D. loan is being made to the Government of Honduras, which will in turn relend to EDUCREDITO. This is done principally to place the maintenance of value obligation with the Government of Honduras.

2. Evaluation of Previous Assistance:

Previous assistance to EDUCREDITO has consisted of

UNCLASSIFIED

\$5,000 in A.I.D. grant funds as a contribution to the program's endowment and a loan in local currency for the equivalent of \$250,000 made by the GOH on January 9, 1969 with two-step funds available through repayments to the GOH of A.I.D. Loan 522-L-016 to the Financiera Hondureña. During mid-1970, the possibility of a second loan for the equivalent of \$250,000 with two-step funds was raised and A.I.D. personnel conducted a brief evaluation of EDUCREDITO's performance up to that time. It was concluded that operations under the first two-step loan had been entirely satisfactory. As a result, the GOH and EDUCREDITO subsequently signed a second loan for the equivalent in local currency of \$250,000 of two-step funds which will be disbursed by the GOH during 1972 and 1973. The terms of both of these loan agreements have been approved by A.I.D.

3. Review and Recommendations of the Country Team:

a. An IRR was submitted to AID/Washington on December 22, 1970 and it was approved on December 30, 1970 with certain comments and recommendations regarding the Exhibit 1 for a copy of State 006119 dated January 14, 1971 indicating IRR approval.

b. The Mission's Capital Assistance Committee met to consider this Capital Assistance Paper and the recommendations made as a result of the Intensive Review. The Mission approved this Capital Assistance Paper on April 15, 1971.

The Country Team recommends approval of this project for loan financing due to its high importance in the country's development plans, the assurance that a positive contribution to development will continue to be made by EDUCREDITO, and the excellent prospects for effective administration and loan implementation as is evidenced by the performance of EDUCREDITO to date. For these reasons, the Country Team recommends that this loan be authorized.

4. Opinions of Other Institutions:

Please refer to Page 3 of Part One for the comments of the other international lending agencies. On the basis of these comments, the Mission has concluded that no other free world financing is available for this project.

C. Program Justification:

1. Place of the Project in the Country Program:

The low level of economic and social progress in

UNCLASSIFIED

Page 17 of 48

Honduras is related to a lack of skilled and professional human resources required to establish the development growth of the country at an acceptable rate. Population growth and increased requirements for skilled manpower have outstripped the ability of the educational system to produce the human capital required to keep pace. This problem was emphasized in the Honduras FY72, 73 CASP and the FY72 CFS. These documents focused on the need to include in the assistance program some substantial measures to help Honduras to overcome the shortage of trained personnel. The Mission, recognizing the critical importance of manpower development, has programmed substantial amounts in FY70, 71 for participant training in connection with its grant technical assistance projects. The EDUCREDITO loan will both complement and aid the Mission's training effort. Secondary school graduates will be provided with increased opportunities to specialize and obtain advanced training. Areas in which the technical assistance has been operating such as Public Administration, Agriculture, Forestry will be further assisted by the creation of source of funds in addition to the limited participant grants.

In addition to these efforts, A.I.D. made a loan to the GOH in 1967 for the improvement of public secondary education (522-L-017 - \$7,000,000). This loan is designed to bring secondary education within the reach of a vastly-increased number of Honduran school children by reorganizing and expanding the secondary school system, including the construction of 19 secondary schools throughout the country. This loan is currently being implemented. When this project is completed, the number of high school students will have been significantly increased, thus providing an increase in the number of high school graduates, some of whom will have the capabilities for higher education. Some statistics illustrating this situation are included below under Demand for Loans, beginning on page 26.

5220076
208d

2. Project Contribution to the Economic Development of Honduras:

This project contributes directly to the develop-

UNCLASSIFIED

UNCLASSIFIED

Page 18 of 48

ment of the necessary human resources to help carry forward economic development in all sectors. It will assure that planning, administrative, professional, and technical personnel in key development areas such as industry, banking, health, and government will continually be injected into the Honduran economy. This group of trained persons will be those who will hold key professional and semi-professional jobs in both government and the private sector in the future. This project falls within the educational sector but also affects progress in other sectors due to its contribution towards training personnel for work in the other sectors. EDUCREDITO is already and will continue to bring greater and expanded educational opportunities within the reach of Hondurans who have the ability for higher achievement but are not able to realize it due to a lack of financial resources.

3. Building of Democratic Institutions:

This project contributes to the building of democratic institutions in Honduras by assisting in the training of personnel to form and to manage such institutions, and thus to enable the people to participate in the development process. In addition, it must be considered that EDUCREDITO itself is an institution which was organized by private individuals with the cooperation of the public sector having the objective of organizing efforts to attack the problem of a lack of trained personnel in Honduras. Thus, the loan also contributes to institution building by strengthening EDUCREDITO itself.

4. Consistency with the CIAP Reviews:

The most recent CIAP Review on Honduras took place in April, 1970. One of the recommendations made at that meeting and also at the previous meeting in October, 1968 is for continual efforts devoted to promotion of the development of human resources through improvements in the educational system at all levels, the promotion

UNCLASSIFIED

UNCLASSIFIED

Page 19 of 48

of training programs, and the improvement of incentives for teaching as a career.

The Mission believes that this project contributes directly to the development of human resources and as such is wholly consistent with the conclusions set forth in the CIAP Reviews.

5. Certification of the USAID Director:

The USAID Acting Director certified on April 15, 1971 as to the satisfactory performance by the GOH and EDUCREDITO with respect to previous A.I.D. loans and to EDUCREDITO's capabilities to implement the proposed loan. Annex I, Exhibit 2 contains a copy of this certification.

UNCLASSIFIED

UNCLASSIFIED

Page 20 of 48

SECTION II - Project Analysis

A. Borrower

1. Principal and Participating Entities:

The Borrower will be the Government of Honduras, acting through the Ministry of Economy and Finance. The Government will relend the entire amount of the loan to EDUCREDITO, a private, independent, non-profit organization formed on July 22, 1968 and granted legal status on August 12, 1968 through Decree No. 47 signed by the President of the Republic of Honduras. Since the A.I.D. loan will be denominated in dollars and the GOH-EDUCREDITO loan in local currency, the Maintenance of Value risk will be assumed by the Government.

EDUCREDITO was formed for the purpose of helping to overcome the lack of qualified trained personnel in Honduras through the operation of a student loan fund. Annex II, Exhibits 3, 4, and 5 contain translations of the legal documents related to EDUCREDITO's formation, including the minutes of the meeting at which EDUCREDITO was organized. These documents are the bases upon which EDUCREDITO has established its rules and regulations, which were previously discussed and are contained in Annex II, Exhibits 1 and 2. EDUCREDITO will have the entire responsibility for the implementation of this project.

During the intensive review process, the Mission investigated the issue mentioned in the IRR of whether the Borrower under the A.I.D. loan should be EDUCREDITO or the Honduran Government. The point in question was what party should assume the maintenance of value responsibility.

At first, EDUCREDITO and the Mission considered the possibility of denominating those loans made to students for study outside Central America in dollars in order to pass on in this manner some of the maintenance of value responsibility. However, this is apparently prohibited by Honduran law and did not appear entirely satisfactory. Another alternative would have been to obtain a GOH guaranty similar to that used in

UNCLASSIFIED

UNCLASSIFIED

Page 21 of 48

A.I.D. Loan No. 517-L-024, Dominican Republic: Educational Credit. After discussions with the GOH, this proved not to be feasible. EDUCREDITO then proposed the alternative recommended in this paper, which is that the GOH in effect guarantee repayment of the loan in dollars by acting as the Borrower under the A.I.D. loan and at the same time assume the maintenance of value risk by relending the entire amount of the loan to EDUCREDITO in local currency. Annex II, Exhibit 9 contains a translation of a letter from the Minister of Economy and Finance to this effect.

2. EDUCREDITO's Organization:

EDUCREDITO's Statutes, shown in Annex II, Exhibit 1, show how EDUCREDITO is organized. A General Assembly has the overall responsibility for policy and matters of prime importance to the organization, and is composed of all the "members" of EDUCREDITO, who are those who have contributed funds or support in one form or another to the program. The General Assembly generally meets once a year but can be called into special session as necessary. Officers of the General Assembly are elected every year and consist of a President, a Vice-President, and a Secretary. The last meeting of the General Assembly was held on March 10, 1971. At that meeting the following people were elected to those offices: President: Oscar Gale Varela, President of the Sindicato de Trabajadores de la Tela Railroad Company (SITRATERCO-a labor union of workers of the United Fruit Company); Vice-President: a representative of the GOH Ministry of Economy and Finance; Secretary: Lic. Mario Rietti, of the Financiera Hondureña, a private development bank.

Principal operating responsibility for EDUCREDITO is in the hands of the "Funding Committee" which is composed of six members elected by the General Assembly, and the Director of this committee functions as the principal executive officer of the organization. The

UNCLASSIFIED

UNCLASSIFIED

Page 23 of 48

the management personnel are of extremely high caliber. The Director works as a fund-raiser, promoter, coordinator, and organizer. It is through his efforts that EDUCREDITO has obtained its respected status and position which it now holds within the Honduran community. The Director has recognized the extreme importance of establishing a broad base of support in order to raise the necessary funds as well as to secure cooperation from various government and private entities. An example of the success of these efforts is that a honduran airline, (SAHSA), has offered to provide certain free transportation for EDUCREDITO students along its routes. The Director repeatedly speaks of the need to preserve the "mystique" which has been successfully developed during the last two years.

The Secretary-Treasurer, in cooperation with personnel of the accounting firm under contract to EDUCREDITO, has carried out the financial management and guidance necessary to assure successful operation. The other personnel are not of primary importance to the management of the organization but carry out the staff work necessary for successful operations.

EDUCREDITO and A.I.D. personnel are currently considering what type of organizational structure will be necessary in the future to handle the increased volume of operations. The basic model will be very much along the same lines as ICETEX with two divisions, academic and financial, reporting to the Director. These two divisions will be staffed with a few responsible people paid competitive salaries. It is anticipated that hiring will be done slowly during the period of A.I.D. loan disbursements in accordance with actual needs. Please see Annex II, Exhibit 10 for a proposed schedule of administrative positions and costs during the next five years of operations.

UNCLASSIFIED

UNCLASSIFIED

Page 24 of 48

Annex II, Exhibit 11 shows a schedule of donations to EDUCREDITO's endowment through 1970. Further fund-raising activities are now underway and assistance is being provided by the International Executive Service Corps (IESC). The sources now being approached include the larger industrial concerns, many of them in San Pedro Sula and the north coast area, semi-autonomous or autonomous agencies of the GOH such as the Empresa Nacional de Energia Electrica, the Empresa Nacional Portuaria and the Banco Nacional de Fomento. The Director of EDUCREDITO is confident that he will be able to raise \$200,000 (shown above on page 2 in the summary) during the disbursement period of the A.I.D. loan, in order to comply with the suggestion put forth in the IRR approval that A.I.D. loan funds be disbursed according to the ratio of \$10 of A.I.D. funds for every \$1 raised locally within Honduras. An appropriate restriction on disbursements under the A.I.D. loan will thus be included in the Loan Agreement. In addition to the contributions shown in Exhibit 11, Exhibit 12 shows a list of private organizations, both in-country and abroad with whom other contacts have already been established. As a non-profit organization under Honduran law, EDUCREDITO may receive tax-free donations.

The curricula vitae of the people who manage and administer EDUCREDITO are included in Annex II, Exhibit 13. These are people of proven ability who have been hired away from previous jobs with other Honduran institutions, including the National University. The Mission has a very high opinion of the quality of the personnel involved with this project because of their positive achievements. One of the deciding and indeed perhaps the most critical factor taken into account by the Mission in recommending authorization of this loan is the uniformly high caliber of the personnel associated with EDUCREDITO. The Mission feels that in an organization as small as this, which primarily depends upon the human element rather than upon equipment, technical knowhow, or other similar factors, this is the most important consideration. The Mission intends to encourage the hiring of ex-participants of either EDUCREDITO or A.I.D. participant training programs in order to give the

UNCLASSIFIED

UNCLASSIFIED

Page 25 of 48

best possible orientation to the organization.

When the A.I.D. loan becomes effective, the organization will gradually begin to expand. New employees will be trained by present personnel and some replacement of personnel will undoubtedly take place over the loan disbursement period as some current personnel move on into other activities. EDUCREDITO's administrative costs have thus far been partially subsidized by CCTI, and EDUCREDITO's most capable people have worked for both organizations simultaneously. CCTI intends to spin off EDUCREDITO as soon as A.I.D. funds are available for disbursement.

The Mission believes that EDUCREDITO has the management capabilities necessary to undertake an expansion of this size. This judgement is based upon the very satisfactory performance of EDUCREDITO during the past 2 years, the quality of the A.I.D. loan application and the very effective cooperation between Mission and EDUCREDITO staffs during the intensive review process in developing sound realistic financial plans.

In the Mission's opinion, one of the most important management functions within EDUCREDITO is financial planning and budgeting. The methods currently being used and future modifications of them which are now being developed will be discussed in the financial analysis section of this paper.

EDUCREDITO has already established contact with ICETEX of Colombia in connection with improvements and development of operating procedures and overall organization. Loan funds will be provided to help continue financing exchange of personnel, training, trips, meetings, etc., between the two organizations. Any other type of technical assistance which may be needed could also be arranged under the loan. Some assistance in accounting and financial management will be obtained in-country from organizations such as the Financiera Hondureña.

B. Manpower Development - A Related Activity:

Although the purpose of this A.I.D. loan is to provide seed capital, technical assistance, and to cover in part EDUCREDITO's administrative expenses for a limited period, both EDUCREDITO and its related organization CCTI have realized the necessity to move

UNCLASSIFIED

UNCLASSIFIED

Page 26 of 48

into the field of manpower resources development and research activities. The Mission is now studying the possibility of assisting these efforts with grant funds beginning in FY1972, initially through the Department of Human Resources Utilization of CCTI which is already functioning.

CCTI has stated the objectives of this department as follows:

1. Periodically investigate human resources needs in the country in accordance with national development plans.
2. Investigate the output of the Honduran educational system.
3. Determine future human resources needs for organizations in the private sector as well as within the government, establishing priority fields of training.
4. Maintain, in coordination with the Council for Economic Planning, up-to-date information concerning scholarships available to Hondurans and promoting their utilization in the most productive manner.
5. Organize an employment service for effective utilization of human resources by private enterprise and the government as well as orientation and determination of priorities in training programs of various businesses and organizations.

CCTI itself is a private institution which is involved in a large number of different types of programs such as development of artisan activities, a recently-inaugurated permanent commercial exposition of Honduran products, "cursillos" in fields such as business administration, accounting, vocational and mechanical skills, civic development and leadership training, various community development projects, and loans to small industries. CCTI is principally based on the philosophy that the Honduran private sector must be

UNCLASSIFIED

UNCLASSIFIED

Page 27 of 48

strengthened and that the people themselves must participate in the development process if meaningful strides are to be made by the country in economic development. CCTI has received broad support from government, semi-government and private entities and is continually seeking to expand its activities.

These manpower development activities of CCTI will be coordinated with other Honduran institutions who are also already involved to a limited degree: The Ministries of Labor and Public Education, the Central Bank, and the Economic Planning Council have all expressed interest. CABEI has also made some preliminary investigations of the possibilities of financing activities in this area as well as vocational training if it is able to set up a special Social Development Fund for such projects.

Rather than to go into further detail on this subject about which definite plans and conclusions cannot really be drawn at this time, it should be stated that the need for manpower development programming and research on a national basis in Honduras has been recognized. Such activities are not presently within EDUCREDITO's scope, but rather, are the responsibility of other agencies. However, EDUCREDITO must coordinate closely with these efforts in order to avail itself of, and utilize, all information and statistical data developed by the Manpower Development Program in the allocation of loan funds into the sectors where most urgently required.

C. Technical Considerations:

1. EDUCREDITO's Program:

The overall plan for the expansion of EDUCREDITO includes five basic areas of activity:

- Administering the sub-lending program.
- Coordinating the program with manpower research and planning activities.
- Follow-up activities to evaluate the effectiveness and impact of the EDUCREDITO program and to keep track of the contributions made by returned students.

UNCLASSIFIED

UNCLASSIFIED

Page 28 of 48

--Counseling of students and preparation with them of comprehensive educational plans.

--Maintaining contacts with industry, government and other institutions to ensure:

a) maintenance of a broad base of support for the program including EDUCREDITO's ability to continue to raise funds; and b) to assist in the placement of returned students in good positions through an employment service operation.

EDUCREDITO's expansion plan will be programmed to the results of national manpower studies which will be carried out by the human resources development section of CCTI in cooperation with other institutions. EDUCREDITO will have vital interest in all areas and services supporting human resources development.

The process of managing the sub-lending activities from a financial standpoint is discussed in detail below in Section E "Financial Analysis". This task is basically one of continual financial planning and forecasting of disbursements, loan repayments, and cost control. EDUCREDITO's present staff has developed an effective operating system for handling these activities on a small scale which will have to be greatly expanded during the disbursement period of the A.I.D. loan.

2. Technical Assistance:

As the institution grows and its financial and other operations increase, additional improvements in the accounting systems and procedures will have to be made. Credit operations may eventually have to be computerized.

It is estimated that the technical assistance required by the borrower will be limited to the following areas:

1. Establishment of a sound financial system which is vital to successful operations.
2. Short term consultants from ICETEX in Colombia to advise on methods of determination of an applicant's academic ability through the use of

UNCLASSIFIED

UNCLASSIFIED

Page 29 of 48

achievement tests for academic aptitude and language ability as well as methods for continual evaluation and upgrading of selection and placement criteria.

3. Specialized training programs to fit the needs of the institution as may be required in its various phases of operation.

Some of EDUCREDITO's personnel have already been to ICETEX for various periods of time and others will be going during April, 1971. The Mission feels that the fact that these contacts have already been made and that EDUCREDITO realizes that further assistance will be necessary indicates a sincere desire on EDUCREDITO's part to continue improving its program. With respect to the accounting system, both A.I.D. and certain private organizations such as the Financiera Hondureña will assist in its expansion. Particular emphasis will be placed on simplifying the disbursement process and also the forecasting of sub-loan repayments with greater accuracy. This is discussed in detail in Section E.

Based on these plans, it is estimated that a budget of \$50,000 for technical assistance financed under the A.I.D. loan will be sufficient, divided equally between dollar and local currency costs.

3. The Demand for Loans:

The current experience of EDUCREDITO indicates that over the past two years well over 100 fully qualified students had to be turned away for lack of funds. During 1970, 70 loans were authorized for the amount of \$171,159.24. At the end of 1970, EDUCREDITO was in a fully "loaned out" position. Assuming that no A.I.D. funds will be available during 1971, EDUCREDITO's estimated new sub-loan obligations during 1971 will be approximately \$90,000. For illustration, EDUCREDITO's 1971 lending program is shown below:

UNCLASSIFIED

UNCLASSIFIED

Page 30 of 48

Industrial Engineering	\$12,000
Agronomy	12,000
Electrical Engineering	6,000
Chemical Engineering	6,000
Economics	6,000
Medicine	15,000
Other Engineering	13,500
Vocational Education	6,500
Other Medicine (local)	2,000
Local Civil Engineering	1,000
Contractual arrangements (discussed below)	10,000
	<hr/>
	\$90,000

Past EDUCREDITO experience has shown the average loan to be approximately \$2,500. However, as the program expands, it is anticipated that this figure will increase considerably as more and more students undertake study in various foreign countries. Using this figure, \$1,825,000 in A.I.D. funds would signify a total of 730 students who could be accomodated from initial A.I.D. loan disbursements for sub-loans. This does not include those to be financed by local contributions and rollover funds provided through loan repayments. Calculating from the sub-loan disbursements shown during the five-year A.I.D. loan disbursement period 1972-1976 contained in the projected cash flow statement (Annex II, Exhibit 14), this figure increases to about 900 students to be accomodated during these five years.

It should be kept in mind that in the past, the program has had virtually no publicity and that EDUCREDITO has now stopped receiving applications and has simply had to tell interested students that almost no funds are available.

In addition to this point of view, the Department of Human Resources of CCTI is currently engaged in a program by which CCTI will enter into agreements with various private corporations and certain autonomous agencies of the Government of Honduras for studies of

UNCLASSIFIED

UNCLASSIFIED

Page 31 of 48

the human resources needs of these organizations during the next few years, including an estimate of the specific types of individuals who must be supplied in order to fill management gaps and provide for expansion. The total amount of funds which will be required in order to carry out this program then is determined. The interested institutions then put up 50% and EDUCREDITO the other 50%, and EDUCREDITO will administer an appropriate scholarship program.

It is very important to note that EDUCREDITO has realized the need to maintain this activity at a level consistent with overall priorities for manpower training, in other words, steps will be taken in order to insure that all of EDUCREDITO's resources are not assigned to this type of activity but only a portion of them.

Another indication of the demand for this type of program is obtained from a consideration of statistics available from the Ministry of Education. According to the latest statistics (1970), approximately 44,000 pupils are attending all types of secondary level education institutions in Honduras. Of the estimated 3,500 annual graduates, approximately 800 will seek enrollment in the national university annually. Officials at the university believe that this enrollment figure would be doubled if financial assistance were made more readily available to students.

Approximately 7,500 pupils are now attending vocational or technical secondary schools, with 1,460 graduating annually. It is estimated that about 500 annually would seek further education and training if student loans were available.

As a result of the currently active secondary education reform loan project (AID Loan 522-L-017), Honduras, over the next five years, will provide free public education for about 9,200 students who now are paying for it and for about 9,100 students who have not had any previous opportunity for secondary education. Many of these graduates will seek additional schooling and training, especially if financial assistance is

UNCLASSIFIED

UNCLASSIFIED

Page 32 of 48

made available. EDUCREDITO is also in the process of entering into arrangements with various Honduran professional associations such as the Society of Civil Engineers for the administration of financial assistance for students wishing to continue training in each particular field.

4. Technical Conclusions:

Based on these and other considerations, the Mission thus believes that the proposed expansion plan set forth in this paper, including an expansion of EDUCREDITO's financial functions as well as its coordination with CCTI in the development of manpower activities, is sound and completely feasible.

D. Economic Evaluation:

As has been stated above, the Mission strongly believes that this proposed expansion of EDUCREDITO represents a very significant attempt to confront one of the basic problems which is impeding economic development in Honduras.

As the Director of EDUCREDITO has stated in his Letter of Application for this A.I.D. loan:

"I would especially like to call your attention to the justification of our application. Honduras is a country with major educational needs. With an illiteracy rate of 52.7% and a population growth of 3.52%, emergency measures must be taken to initiate the social changes which took place centuries ago in other countries. Another important point which makes the problem even more difficult is that 58% of the population is under 19 years of age.

Studies of the needs for educational formation have been made in Central America for the period 1964-1974 based on the development plans for the region and the 1964 (level). In terms of Honduras, the study asks for the training of 200,000 technicians. Even though these figures refer to the last decade, they indicate the magnitude of the problem."

UNCLASSIFIED

UNCLASSIFIED

Page 33 of 48

The study to which the Director is referring to is "Oferta y Demanda de Recursos Humanos en Centro América, performed by CSUCA (Consejo Superior Universitario Centroamericano)", dated 1966. Annex II, Exhibit 16 shows one of the most relevant tables from that study which provides an indication of the needs for training during the 11-year period 1963-1974. One of the objectives of the Department of Human Resources of CCTI is to begin work on research in this field in order to develop a more specific and up-to-date idea of what the manpower requirements of Honduras during the next ten years really are.

Another set of statistics which help to show the magnitude of the problem is a comparison of the relative educational levels of Honduras and Costa Rica.

Educational Level of the Population over Ten Years
of Age as a Percentage of the Total - (1961)

<u>Level</u>	<u>Honduras</u> % of Total	<u>Costa Rica</u> % of Total
No Formal Education	52.7	15.5
Primary	41.1	73.0
Secondary	3.6	9.2
University	0.4	0.9
Other	0.0	1.4
Unclassified	2.2.	0.1

Source: "Education in Central America" - ODECA, 1968

The Mission believes that the above illustrations should make it clear as to the importance of a program such as that of EDUCREDITO. However, in addition to the theoretical contribution, the practical prospects for making a real contribution must also be mentioned. In this instance, EDUCREDITO has proven itself capable of making such a contribution by having done so on a small scale for the past two and one half years.

E. Financial Analysis:

1. Past Operations:

EDUCREDITO's operations over the past two and one half years have been characterized by a constantly increasing number of sub-loans made in accordance with the funds

UNCLASSIFIED

UNCLASSIFIED

Page 34 of 48

which have become available through private contributions and a loan obtained from the Government of Honduras, using A.I.D. two-step funds. Several factors have contributed to having made the task of financial management so far a relatively easy one compared to what is expected in the future: loan repayments made thus far by students have been very small, interest charges which EDUCREDITO has had to pay on its borrowed money have also been small, administrative

UNCLASSIFIED

Page 35 of 48

expenses have been largely covered by CCTI, and the number of sub-loans made has been small (105 through the end of 1970). The Secretary-Treasurer and her staff have intimate knowledge of each and every loan and thus are able to detect any slight departure from the norm which in turn rapidly point to the need for swift follow-up action. The financial management, and indeed the overall management of EDUCREDITO up until now has been on a small scale. Obviously, this will no longer be possible when the number of sub-loans increases as it will under the A.I.D. loan program.

Annex II, Exhibit 15 shows comparative year-end balance sheets for 1968 through 1970 for EDUCREDITO, which indicate the growth in the amount of sub-loans made, together with disbursements made and contributions received. The most significant features of EDUCREDITO's financial situation up to the present time are paid-in contributions to its endowment in the amount of about \$31,000 as of the end of 1970 and \$185,000 thus far received under the GOH loan for \$250,000 made in January, 1969. The remainder of these GOH funds will be received during CY1971 with disbursements under the second GOH loan to begin in late 1971 and continue through 1973.

At the end of each year, the Secretary-Treasurer of the Funding Committee presents a lengthy report covering the previous years operations which includes complete financial statements, back-up material and full explanations. This report is discussed and forms the basis for decisions for the following year's operations. Cash flow projections are also prepared in order to determine at what level the lending program can be carried out during the following twelve months. During 1971, the Government will continue to make disbursements under its first loan agreement made in January, 1969 using A.I.D. two-step funds. Another second loan agreement has been signed for a like amount (\$250,000) of which a small amount will become available during 1971.

2. Future Plans:

Annex II, Exhibit 14 shows a complete cash flow

UNCLASSIFIED

UNCLASSIFIED

Page 36 of 48

statement including past operations and projections for the first ten years of operations after A.I.D. loan disbursements begin in 1972. The following table shows a calendar of A.I.D. loan disbursements during the five-year disbursement period. (in thousands of dollars).

	<u>1972</u>		<u>1973</u>		<u>1974</u>		<u>1975</u>		<u>1976</u>		<u>Totals</u>		Total
	\$	LC	\$	LC	\$	LC	\$	LC	\$	LC	\$	LC	
Sub-loans	150	50	211	69	271	89	331	109	412	133	1,375	450	1,825
Admin. Expenses	-	25	-	25	-	25	-	25	-	25	-	125	125
Tech. Assistance	5	5	5	5	5	5	5	5	5	5	25	25	50
TOTALS	155	80	216	99	276	119	336	139	417	163	1,400	600	2,000

In an operation such as this one, the importance of accurate and well-prepared cash flow projections cannot be overemphasized. The cash flow statement shown in Exhibit 14 is based on the best possible projections which can be made at this time, and upon the actual experience encountered with previous EDUCREDITO loans and administrative needs. As can be seen from that statement, the most critical period of operations is for the first two or three years after A.I.D. loan disbursements have terminated, during which time repayments of sub-loans made with A.I.D. funds will not have reached a stable level so that EDUCREDITO could continue to lend at a level approximately equal to what will be achieved during the final year of A.I.D. loan disbursements. In order to conserve resources to ride out this period, after A.I.D. loan funds are exhausted, the level of sub-lending will have to be temporarily cut back from the level which it had reached during the last year of A.I.D. loan disbursements in order to put the level of sub-lending in subsequent years in line with sub-loan repayments and fund-raising activities.

It is anticipated that with these precautions, adequate financial planning can be carried out in order

UNCLASSIFIED

UNCLASSIFIED

Page 37 of 48

to insure the financial stability of this organization and in turn its ability to repay this loan.

Several of the line items contained in this cash flow statement deserve further explanation. The details of the two loans made by the GOH with A.I.D. two-step funds are as follows: The first loan for the local currency equivalent of \$250,000 was signed on January 9, 1969 and is to be repaid after a grace period of 5 years beginning in 1974 in 10 semi-annual installments (5 years) with interest of 1% during the grace period and 2 1/2% during the amortization period. Disbursements are made as two-step money becomes available and were initiated in 1969, to be completed in 1971. The second loan is for a like amount under the same terms and conditions except that the interest rates are 2% during the grace period and 2 3/4% during the amortization period. Disbursements are to begin in 1971 and terminate in 1973.

Contributions from private and other local entities are shown to be a total of \$200,000 over the five-year A.I.D. loan disbursement period conforming to the suggestion put forth in the IRR approval for this loan. The Mission believes that the suggestion is a good one, and EDUCREDITO's reaction was very much along the same lines. The Director of EDUCREDITO places great emphasis on maintaining the support of these local entities, and feels that such contributions are indications of this support. As of the date of approval of this Loan Paper by the Mission CAC, a total of \$ 17,000 had already been pledged and \$2,000 collected. EDUCREDITO has obtained the assistance of a representative of the IESC in these fund-raising activities.

Interest earnings of EDUCREDITO are based on an average rate of interest of 6% which accrues to both sub-loans outstanding and also to cash temporarily invested in bonds and time deposits. The studies which were made during the Intensive Review indicated the need to raise the interest rates charged on sub-loans from 3% during the period of study and 6% during the period of amortization to 6% and 6% respectively.

UNCLASSIFIED

UNCLASSIFIED

Page 38 of 48

Perhaps the most critical component of the cash flow projections is the rate at which repayments of sub-loans increase during the first 10 years of operations with A.I.D. funds. It is this component which influences how rapidly EDUCREDITO can expand its lending operations and also shows what the situation will look like after A.I.D. loan disbursements are completed. The estimates shown in Exhibit 14 are a conservative estimate of how this in-flow will gradually build up, based partially on prior years' experience, (which is very limited). Eventually, it would be possible for EDUCREDITO to computerize its accounting system and thus be able to calculate these repayments with much greater accuracy.

Under Uses of Funds, the two most significant items are the amounts of disbursements for sub-loans made and administrative expenses. The rate at which EDUCREDITO will authorize sub-loans during a given year is higher than the amount of cash which will be available during that year for disbursements. Up until now, the method in which this is calculated was to work out a complete disbursement schedule one year in advance and then balance this against the amount of in-coming funds during that year. With many more sub-loans, this becomes more difficult but can still be carried out on an approximate basis.

This Cash Flow Statement, therefore, is not only important indicator as to whether EDUCREDITO will have financial success but is also a management tool for achievement of that success. It has been emphasized to EDUCREDITO that in an operation of this nature, if this type of planning is not done, financial slippage could begin to occur up to two years before it would be noticeable, and thus it would be too late to take corrective action. It is the Mission's opinion, that if this type of planning is performed in the future as it is now, EDUCREDITO will operate under healthy financial circumstances. If it is not done, no amount of additional funds or other safeguards will prevent eventual financial failure of the project. It is on the basis of these judgements that the Mission firmly believes that EDUCREDITO has the financial management capability to effectively administer an expansion of this size.

UNCLASSIFIED

3. Alternative Sources of Financing:

Section 7 in Part One above explains that financing for this project is not available from the IBRD, IDB, or the Export-Import Bank. CABEI has not been approached formally concerning this project because it is not of regional significance and furthermore the need for concessionary terms would preclude CABEI's participation under present circumstances. Such terms are necessary in order to keep interest costs to sub-borrowers (students) at a minimum. The proposed project is organized on a non-profit-making nature and therefore is not likely to attract private foreign financing.

4. Local Cost Financing:

The proposed breakdown between dollar and local currency financing is shown in the table above on page 36. The breakdown is based on realistic cost estimates, taking into consideration that administrative expenses are incurred in local currency, technical assistance paid with both local currency and dollars, and also sub-loans in both currencies. Present A.I.D. regulations require that all disbursements within the five Central American countries be in local currency, and EDUCREDITO has a good proportion of students in these five countries including Honduras. The remainder, of course, are abroad where dollar disbursements are necessary. On the basis of loans outstanding at the end of 1970, the following is a breakdown by each geographical area in terms of value of loans outstanding.

1.	6.4%	in Honduras
2.	12.4%	in other Central American countries
3.	29.4%	in the United States
4.	40.7%	in other Latin American countries
5.	11.1%	in other Free World countries (not included in Code 941)

In the future, it is estimated that these relationships will continue more or less on the same basis. Therefore, on a practical basis, a portion of this loan must be disbursed in local currency. A limit of the equivalent of \$600,000 for total local currency disbursements without prior authorization by A.I.D. will be

UNCLASSIFIED

Page 40 of 48

included in the Loan Agreement. The Lempira, the Honduran currency, is equivalent to \$0.50 and is presently freely convertible. However, it is possible that in the future this might change, in which case appropriate arrangements will have to be made between the GOH and EDUCREDITO.

5. Other Financial Considerations Including Prospects for Loan Repayment:

As is mentioned above, the importance of accurate, conscientious, and continual financial planning cannot be overemphasized. To summarize, the most important financial considerations in making this loan are:

- The ability of EDUCREDITO to make effective use of the rollover funds to repay its obligations to the GOH and A.I.D., and to conduct its lending program after loan disbursements have terminated.
- Effective control and budgeting of administrative expenses, in order to have sufficient and competent staff to perform the staff work necessary, including counseling, follow-up, and coordination with the manpower development program.
- The ability to effectively cope with bad debts, in order to recoup troublesome accounts quickly and efficiently if possible, without resorting to legal recourse.
- The ability to raise funds locally in order to continue growth of the organization and preserve the broad base of support which has already been established, to preserve the "mystique".
- Efficient disbursement procedures which insure control over the use of sub-loan funds, not only to insure that the funds are spent as intended but also that disbursements are made on a timely basis.

UNCLASSIFIED

UNCLASSIFIED

Page 41 of 48

-Continued effective analysis of loan applications including reference checks of both the sub-borrowers and the co-signers in order to avoid making loans which will turn out to be problems at a later date. The overall care taken with analyzing each sub-loan application, maintaining close contact with each student while in school, combined with a heavy-handed approach to handling delinquent accounts has, up to the end of 1970, produced an overall delinquency rate of 1.3% as a percent of funds outstanding as of that date.

The Government of Honduras, as the borrower under this loan, has been meeting its A.I.D. interest and principal obligations in a timely manner and is not delinquent or in default on any loan repayments to A.I.D. To the best of the Mission's knowledge, the GOH has a similar excellent record with the other international lenders as well as its loans from private sources. The GOH will execute a sub-loan agreement acceptable to A.I.D. with EDUCREDITO in local currency. The explanation of why the Mission concluded that this alternative was chosen as a guaranty mechanism are explained above on Page 20 under "Borrower".

The Mission has recommended that the minimum statutory terms be authorized in this case in order to enable EDUCREDITO to keep excessive costs from being passed on to students who borrow from EDUCREDITO and also to enable EDUCREDITO to become self-sufficient financially. A.I.D. has recently granted similar loans on the same terms to comparable organizations in other Latin American countries.

6. Financial Conclusions:

Based on the above analysis, the Country Team concludes that:

- The project is financially sound.
- There are no appropriate alternative sources of financing for this project.
- EDUCREDITO's contribution to the project will be made available in the amounts and timing consistent with the needs of the project.
- The level of local cost financing under the A.I.D. loan is justified, and
- The prospects for loan repayment are good.

UNCLASSIFIED

UNCLASSIFIED

Page 42 of 48

SECTION III - LOAN ADMINISTRATION

A. Project Execution

1. Execution Plan and Responsibility for Actions:

The GOH, as borrower under the A.I.D. loan, will execute a sub-loan agreement with EDUCREDITO, which will have full responsibility for the implementation of this project. The Mission believes that there are several factors which will insure that loan implementation is carried out with a minimum of problems. First of all, EDUCREDITO's system of operations has already developed and has been functioning well for over two years. This project should not experience the customary difficulties normally encountered in projects which involve the setting-up of new organizations with no previous operating experience. EDUCREDITO will receive the cooperation of both A.I.D. and CCTI in this work, and the inter-relationships between these three organizations have been effectively established for some time. The Mission is in close daily contact with both CCTI and EDUCREDITO. Another factor which will be important is that EDUCREDITO is a private institution, is financially self-sufficient, and is not dependent upon budgetary support from the Government of Honduras. Also, it is not subject to the bureaucratic system of operations commonly associated with the Honduran public sector, but is free and flexible. The principal officer in charge of the project implementation will be the Director of EDUCREDITO's Funding Committee.

2. USAID Monitoring Responsibilities:

The Mission's Training and Manpower Development Officer will be the project coordinator for this loan and as such will have the principal monitoring responsibility. He will work in cooperation with the Capital Development Officer and the Education Advisor as necessary. The Mission will have contact with the Funding Committee through an observer's role rather than as a participant. In addition, the loan agreement will contain covenants which require EDUCREDITO to inform A.I.D. of changes in personnel policy, as well as of any changes in the lending criteria, selection procedures for students, or sub-loan terms.

UNCLASSIFIED

UNCLASSIFIED

Page 43 of 48

3. Technical Assistance:

As discussed above, technical assistance will be obtained by EDUCREDITO as may be required in order to improve organization, administration, and also for consultation on matters of policy. Numerous contacts have already been made by EDUCREDITO with ICETEX, and the Mission expects that most if not all of the technical assistance financed under the loan will be obtained from ICETEX or similar institutions. However, the possibility that other types of technical assistance may be required should be mentioned. A.I.D. will require, through a covenant in the Loan Agreement, that technical assistance be obtained through arrangements satisfactory to A.I.D.

B. Implementation Procedures:

1. Target Dates:

- | | |
|---|-----------------|
| - Loan Authorized | June 30, 1971 |
| - Loan Agreement signed and 1st Implementation Letter issued | August 1, 1971 |
| - Sub-loan Agreement signed between the GOH and EDUCREDITO | August 1, 1971 |
| - Initial CPs met, including presentation of GOH legal opinion following congressional ratification | Sept. 30, 1971 |
| - Initiation of Disbursements | January 1, 1972 |
| - Terminal Disbursement Date | Dec. 31, 1976 |

2. Disbursement Procedures:

The Mission recommends that a five-year disbursement period under the loan in order that the A.I.D. input can be made over a longer period of time and that EDUCREDITO's growth can take place gradually. The planned disbursement schedule is shown above in the

UNCLASSIFIED

UNCLASSIFIED

Page 44 of 48

table on page 36.

Disbursements under the loan will be made directly to EDUCREDITO. Past experience with other loans to the GOH for relending in this way has proven this to be possible. Dollar disbursements will be handled through the A.I.D. Letter of Commitment Procedure with EDUCREDITO as the "approved applicant." EDUCREDITO will be reimbursed through a US bank for expenditures eligible for financing under the loan made in Code 941 countries (excluding Central America). EDUCREDITO will make disbursements directly to institutions located in these countries as well as to the students for their personal expenses.

Assistance in setting up these procedures will most likely be requested from the Financiera Hondureña which is very familiar both with A.I.D. disbursement procedures and banking practices in the United States. Dollar disbursements for technical assistance expenses will be made in a similar manner.

Local currency disbursements will be handled through the direct reimbursement procedure currently in use by the Mission. All local currency for the project will be generated in a manner satisfactory to A.I.D. Reimbursement vouchers for both disbursements made under sub-loans and for a portion of EDUCREDITO's administrative and technical assistance expenses will be transmitted to A.I.D. via the GOH and will be processed upon submission of appropriate documentation.

It is anticipated that EDUCREDITO will present a request for advances both in dollars and local currency in amounts satisfactory to A.I.D. to initiate disbursements and to form the bases of two revolving funds under the loan.

3. Procurement Procedures:

Only two types of procurement are contemplated: sub-loans for study in countries in which procurement under A.I.D. loans is allowed (currently A.I.D.

UNCLASSIFIED

UNCLASSIFIED

Page 45 of 48

Geographic Code 941), and technical assistance, within the same geographical area.

EDUCREDITO is aware that studies in other free world countries must be financed with its own funds, either those made available by the Government of Honduras under the two loans signed with EDUCREDITO, or funds from its endowment. EDUCREDITO has thus far made no loans for study in non free-world countries, and does not intend to do so as Honduras has no diplomatic relations with any such country. GOH law prohibits travel by its citizens to countries with which it has no diplomatic relations. Obviously, the travel of any student to any country will be contingent upon his ability to obtain a visa for that country.

Technical assistance will be procured as described above. The Mission does not foresee any departures from standard A.I.D. procurement regulations.

C. Conditions and Covenants:

In addition to the standard clauses, the Mission's Capital Assistance Committee recommends that the Loan Agreement contain the following conditions and covenants:

- 1) The GOH and EDUCREDITO shall execute a sub-loan agreement acceptable to A.I.D. making the entire amount of the loan available to EDUCREDITO in order that it may carry out the project. The terms of this sub-loan agreement shall not be modified except as may be mutually agreed by A.I.D., the GOH, and EDUCREDITO.
- 2) Annually, throughout the A.I.D. loan disbursement period, EDUCREDITO shall present to A.I.D. for review, a plan, including a cash budget, for the management during the following year of the sub-loan revolving fund established through repayments of loans previously made, together with appropriate financial statements covering the previous year's operations.

UNCLASSIFIED

UNCLASSIFIED

Page 46 of 48

3) Loan-funded technical assistance required for further improvement of EDUCREDITO's operations will be obtained as appropriate during the loan implementation period on terms and conditions mutually agreed upon by EDUCREDITO and A.I.D.

4) During the A.I.D. loan disbursement period, any proposed substantial changes to be made by EDUCREDITO to the present student selection criteria, standard sub-loan terms, or other matters which would have a major effect on modifying EDUCREDITO's current established operating procedures shall receive prior approval by A.I.D.

5) EDUCREDITO shall inform A.I.D. of any operational changes made during the A.I.D. loan disbursement period which involve matters of personnel policy such as staffing, salary levels and administrative costs.

6) Semi-annually during the first year, and annually each year thereafter during the A.I.D. loan disbursement period, a joint review of the progress of the program will be held by representatives of A.I.D., EDUCREDITO, and the Government of Honduras.

7) Except as A.I.D. may otherwise agree in writing, the amount of the loan used to finance Local Currency Costs shall not exceed the equivalent of \$600,000.

8) Disbursements under the A.I.D. loan shall be subject to the condition that the total amount disbursed under the loan shall at no time exceed the dollar equivalent of ten (10) times the total cash receipts of local donations to EDUCREDITO received subsequent to March 9, 1971.

UNCLASSIFIED

UNCLASSIFIED

Page 47 of 48

SECTION IV - ISSUES

The Mission believes that a strong case has been presented for authorization of this loan but questions have been raised, both during the Intensive Review period and by AID/W in the IRR approval meeting (See Annex I, Exhibit 1 for the summary of that meeting) concerning the ability of EDUCREDITO to "effectively administer such a large expansion of its program....."

The important variable in this determination is thus the size of the loan to be granted, which is influenced by several factors, among which are:

1. The size of portfolio that EDUCREDITO can administer efficiently.
2. The loan disbursement period which A.I.D. will permit (the Mission recommends a 5-year period).

The Mission is recommending that the full amount requested by EDUCREDITO (\$2,000,000) be authorized as opposed perhaps to \$1,000,000 or \$1,500,000. This recommendation is made for the following reasons:

The money provided by the Government of Honduras under the A.I.D. two-step program must be repaid in a comparatively short time which will result in a reduction of EDUCREDITO's capital during the years 1974-1980 of \$500,000. This money will thus not have been available long enough to enable EDUCREDITO to make effective use of the rollover funds from sub-loans granted with these funds. These funds in effect are being replaced by donations from local sources.

Secondly, since EDUCREDITO is earning approximately 6% per year on its sub-loans and temporary investments, this will provide an annual yearly interest income of about \$120,000 as shown in Exhibit 14. These funds will be used for covering administrative expenses as well as A.I.D. interest payments amounting to a total of about \$100,000. If the A.I.D. loan amount was reduced to perhaps \$1,000,000 the total of administrative ex-

UNCLASSIFIED

UNCLASSIFIED

Page 48 of 48

penses would perhaps be \$60,000 per year, which would be equal to the income derived from 6% of \$1,000,000 and thus a shortfall will probably occur and unforeseen expenses would have to be covered out of the endowment and the financial substability will probably not be attained.

The Mission believes that the costs of financing and administrating EDUCREDITO's program will have to increase up to some amount over \$50,000 per year regardless of whether A.I.D. financing is \$1,000,000 or \$2,000,000.

Thirdly, as explained above, \$1,825,000 of the loan funds will be used for sub-loans. The Mission estimates that EDUCREDITO is now capable of authorizing approximately \$200,000 worth of loans per year with its present staff working full time (which is not the case). Thus, the expansion to an average level of \$365,000 per year, allowing for an increase of the administrative staff which would be necessary solely for handling the coordination with CCTI's manpower activities does not seem unreasonable.

This analysis assumes that a 5-year disbursement period is granted as has been requested. If such a disbursement period is not acceptable to A.I.D./W, we would recommend that the amount of the loan be reduced proportionately. As to the suitability of the 5-year disbursement period similar projects in other countries have permitted comparable disbursement periods.

517-L-17 - Dominican Republic - 4 1/2 years
- Chile - 5 years requested
- Dominican Republic (second loan) - 4 years

UNCLASSIFIED

ROUTINE

UNCLASSIFIED

CONTROL 152

Educredit

~~ACTION~~

14 JAN 71

9246

IRR
approval

INFO
AMB
DCM
ECON
ADMIN
CHRON

R 132346Z JAN 71
FM SECSTATE WASHDC
TO AMEMBASSY TEGUCIGALPA 4203
BT
UNCLAS STATE 006119

AIDAC

SUBJECT: EDUCREDITO -- STUDENT LOAN FUND - IRR

CAEC MET ON DECEMBER 30 TO CONSIDER IRR SUBMITTED FOR SUBJECT LOAN PROPOSAL. IRR APPROVED WITH RECOMMENDATION THAT USAID ADEQUATELY DEAL WITH FOLLOWING DURING INTENSIVE REVIEW AND PRESENT APPROPRIATE ANALYSES AND CONCLUSIONS IN LOAN PAPER:

1. LOAN JUSTIFICATION SHOULD DISCUSS ROLE THIS PROJECT IN RELATION OVERALL EDUCATION PROBLEM INCLUDING ANALYSIS OF HUMAN RESOURCES BOTTLENECKS AND MANNER IN WHICH PROJECT WILL HELP ALLEVIATE SUCH BOTTLENECKS. ANALYSIS SHOULD POINT OUT PRIORITY TRAINING NEEDS AND THEREBY MAKE CONCLUSIONS REGARDING CONCENTRATION OF FINANCIAL ASSISTANCE FOR TRAINING IN SPECIFIED KEY AREAS CURRENTLY LACKING ALTERNATE FINANCING. DEGREE TO WHICH THIS LOAN COMPLEMENTS AID SECONDARY EDUCATION LOAN SHOULD ALSO BE DISCUSSED.
2. CAPABILITY OF EDUCREDITO TO EFFECTIVELY ADMINISTER SUCH LARGE EXPANSION OF ITS PROGRAM SHOULD BE CLEARLY DEMONSTRATED.
3. CONSIDERABLE CONCERN EXPRESSED AS TO LOW RATIO PRIVATE EQUITY TO GOV AND AID LOANS. A POSSIBLE DISBURSEMENT MECHANISM TO INDUCE GREATER PRIVATE EQUITY CONTRIBUTIONS WOULD BE TO LIMIT AID FUNDING TO TEN TIMES PRIVATE EQUITY FUNDING. THUS, EACH ADDITIONAL DOLS 17,000 IN LATTER WOULD FREE ADDITIONAL DOLS 100,000 FROM AID UNTIL LOAN LIMIT REACHED.
4. CASH FLOW SHOULD BE INCLUDED IN LOAN PAPER TO JUSTIFY LEVEL OF AID LOAN IN RELATION TO PROBABLE EFFECTIVE DEMAND. SUCH CASH FLOW SHOULD CONSIDER ALL SOURCES OF FUNDS AVAILABLE FOR TRAINING -- GOV, PRIVATE CONTRIBUTIONS, UN, ETC. AID LOAN COULD COVER THREE YEARS SUBLOAN COMMITMENT PERIOD. IN ADDITION, CASH FLOW SHOULD

PAGE 2 CN: 150

UNCLASSIFIED

INCLUDE ANALYSIS OF INCOME AND COSTS FOR ADMINISTERING PROGRAM. WE WOULD BE PREPARED FINANCE REASONABLE SHARE OF SUCH COSTS FOR LIMITED PERIOD UNTIL INTEREST PAYMENT REFLOW ADEQUATE. FINALLY, NATURE OF GOH GUARANTEE SHOULD BE FULLY EXPLAINED.

5. MAJOR POLICIES, PROCEDURES AND REGULATIONS BY WHICH EDUCREDITO TO OPERATE SHOULD BE DISCUSSED:

A. CRITERIA FOR SELECTION OF PARTICIPANTS INCLUDING LIMITATIONS ON PERSONAL OR FAMILY WEALTH.

B. ELIGIBLE TYPE OF STUDY OR TRAINING.

C. STANDARD CONTRACT SETTING OUT REPAYMENT TERM AND AGREEMENT TO WORK SPECIFIED TIME IN HONDURAS OR CENTRAL AMERICA. (INTEREST RATES ON SUBLOANS MIGHT CONTAIN MOV CLAUSE OR BE INCREASED GRADUALLY FROM LEVEL PERHAPS INITIALLY LOWER THAN PROPOSED IN IRR TO INDUCE EARLY REPAYMENT).

6. AID LOAN COULD FINANCE STUDY COSTS ONLY IN CODE 941 COUNTRIES. FURTHER UNTYING POSSIBLE LATER IF AGREEMENTS REACHED REGARDING GENERAL AID UNTYING BY OTHER MAJOR DONOR COUNTRIES.

7. AFTER FURTHER AID/W REVIEW SEPARATE GUIDANCE WILL BE PROVIDED REGARDING DISBURSEMENT PROCEDURES. WE MIGHT POINT OUT, HOWEVER, THAT WE SEE NO JUSTIFICATION DISBURSE IN LOCAL CURRENCY FOR FOREIGN EXCHANGE COSTS.

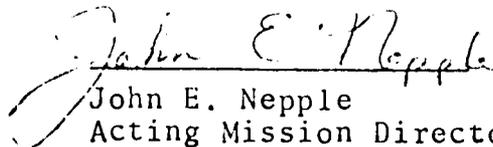
8. TO FURTHER ASSIST MISSION IN INTENSIVE REVIEW, WE WILL SEND DOCUMENTS DEVELOPED FOR SIMILAR PROJECTS IN OTHER LATIN AMERICAN COUNTRIES. TDY ASSISTANCE WOULD BE MADE AVAILABLE UPON MISSION REQUEST. ROGERS
BT

Student Loan Fund - EDUCREDITO

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, John E. Nepple, the principal officer of the Agency for International Development in Honduras, having taking into account, among other things, the maintenance and utilization of projects in Honduras previously financed or assisted by the United States, do hereby certify that in my judgment EDUCREDITO has both the financial and human resources capabilities to effectively maintain and utilize the Capital Assistance Project consisting of an expansion of EDUCREDITO being financed in part by this proposed loan entitled Honduras: Student Loan Fund (EDUCREDITO).

This judgment is also based upon the Mission's opinion that EDUCREDITO's performance during the past 2 1/2 years since its founding has been very satisfactory, during which time it has established for itself a broad base of support within the Honduran community and has satisfactorily managed a fund for loans to students, for which capital has been supplied by local contributions and a loan from the Government of Honduras approved by A.I.D.


John E. Nepple
Acting Mission Director

4/15/71

Date

UNCLASSIFIED

AID-DLC/P-963

ANNEX II, Page 1 of 46
Exhibit 1, Page 1 of 11

STATUTES OF THE STUDENT LOAN FUND

EDUCREDITO

CHAPTER I

CREATION AND DOMICILE

- Article 1. Create the Educational Financing Fund as a program of indefinite duration for educational development, a non-profit, private juridical entity which shall be called "EDUCREDITO".
- Article 2. "EDUCREDITO" shall have its domicile in the capital of the Republic.

CHAPTER II

OBJECTIVES

- Article 3. The objectives of "EDUCREDITO" shall be the following:
- a) To stimulate the technical and professional capacitation of Hondurans who show sufficient aptitude but lack economic means.
 - b) Promote education at various levels in coordination with the national educational institutions.
 - c) To find means of financing studies on a national and international level.
 - d) To promote the formation of an endowment for the financing of "EDUCREDITO".
 - e) To cooperate in the best utilization of qualified personnel within the country.

UNCLASSIFIED

CHAPTER III

MEMBERS

- Article 4. The following will be members of "EDUCREDITO": the representative educational and training organizations, the banking, commercial, industrial, labor and other organizations or persons who one way or another identify with the intentions or cooperate economically to maintain it; having been duly registered in the list of members which shall be kept by the Secretary of the Assembly.
- Article 5. "EDUCREDITO" will consist of the following organizations:
- a) The General Assembly.
 - b) The Funding Committee
- Article 6. The General Assembly will be the highest authority and will orient the policies of "EDUCREDITO".
- Article 7. The General Assembly will consist of a representative of each institution or participating persons or contributors to "EDUCREDITO".
- Article 8. Each representative will have a substitute who will replace him if necessary.
- Article 9. The Assembly will meet by notice of the President or in his absence by the Vice-President; the notice of the meeting will be made to each member 48 hours before the Assembly meets.
- Article 10. The Assembly will meet regularly once a year during the last week of the month of January, and in special session as many times as the Funding Committee or 1/3 of the members of the Assembly deems it necessary.

- Article 11. In order that the Assembly should meet in regular or special session, the presence of one half of the members plus one is required in the first session. If a quorum is not formed, a second session will be called and will proceed with the number present.
- Article 12. The members of the Assembly will have the right to speak and vote.
- Article 13. The resolutions of the Assembly will be adopted by majority vote. In case of a tie, the President will cast the deciding vote.
- Article 14. The functions of the Assembly are:
1. Establish the policies of the "EDUCREDITO" program.
 2. Approve the Work Plan and the Annual Budget.
 3. Approve or disapprove the General Report and the Annual Financial Statements.
 4. Appoint the managing personnel of the Funding Committee and, at the same time, cancel those appointments before the end of the term based on a just reason.
 5. To resolve any problems which may result from the decisions made by the Committee.
 6. Delegate functions in the Funding Committee.
 7. All those activities which fall within their competence to permit the smooth running of "EDUCREDITO".
- Article 15. In each regular session of the Assembly, the Board of Directors will be elected which will serve for one year. The Board of Directors will be composed of the President, the Vice President and the Secretary.
- Article 16. The duties of the President of the Assembly are:

- a) Direct, coordinate and convene the regular and special sessions.
 - b) Represent "EDUCREDITO" legally.
 - c) Delegate authority for operations.
 - d) Perform acts pertinent to the job.
- Article 17. The Vice President will assist the President and will act in his place in case of sickness or inability.
- Article 18. The Secretary assumes the following responsibilities:
- a) Record the minutes of the meetings of the Assembly.
 - b) Certify documents and signatures and help the President in the sessions.
 - c) Prepare work programs.
 - d) Prepare financial statements.
 - e) All other matters pertinent to the office.
- Article 19. The Funding Committee will be the operating body of "EDUCREDITO" and by the power conferred by the Assembly will be responsible for carrying out and administering the programs.
- Article 20. The Committee will be made up of six members of which five will be representatives of the institutions and members of "EDUCREDITO" who will be elected every two years by the Assembly and whose re-election is permitted. The Committee will be made up of: a Director, Assistant Director, three members and a Secretary who will be appointed by the Committee.
- Article 21. The duties of the Director of the Funding Committee are:

UNCLASSIFIED

ANNEX II, Page 5 of 46

Exhibit 1, Page 5 of 11

1. Direct and coordinate the activities and programs of the Committee.
2. Convene the sessions.
3. Sign agreements.
4. Employ and dismiss personnel.
5. Sign agreements and other economic, legal or administrative transactions for the "EDUCREDITO" Fund.
6. Sign checks jointly with the Secretary-Treasurer.
7. Attend to all those items dealing with administration and representation as delegated by the President of the Assembly.
8. Perform tasks delegated to him by the regulations.

Article 22. The Director will be represented by the Assistant Director, in case of absence, by the Director.

Article 23. The Secretary of the Committee has the following responsibilities:

- a) The Secretary may speak but may not vote during the Committee meetings.
- b) Recommend to the Director the appointment of the administrative personnel.
- c) Act as Secretary-Treasurer.
- d) Solicit and compile information.
- e) Receive and process the requests for educational loans.
- f) Process and register the documents for the managing of the funds.
- g) Serve as liaison between the participating institutions and the beneficiaries.
- h) Whatever other responsibilities assigned by the rules and regulations, the Committee and the Assembly.

UNCLASSIFIED

- Article 24. The Committee will meet regularly once a month and in special session when necessary and such sessions are called by the Secretary.
- Article 25. The Committee will meet with a majority of its members and if no quorum is formed, the meeting will be held with the number present. The resolutions will be passed by majority vote and in case of tie, the Director will cast the deciding ballot.

CHAPTER IV

LOANS

- Article 26. The capital of the "EDUCREDITO" Fund will be used to grant loans to qualified Hondurans, of limited economic resources, who desire to improve their professional or technical capacity and are unable to do so by other means.
- Article 27. The persons eligible for the "EDUCREDITO" loans will be those who prove they have received an academic average equal or greater than 70% (SEVENTY PER CENT) or its equivalent, or those who show a sufficient amount of experience which makes them capable of receiving further training. This degree of experience will be evaluated by means of an examination.
- Article 28. Those interested in receiving loans from the "EDUCREDITO" Fund should complete the application received from the Secretary which should be returned to the Secretary accompanied by the following documents:
- a) Birth Certificate.
 - b) Previous record or good conduct record issued by the proper authorities.
 - c) Photocopy of the title, diploma or certification of the grades received in the last courses completed.
 - d) Certification issued by persons knowing the aptitudes of the applicant when the applicant does not possess a professional

title.

e) Health Certificate.

f) Letter from the probable guarantors assuming responsibility for the fulfillment of the obligations.

Article 29. Only those applications which are accompanied by the designated documents will be processed.

Article 30. The loans will be analyzed and decided upon by the Committee who for this reason will follow a plan of priorities, keeping in mind the merits of each applicant and the professional or technical needs for the economic and social development of the EDUCREDITO Fund. The contributing institutions may submit candidates for loans but these applications will be processed the same as the other applications.

Article 31. The loans to students may be for studies in University, Post-Graduate work, or for technical capacitation as long as they contribute to the economic development of the country.

Article 32. The loans will be granted for studies both in-country and abroad. Loans for studies outside of the country will only be approved when such courses or specialities do not exist within the country.

Article 33. The loans will completely or partially cover the tuition, room and board and other personal expenses, necessary insurance and round trip transportation for the student. If necessary, the loan will cover the cost of an intensive course in the language of the country where the student will study. The loan will also cover any other expenses stated in the contract. The amount of the loan will be only the amount necessary to cover the indicated expenses conforming to the regulations.

- Article 34. The loans will be granted for a minimum period of three years in accordance with the merits of the applicant.
- Article 35. In the case where the institution where the studies will be realized requires advance payment, the expenditures related to tuition, room and board, and student insurance will be made directly to the school having received the corresponding vouchers. Any other student expenses will be paid two months in advance.
- Article 36. The loans granted will earn interest established by the respective regulations.
- Article 37. The amortizations will be made in monthly quotas calculated in accordance with the plan calculated for each case. The payment of the first quota will be due after a three-month grace period which will begin on the day on which the borrower finishes his studies or when the contract is broken.
- Article 38. Upon approval of the loan, the beneficiary or his legal representative will sign a contract with the signature of two guarantors who will be approved by the Committee.
- Article 39. The contracts will be subject to these statutes, its regulations and the existing laws of the country.
- Article 40. The contracts can be modified or broken in the following cases:
- a) When the student abandons his studies without just reason.
 - b) When poor conduct is observed in or outside of the place of study.
 - c) When the average grades received are not considered satisfactory during two terms in the same academic year.
- The guarantors will be notified in advance concerning the modification or dissolving of the contract.

CHAPTER V

OBLIGATIONS OF THE BENEFICIARY

- Article 41. The beneficiary of an EDUCREDITO loan will have the following obligations:
- a) Ask for authorization to be able to work during the time that he is studying.
 - b) Submit all information concerning the course of his studies as the educational center emits them and upon finishing the studies, submit a final report.
 - c) When the loan has been granted for studies outside the country, the borrower is obliged to return to serve the country. If services are not rendered within the country, the immediate payment of the loan will be demanded.
 - d) Submit vouchers for expenditures on books and other study materials.
 - e) Take out and pay for a life insurance policy, the amount of which will be equal to the amount of the loan and which will be in effect the same amount of time as the loan. The value of the paid premium will be added to the total value of the loan.

CHAPTER VI

RIGHTS

- Article 42. The applicant may contest the decisions of the Committee within a period of 60 days from the date in which the party was notified of the decision; having passed the specified period of time, the decision will be irrevocable.
- Article 43. The first time, the decisions will be contested before the Director of the Committee and the second time before the President of the Assembly.
- Article 44. Once having emitted a decision, the Committee will study the case to decide upon

modification or confirmation of the decision.

CHAPTER VII

ENDOWMENT AND COMPTROLLERSHIP

Article 45. The endowment of the Fund will initially be made up of the funds which the Agency for International Development (A.I.D.) has placed at the disposition of the C.C.T.I. for this purpose, as part of the Alliance for Progress Program; in addition to the contributions and donations from public and private, national and foreign institutions and other corporations, partnerships and individuals. The interest earned from loans will become part of the endowment.

COMPTROLLERSHIP

Article 46. The EDUCREDITO Fund will have its own internal controls. The accounting will be done by an outside auditor when the contributors deem it necessary and suggest it to the Board of Directors.

CHAPTER VIII

INFRACTIONS AND SANCTIONS

Article 47. The failure to comply to the norms herein established will be an infraction against the statutes independent of the infractions which the laws of the country may indicate. The following sactions have been established:

- a) Written warning.
- b) Temporary or permanent suspension from financing.
- c) A demand that within a moderate amount of time complete or partial payment of the loan should begin.
- d) A demand for the immediate payment of the total amount loaned and the respective interest.

CHAPTER IX

GENERAL CONDITIONS

- Article 48. PROVISIONAL~ This program will provisionally function within the Centro Cooperativo Técnico Industrial until such a time as an autonomous specialized organization is formed.
- Article 49. The present statutes can be modified with the approval of 2/3 of the votes of the General Assembly and will be in force from the day in which it is published in the official newspaper "La Gaceta" authorizing the Committee so as to be able to formulate the respective rules.

ACT NO. 15

In the city of Comayagueta, D.C. on the Twenty-second day of October of Nineteen Hundred and Sixty Nine, the Members of the Funding Committee for the Student Loan Fund "EDUCREDITO" joined together in a special session to discuss and approve the rules and regulations of the Fund, with the following persons present: representing the National Association of Industries, Mr. J. Trinidad Fiallos and Jesús M. Estrada; for SITRATERCO, Victor Andrés Artiles; for the Centro Cooperativo Técnico Industrial, Benjamín Membreño and Dorcas G. de Gonzalez and Mr. Marcos O. Mendez as an invited observer. The absence of Mr. Hernán Rodríguez of the University of Honduras was excused. Eng. Benjamín Membreño, Director of the Committee, presided over the meeting with Mrs. Dorcas G. de Gonzalez as secretary. The meeting proceeded as follows:

1. Opening of the meeting.
2. Reading of the minutes of the last meeting.
3. Discussion and approval of the minutes.
4. Analysis of the rules and regulations one by one, being approved of in the following manner:

RULES AND REGULATIONS FOR THE STUDENT LOAN FUND
EDUCREDITO

Article 1. The Student Loan Fund will be subject to the statutes and the rules and regulations in granting loans to qualified Hondurans, of limited economic resources who desire to improve their professional or technical capacity, on both a national and international level.

Article 2. EDUCREDITO funds will be used for loans and to cover the administrative fees involved with the program in accordance with the stipulations in the statutes. Surplus funds can be converted into readily liquidated securities or bonds conforming with the decisions of the Funding Committee.

Article 3. The administrative funds will be handled in accordance with the specifications established in every contract.

Article 4. The members of EDUCREDITO will be the re-

representatives of educational, commercial, industrial and labor organizations and other persons who in one way or another identify themselves with its propositions and contribute to its maintenance, having been properly registered with the Secretary of the General Assembly.

Article 5. EDUCREDITO will be controlled by the Assembly, deciding the policies of the institution; and will be made up of a representative of each of the participating or contributing institutions or persons; each representative will have a substitute. The Funding Committee will carry out the policies of the Assembly.

Article 6. The President and his substitute will call the Assembly with a notice of at least 48 hours, and it is obligatory to meet in regular session once a year in the last week of January and in special session whenever necessary, whenever the Committee should decide it necessary, or when it should be requested by at least 1/3 of the members of the Assembly.

Article 7. In the Assembly a quorum will be formed by the presence of one half plus one of the members in the first summons, and in the second summons by the number of members present.

Article 8. Each member of the Assembly will have the right to speak and vote and the decisions will be made by majority vote, the President voting in case of a tie.

Article 9. The functions of the Assembly will be those designated in Article 14 of the Statutes.

Article 10. The Assembly will elect the Board of Directors from among the members of EDUCREDITO as designated in the statutes.

Article 11. The duties of each of the members of the Assembly will be those designated in Articles 16, 17 and 18 of the statutes with the Assembly being able to assign those duties they deem necessary for the development of the program.

Article 12. The Assembly delegates to the Funding Committee the responsibility for the administration and the execution of the programs. As a special body it will be made up of six members, five of which will be representatives of the institutions or individual members, who will be elected for a period of two years and will consist of: a Director, Assistant Director, three voting members and a Secretary appointed by the Committee. The members of the Committee will have the duties specified in Article 21, 22 and 23 of the statutes.

Article 13. The Secretary will be responsible for informing the members of the Committee when sessions are called, when the activities of the fund demand it, the President suggests it, or when the majority of the members ask that a special session be called. The first session will meet with the majority of the members and the second with the number present; the President will vote in case of a tie.

Article 14. The Secretary will be responsible for receiving and processing the loan applications which will be passed to the Committee for approval, being able to consult knowledgeable persons or institutions in special cases concerning various technical or professional aspects.

Article 15. The EDUCREDITO Funding Committee will grant loans to Honduras of limited economic resources who prove:

- a) A grade average equal to or higher than 70% or its equivalent.
- b) That the student is unable to finance his own studies.
- c) That the specialization or field chosen is associated with professional or technical capacitation.
- d) Fulfill all other requirements designated in Article 28 of the statutes.

Article 16. The Committee will not process those applications which do not fulfill the requirements mentioned above in Article 15 and will process only those applications related to university studies, post-graduate work or technical capacitation and that they

be useful to the development of the country.

Article 17. In relation to its economic responsibilities the Committee will decide on the amount of the loan to be granted and when they will be able to grant it covering all or part of the studies, keeping in mind the merit of the applicant, considering his educational or economic level, and the importance of the studies he wishes to pursue.

Article 18. The Committee can grant loans for a maximum period of three years in order to finish studies and the payments will be made in accordance with the contract which EDUCREDITO executes with the applicant.

Article 19. The amounts loaned will earn 5%* rate of interest while the applicant is studying and 6% rate of interest upon completion of the studies. The payments will be made by the beneficiary according to the plan which will be made for this purpose, beginning the first payment in accordance with Article 37 of the statutes or when necessary according to the respective contract. These percentages will be subject to change according to the actuarial studies which will be made for this purpose and which in all cases must be approved by the Committee. The amounts granted in the loan will be protected by an insurance company until a program of self-insurance is established in accordance with the reserves of the fund.

Article 20. The beneficiary of a loan is obligated to dedicate himself only to his studies; only in very special cases will the Committee permit other activities. Violation of this article will justify dissolving of the contract and all those obligations designated in Article 41.

Article 21. The present regulations may be wholly or partially modified by resolution of the Committee and will be in force from the day of their approval.

* to be modified, see Capital Assistance Paper

STUDENT LOAN FUND - EDUCREDITO

UNCLASSIFIED
ANNEX II, Page 16 of 46
Exhibit 3, Page 1 of 2

CERTIFICATION

"ACT OF THE CONSTITUTIVE ASSEMBLY FOR THE STUDENT LOAN FUND 'EDUCREDITO'". In the city of Tegucigalpa, D.C. on the Twenty-second day of July, Nineteen Hundred and Sixty Eight, assembled in the Conference Room of the Ministry of Economy and Finance the representatives of the institutions who have indicated their desire to cooperate in the realization of the Student Loan Program "EDUCREDITO", duly convened by the Director of the Centro Cooperativo Técnico Industrial, for the purpose of holding the Constitutive Assembly for the "EDUCREDITO" Fund, the session beginning at 4 o'clock in the afternoon in accordance with the respective agenda. The following persons were present: Lic. Manuel Acosta Bonilla and Lic. Florentino Alvarez A. representing the Ministry of Economy and Finance; Lic. Roberto Ramirez representing the Central Bank of Honduras; Lic. Alberto Galeano y Arturo Scheib representing the National Development Bank; Lic. Rigoberto Sandoval and Alfredo R. Martínez for the Council for Economic Planning; Ing. Arturo Quezada and Lic. Hernán Rodríguez representing the University of Honduras; Mr. Robert J. Minges, Marcos O. Méndez and Edward P. Astle for the Agency for International Development, (A.I.D.); Mr. Oscar Gale Varela representing SITRATERCO; Lic. César A. Batres y J. Trinidad Fiallos for the National Association of Industries, and Ing. Benjamín Membreño and Lic. Dorcas G. de Gonzales representing the Centro Cooperativo Técnico Industrial. The session proceeded as follows: FIRST: before referring to the agenda, Ing. Benjamín Membreño explained to those attending the session the objectives of the program "The Student Loan Fund 'EDUCREDITO'". Ing. Membreño concisely expressed that considering the need for duly qualified personnel in the country, it has been deemed necessary to create an institution that would cooperate in financing the studies of Hondurans who because of limited economic means cannot further their education, and who later contribute

UNCLASSIFIED

to solve the industrial problem of the lack of qualified personnel. It was indicated that often there were scholarships offered within the country which could not always be adequately made use of because of a lack of funds to complement these scholarships; for example, there are those who wish to begin Post-Graduate studies and are married but the scholarship does not cover the living expenses of their dependents who remain in the country. This proposed fund would ease such difficulties by complementing the scholarships by means of the loan which it would grant. Ing. Membreño continued to say that A.I.D. has a scholarship program but that these scholarships cannot always be used because they are only partial, thus the creation of a loan fund would help increase the number who would benefit, with the understanding that this fund would continue to rotate. When the participants of the Assembly were informed of the goals of this project, they offered their support both as individuals and in their position as representatives. Ing. Membreño answered all the questions made by those attending concerning the program. Following the plan of the agenda, they proceeded to elect the Board of Directors of the Assembly which was chosen as follows: President: the Minister of Economy and Finance; Vice-President: Director of the National Association of Industries; Secretary: a Representative from the Council for Economic Planning. Immediately afterwards the Board of Directors of the Funding Committee was elected: Director: Director of the Centro Cooperativo Técnico Industrial; Assistant Director: Representative of the University of Honduras; Secretary-Treasurer: Assistant to the Director of the Centro Cooperativo Técnico Industrial; First Representative: a Representative of SITRATERCO; Second Representative: a Representative of the National Association of Industries. SECOND: the meeting was turned over to the Board of Directors and Lic. Manuel Acosta Bonilla, the Minister of Economy and Finance, as President, began the discussion of the statutes which were approved.

STUDENT LOAN FUND - EDUCREDITO

UNCLASSIFIED
ANNEX II, Page 18 of 46
Exhibit 4, Page 1 of 1

CERTIFICATION

The undersigned Secretary of State for Government and Justice certifies Resolution No. 47 which literally states: THE PRESIDENCY OF THE REPUBLIC. - Tegucigalpa, D.C. the twelfth of August of Nineteen Hundred and Sixty Eight. - PURPOSE: to act on the application presented to the EXECUTIVE POWER, by the Secretary of State for Government and Justice, dated the Twenty-Sixth of July by Alfredo R. Martínez, of legal age, married, lawyer and of this city, acting as Secretary and conferring power at the same time to Mr. Jesús M. Estrada, of legal age, married, lawyer and of this city, who have joined together to ask recognition of the juridical person which they represent and approval of its statutes.

CONSEQUENTLY: the petitioner attached to his application the following documents: a) Constitutional Certification; b) Certification of the proposed Statutes and c) Certification of the Election of a Board of Directors. CONSEQUENTLY: since the application underwent the proper legal proceedings, having been sent to the Attorney General of the Republic, who upon returning the document gave a favorable opinion on it. CONSIDERING: that the statutes of the Assembly of the Student Loan Fund "EDUCREDITO" do not counteract the laws of the country, public order, morality or common practice, consent according to law may be granted, THEREFORE: THE CONSTITUTIONAL PRESIDENT OF THE REPUBLIC, pursuant to the authority rested in him by the Constitution of the Republic, resolves to RECOGNIZE the charter and approve the statutes of the Assembly for the Student Loan Fund "EDUCREDITO".

UNCLASSIFIED

STUDENT LOAN FUND - EDUCREDITO

UNCLASSIFIED
ANNEX II, Page 19 of 46
Exhibit 5, Page 1 of 1

CERTIFICATION

The undersigned Sub-Secretary of State for Government and Justice certifies Resolution No. 39 which literally states: "THE PRESIDENCY OF THE REPUBLIC". - Tegucigalpa, D.C. the fourth of December of Nineteen Hundred and Sixty Eight. PURPOSE: to act on the application presented to the EXECUTIVE POWER by the Secretary of State for Government and Justice, dated the Twenty-second of the same month and year, by Jesús María Estrada, of legal age, married, lawyer and of this city, contracted to ask for the AMENDMENTS of the Statutes of the "ASSEMBLY OF THE STUDENT LOAN FUND 'EDUCREDITO'".

CONSEQUENTLY: the petitioner attached to his application the following documents: a) Certification of its recognition as a legal entity; b) Certification of the Amendments of the Statutes; CONSEQUENTLY: since the application received the proper legal proceedings, having been sent to the Attorney General of the Republic who, upon returning the document, gave a favorable opinion on it. CONSIDERING that the Statutes of the Assembly of the Student Loan Fund "EDUCREDITO" do not counteract the laws of the country, public order, morality or common practice, consent according to the law may be granted; THEREFORE, the Constitutional President of the Republic, pursuant to the authority vested in him by the Constitution of the Republic RESOLVES TO RECOGNIZE the Statutes of the "Assembly of the Student Loan Fund 'EDUCREDITO'".

UNCLASSIFIED

STUDENT LOAN FUND-- EDUCREDITO

UNCLASSIFIED
ANNEX II, Page 20 of 46
Exhibit 6, Page 1 of 1

LOANS GRANTED ACCORDING TO FIELD OF STUDY AND
ACADEMIC DEGREE (HIGHER EDUCATION 1968 - 1970)

AREA OF STUDY	ACADEMIC DEGREE		
	Lic/BS	MS/ESP	DOCTORATE
1. Business Administration	6	11	-
2. Forestry	-	1	-
3. Public Administration	-	1	-
4. Airports	-	1	-
5. Agronomy	6	2	-
6. Architecture	4	-	-
7. Social Sciences	-	1	-
8. International Commerce	-	1	-
9. International Law	-	1	-
10. Economic Development	-	1	-
11. Economics	-	1	-
12. Agricultural Economics	1	-	-
13. Philosophy	1	-	-
14. Civil Engineer	2	1	-
15. Electrical Engineer	1	-	-
16. Forestry Engineer	-	4	1
17. Mechanical Engineer	2	-	-
18. Chemical Engineer	2	-	-
19. Operations Research	-	1	-
20. Mathematics	1	-	-
21. Medicine	11	7	-
22. Marketing	3	-	-
23. Microbiology	1	-	-
24. Dentistry	-	1	-
25. Psychology	-	1	1
26. Chemistry	-	1	-
TOTAL	41	37	2

TOTAL HIGHER EDUCATION: 80

Note: These loans are for completion of these indicated programs of study, according to EDUCREDITO's policy.

UNCLASSIFIED

LOANS GRANTED ACCORDING TO THE FIELD OF STUDY
1968 - 1970 TECHNICAL AND SECONDARY LEVELS

AREA OF STUDY	NUMBER
1. Agricultural Administration	1
2. Aeronautics	1
3. Business Administration	1
4. Aviation	1
5. Animal Science	1
6. Agricultural Science	2
7. Computing Technology	1
8. Decoration	3
9. Agricultural Economics	1
10. Geology	1
11. Union Leadership	1
12. Marketing	2
13. Small Industry	1
14. Dairy Products	1
15. Mental Health	1
16. Secretary	4
17. Woodworking	1
18. Secondary Education	<u>1</u>
TOTAL	25

UNCLASSIFIED

DISTRIBUTION OF THE COUNTRIES IN WHICH
BENEFICIARIES COMPLETED THEIR STUDIES
DECEMBER - 1970

COUNTRY	TECHNICAN	ACADEMIC DEGREE		DOCTORATE
		LIC/BS	MS/ESP	
1. Honduras	4	13	-	-
2. Mejico	1	17	9	-
3. U.S.A.	17	5	12	1
4. France	1	1	3	-
5. Chile	-	-	3	-
6. Spain	-	1	3	-
7. Canada	1	-	-	-
8. Guatemala	-	3	-	-
9. Nicaragua	-	-	6	-
10. Israel	-	-	1	-
11. Germany	-	-	-	1
12. Costa Rica	-	1	-	-
13. Holland	1	-	-	-
TOTAL	25	41	37	2

UNCLASSIFIED

TRANSLATION

Ministry of Economy and Finance
Republic of Honduras

Tegucigalpa, D.C., May 17, 1971

No. CP-596

Mr. John E. Nepple
Acting Director
Agency for International Development
Tegucigalpa, D.C.

Dear Mr. Nepple:

In answer to your letter of May 11 in which you requested confirmation of the possibility that the proposed A.I.D. loan to EDUCREDITO could be channeled through the Government of Honduras, I hereby inform you that this Ministry is in agreement with this proposal, i.e., that the loan would be directly to the Government of Honduras, which would relend it to EDUCREDITO.

Sincerely,

Manuel Acosta Bonilla
Minister of Economy and
Finance

EDUCREDITO

Estimated Annual Administrative Costs
(thousands of dollars)

	1972	1973	1974	1975	1976	Total
<u>Personnel:</u>						
Director	\$ 12.0	12.0	12.0	13.2	13.2	
Secretary	2.0	2.0	2.3	2.6	2.9	
Chief-Academic Div.	7.2	7.2	7.2	7.5	7.8	
Secretary	2.0	2.0	2.3	2.6	2.9	
Chief, Financial Div.	4.8	4.8	5.1	5.4	5.7	
Accountant	2.4	2.4	2.7	3.0	3.3	
Secretary	2.0	2.0	2.3	2.6	2.9	
Supervisor of Pay- ments and Collect- ions	2.4	2.4	2.7	3.0	3.3	
Assistant Accountant			1.8	2.0	2.1	
Office Boy	0.6	0.7	0.8	1.0	1.1	
Sub-total	35.4	35.5	39.2	42.9	45.2	
<u>Other:</u>						
Rent	\$ 3.0	3.0	3.0	3.0	3.0	
Furniture/Equipment	5.0					
Office Supplies	2.0	2.0	2.0	2.0	2.0	
Travel	1.0	1.0	1.0	1.0	1.0	
Miscellaneous	4.3	4.3	4.3	4.3	4.6	
Sub-total	15.3	10.3	10.3	10.3	10.6	
TOTAL	\$ 50.7	45.8	49.5	53.2	55.8	

EDUCREDITO

DONATIONS TO THE PROGRAM'S ENDOWMENT - STATUS AT END OF YEAR

<u>DONOR</u>	<u>1968</u>			<u>1969</u>			<u>1970</u>		
	<u>RECEIVED</u>	<u>OWED</u>	<u>TOTAL</u>	<u>RECEIVED</u>	<u>OWED</u>	<u>TOTAL</u>	<u>RECEIVED</u>	<u>OWED</u>	<u>TOTAL</u>
Central Bank	\$10,000.00		10,000.00						
National Development Bank	5,000.00		5,000.00						
Standard Fruit Company	100.00		100.00				1,000.00		1,000.00
SITRATERCO	250.00		250.00						
A.I.D.	3,750.00	1,250.00	5,000.00	1,250.00		1,250.00			
C.C.T.I.				1,500.00		1,500.00			
Banco Atlántida				750.00		750.00			
UNAH (National University)				2,500.00	2,500.00	5,000.00	2,500.00		2,500.00
Financiera Hondureña					5,000.00	5,000.00	1,250.00	3,750.00	5,000.00
Bishop Joyce-Vermont Partners of the Alliance					500.00	500.00	500.00		500.00
Personal	7.50		7.50	55.00		55.00			
TOTAL	\$19,107.50	1,250.00	20,257.50	6,055.00	8,000.00	14,055.00	5,250.00	3,750.00	9,000.00

EDUCREDITO

Other Contributions to the Program and its Endowment

LEO S. ROWE FUND: A fund provided for in the will of Dr. Leo Stanton Rowe, General Director of the Pan American Union, 1920-1966, which was established in order to grant loans to students, professionals and Latinamerican researchers who wish to study in the United States.

In accordance with its objectives, it will grant loans to Honduran students who are enrolled in institutions of higher learning in the United States and who fulfill the requirements of the Leo S. Rowe Fund and EDUCREDITO.

INSTITUTE FOR INTERNATIONAL EDUCATION: This group will provide selection, orientation and supervisory services to beneficiaries of EDUCREDITO in Junior Colleges in six states in the United States and will promote work opportunities for those who fulfill the necessary requirements. They will also try to arrange jobs and scholarships for the students.

PANAMERICAN AGRICULTURAL SCHOOL - EL ZAMORANO: An attempt will be made to increase the number of Hondurans in the school by establishing a joint fund under the administration of EDUCREDITO. Each institution will donate a total value of \$US135,000.00 to the joint fund over a period of nine years.

CIVIL ENGINEERS OF HONDURAS: The amount of US\$10,000.00 will be provided to be used as loans to students in the engineering field or in related fields. EDUCREDITO will provide the same amount for the program.

MEDICAL ASSOCIATION: The amount of US\$10,000.00 will be provided to form a fund with an equal amount provided by EDUCREDITO for loans to students in the field of medicine or related fields.

OTHER BUSINESSES: Químicas Dinant, Banco Atlántida, Cementos de Honduras, Fábrica de Hilados "Rio Lindo", Empresa Portuaria, and Ferrocarril Nacional have indicated that they are arranging to place under EDUCREDITO's administration 50% of the funds needed for a program to prepare their own personnel, with EDUCREDITO providing the other 50%.

A.I.D: Financial assistance for English classes in Georgetown University to students who enter the United States under EDUCREDITO sponsorship. In some cases it will cover tuition and fees of the student that the program sends to the Technological Institute of Monterrey.

STUDENT LOAN FUND - EDUCREDITO

UNCLASSIFIED

ANNEX II, Page 28 of 46
Exhibit 13, Page 1 of 3

BIO-DATA OF EDUCREDITO PERSONNEL

1. Director - Benjamin Membreño M. Age 58

Studies: Civil Engineering Degree from the National University of Honduras

Experience: 1960-1970: Director of the Centro Cooperativo Técnico Industrial (CCTI).
1968 Founder and Director of the EDUCREDITO Program.
1958-1960: President of the National Manufacturer's Association.
1958-1966: Alternate Director of the Central Bank of Honduras representing the industrialists of the country. Elected four times.
1956-1959: General Manager of the Cotton Cooperative of Honduras.
1952-1954: Honduran Minister of Agriculture. (Founder and Organizer of the Ministry).
1950-1952: Sub-Minister for Agriculture, Labor and Development for the Government of Honduras.
1949: Head of the Engineering Division of the Interamerican Cooperative Service of Public Health (SCISP).
1943-1948: Head of Projects of SCISP on the Honduran North Coast.

UNCLASSIFIED

2. Assistant Director - Arnulfo Pineda López Age 42

Studies: Graduate of the Law School, National University of Honduras - 1965

Studied at American University, Washington, D.C.

Experience: 1966-1969: In charge of Publications and Information for the Secretariat of the Superior Council of Central American Universities (CSUCA)

1969-pres.: In charge of scholarships for the National University of Honduras

1969-pres.: Professor of Law in the University

3. Member of the Funding Committee - J. Trinidad Fiallos
Age 63 - representative of the National Association of Industries.

Present Occupation: Manager, National Association of Industries

Studies: Graduate in Economics from the National University of Mexico, 1947

Experience: 1967-1971: Present position.

1958-1967: General Director of Statistics, GOH

1955-1957: Chief of Statistics for the National Development Bank

4. Member of the Funding Committee - Andrés Victor Artiles
M. Representing the Workers' Union of the Tela Railroad Co. -(SITRATERCO)
Age 46

Present Occupation: Plumber

Studies: 1955: Course at the Institute of Social Sciences, University of Puerto Rico.

1962: Course at AIFLD, Washington, D.C.
- Various other seminars related in
Labor Unions

Experience: 1957-1961: Secretary-General of SITRATERCO
1966-Present: Secretary-General of the
Honduran Workers' Federation (CTH)

5. Member of the Funding Committee - Samuel DaCosta Gomez
representating the Aseguradora
Hondureña (an insurance company)
Age - 70

Studies: Graduate of the Law School of the
National University of Honduras
(1932)

Experience: 1960-Present: President Aseguradora Hondureña
1957-1963: Alternate Judge Honduran Supreme
Court
1952-1956: Alternate Director of the Central
Bank of Honduras

6. Secretary-Treasurer - Dorcas Gloria Cantarero de Gonzales
Age 34

Studies: AID Participant in Leadership Train-
ing Course at the Inter-American
Center, Loyola University

Economics Degree From the National
University of Honduras (1967)

Experience: 1965-1970: Economist and Assistant to the
Director of CCTI
1963-1964: Assistant Professor in the School
of Economics at the National Univ-
ersity of Honduras.
1959-1961: Program Coordinator for Technical
Assistance and Scholarships of the
Honduran Economic Planning Council.

EDUCREDITO
ACTUAL AND PROJECTED CASH FLOW STATEMENT

Sources	Actual		Budgeted		thousands of dollars									
	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Cash on Hand- Beginning of year:	90.0	73.0	109.0	213.0	282.0	338.4	386.0	448.9	386.4	354.5	357.3	372.1	474.1	497.4
Disbursements by GOH under loan agreements:	89.0	92.0	140.0	82.0	-	-	-	-	-	-	-	-	-	-
Local Contributions to endowment:	5.0	10.0	23.5	31.5	39.5	47.5	58.5	60.0	75.0	75.0	75.0	100.0	100.0	100.0
AID disbursements for sub-loans:	-	-	200.0	280.0	360.0	440.0	545.0	-	-	-	-	-	-	-
Interest earned on outstanding loans and investments:	7.0	10.0	32.0	54.0	76.0	98.0	120.0	120.0	120.0	120.0	120.0	120.0	120.0	120.0
Sub-loans repayments:	9.0	15.0	51.9	58.5	91.8	119.2	161.0	217.0	303.8	337.9	375.9	389.6	399.0	394.2
AID disbursements for technical assistance:	-	-	10.0	10.0	10.0	10.0	10.0	-	-	-	-	-	-	-
AID disbursements for administrative expenses:	-	-	25.0	25.0	25.0	25.0	25.0	-	-	-	-	-	-	-
Other:	9.0	33.0	-	-	-	-	-	-	-	-	-	-	-	-
Total funds available during the year:	209.0	233.0	591.4	753.8	884.3	1078.1	1305.5	845.9	885.2	887.4	928.0	981.7	1093.1	1111.6
Uses														
Sub-loan disbursements:	108.0	107.0	307.0	330.0	435.0	540.0	640.0	250.0	325.0	350.0	400.0	400.0	400.0	400.0
Administrative expenses:	11.0	15.0	50.7	45.8	49.5	53.2	55.8	55.0	55.1	56.9	59.7	62.6	65.7	68.9

EDUCREDITO

ACTUAL AND PROJECTED CASH FLOW STATEMENT - CONTINUED
 thousands of dollars

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Interest and amortiza- tion payments to A.I.D.:	-	-	4.7	11.0	18.9	28.4	40.0	40.0	40.0	40.0	40.0	40.0	125.0	123.0
Interest and amorti- zation payments to GOH														
1st loan:	1.0	1.5	2.5	2.5	27.5	55.5	54.0	54.0	51.5	25.4	-	-	-	-
2nd loan:	-	0.5	3.5	5.0	5.0	5.0	56.8	55.5	54.1	52.8	51.4	-	-	-
Technical assistance costs:	-	-	10.0	10.0	10.0	10.0	10.0	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Other:	16.0	-	-	-	-	-	-	-	-	-	-	-	-	-
To be spent during the year:	136.0	124.0	378.4	471.8	545.9	692.1	856.6	459.5	530.7	530.1	556.1	507.6	595.7	596.9
Cash on Hand - end of year:	73.0	109.0	213.0	282.0	338.4	386.0	448.9	386.9	354.5	357.3	372.1	474.1	497.4	514.7

EDUCREDITO
 Comparative Year-end Balance Sheet
 in US dollars

ASSETS	December 31 1970	December 31 1969	December 31 1968
<u>ASSETS</u>			
<u>Circulating</u>			
Cash	692.16	87.78	
Banks	(4,506.54)	64,849.07	2,507.02
Loans Due (Short Term) ¹	15,736.36	7,145.34	574.13
Interest Due (Short Term) ¹	1,962.29	759.63	291.70
Investments	77,500.00	25,000.00	10,000.00
Contributions to Endowment Due (Short Term)	1,250.00	8,000.00	1,250.00
<u>Fixed Assets</u>			
Contributions to Endowment Due (Long Term)	2,500.00		
Loans Due (Long Term) ¹	115,883.82	25,082.30	5,300.22
Interest Due (Long Term) ¹	1,330.28	1,211.52	11.28
Equipment and Furniture	2,348.60	595.32	
<u>Deferred Assets</u>			
Accumulated Operating Losses	5,505.59	2,203.68	467.76
Deferred Credits and Expenses	180.60	411.65	265.00
TOTAL ASSETS	\$ 220,323.16	\$ 135,346.30	\$ 20,707.11

EDUCREDITO
 Comparative Year-end Balance Sheet
 in US dollars (continued)

	December 31 1970	December 31 1969	December 31 1968
<u>EQUITIES</u>			
<u>Liabilities:</u>			
<u>Circulating</u>			
Accounts Payable	51.32	14.67	349.61
Interest Payable	453.04	261.01	
Loans Due (Short Term)		5,000.00	
<u>Fixed</u>			
Loans Due (Long Term)	185,656.30	96,908.11	
<u>Net Worth:</u>			
Endowment:	34,162.50	33,162.50	20,357.50
TOTAL EQUITIES	\$ 220,323.16	\$ 235,346.30	\$ 20,707.11

NOTES TO EDUCREDITO'S COMPARATIVE BALANCE SHEET:

1. These items refer to sub-loans to students which were outstanding at each year end.
2. EDUCREDITO keeps its books on cash basis and thus does not include in the balance sheet items showing the amount of funds obligated for further disbursements of sub-loans already authorized, nor undisbursed funds as yet not received from the GOH under the GOH-EDUCREDITO loan agreements. These items are carried in separate accounts, and the respective levels at years-end were:

	December 31 1970	December 31 1969	December 31 1968
Sub-loans authorized but undisbursed	128,326.40	58,432.75	5,914.34
GOH loan disbursements authorized but not yet received	64,343.70	153,091.89	-

HONDURAS

Requirements for Educational Formation (in thousands) for the period
1963-1974 by educational level and population

Occupation	TOTAL			UNIVERSITY LEVEL		
	1974 Needs	Already available from 1963 stock	Formation Requirements 1963-1974	1974 Needs	Already available from 1963 stock	Formation Requirements 1963-1974
Professional	34.1	14.3	19.8	4.9	1.50	3.40
Managerial	7.0	3.2	3.8	0.8	0.30	0.50
White Collar	27.0	12.87	14.13	0.3	0.07	0.23
Sales	43.6	21.87	21.73	0.5	0.07	0.23
Agricultural	402.6	395.17	7.43	0.6	0.07	0.53
Blue Collar	216.8	112.43	104.37	0.6	0.13	0.47
TOTAL	731.1	559.84	171.26	7.5	2.14	5.36

	SECONDARY LEVEL			PRIMARY LEVEL			OTHER		
	1974 Needs	Already available from 1963 stock	Formation Requirements 1963-1974	1974 Needs	Already available from 1963 stock	Formation Requirements 1963-1974	1974 Needs	Already available from 1963 stock	Formation Requirements 1963-1974
Professional	12.2	4.60	7.60	10.9	5.1	5.80	6.1	3.10	3.0
Managerial	2.5	0.90	1.60	2.0	0.7	1.3	1.7	1.30	0.4
White Collar	9.0	3.90	5.10	9.5	5.0	4.5	8.2	3.90	4.3
Sales	1.9	0.90	1.0	12.1	3.2	8.9	29.3	17.70	11.6
Agricultural	2.0	0.40	1.60	41.3	4.2	37.1	358.7	390.50	-31.8
Blue Collar	5.0	1.50	3.50	49.7	10.9	38.8	161.5	99.90	61.6
TOTAL	32.6	12.20	20.4	125.5	29.10	96.40	565.5	516.40	49.1

Source: Consejo Superior Universitario Centroamericano (CSUCA)
Estudio de Recursos Humanos en Centroamerica
"Oferta y Demanda - Recursos Humanos en Centroamerica - No. 6, 1966 - Page 67

UNCLASSIFIED

UNCLASSIFIED
ANNEX II, Page 35 of 46
Exhibit 16, Page 1 of 1

STUDENT LOAN FUND - EDUCREDITO

UNCLASSIFIED
ANNEX II, Page 36 of 46
Exhibit 17, Page 1 of 5

Application Form
(Translation)

_____ Recent Photo

I hereby apply for a loan from EDUCREDITO for the amount of _____ in order to cover costs of tuition, entrance, etc. _____; living expenses _____; books and supplies _____ as a student in _____ school of training center _____ for the academic year beginning _____ and ending _____.

Personal Information

Name: _____
Address: _____ Age: _____
Place and date of birth: _____
Wife's name (if married): _____
No. of Children: _____
Father's name: _____ Living?: _____
Address: _____
Occupation: _____
Mother's name: _____ Living?: _____
Address: _____
Occupation: _____
In case of emergency notify: _____
Address: _____ Telephone: _____

UNCLASSIFIED

Financial Information

If married, include basic maintenance costs of family;
also provide data showing your and your spouse's
annual income.

Cost Budget for Academic Year

Tuition, etc..... L.
Books and supplies.....
Quarters.....
Food.....
Clothing.....
Transportation.....
Other (specify)..... _____
TOTAL..... L. _____

Resources available for payment of these expenses

Savings..... L.
Scholarships.....
Support from parents.....
Work during vacations.....
Part-time work.....
Spouse's income.....
Other (specify).....
Full-time work..... _____
TOTAL L. _____

Can you live with your parents? _____ Do you have a
bank account?: _____ Present balance: L. _____
Name of Bank: _____
If you have received a loan or scholarship indicate from
where and for how long: _____
How much do you receive per month from this?: _____
Will you receive other income not explained above?: _____
Specify: _____

How many dependents do you have?: _____
If married, does your spouse receive separate income?: _____
Amount per month: L. _____ Does spouse study in a
University?: _____ If yes, specify: _____
will you need additional funding from EDUCREDITO before
completing your studies?: _____

Occupation and Practical Experience

If you now work or have worked in addition to your studies,
answer the following:

Prior Position

Name of Employer: _____
Exact Position: _____
Name of immediate supervisor: _____
Work began: _____ Ended: _____
Reasons why you left: _____
Beginning Salary: _____
Last Salary: _____

Present Position

Name of Employer: _____
Exact Position: _____
Work began: _____ Ended: _____
Reasons why you left: _____
Beginning Salary: _____
Last Salary: _____

Educational Information

Name and address of your secondary school: _____
Date of graduation: _____
Have you ever attended a university?: _____
If yes, indicate dates: _____
Is this application for post-graduate studies?: _____
If so, indicate date of graduation and university degree
received: _____
Institution: _____
Expected or actual date of graduation: _____

Languages

Indicate languages spoken, read, and written:

Degrees of Proficiency: _____

General Information

Publications, articles, etc. _____

Please summarize in less than 200 words why you have chosen the field of study for which you are applying for this loan: _____

Indicate three (3) references (not relatives)

(names, addresses, occupations)

To be completed by parent or legal guardian:

Name: _____ Age: _____
Address: _____
Business: _____ Position: _____

Type: _____
Mother's name: _____ Age: _____
Address: _____
Position: _____ Type: _____
Total annual income from all sources: _____
Number of dependent, children: _____ Ages: _____
Number who study: _____
Do you own real estate: _____
Value of mortgage: _____
Monthly payment: _____
Do you agree with the educational plans of the
applicant?: _____
Will you assist him financially?: _____
With what sum over the period of time for which he is
applying?: _____ If not, indicate why: _____

We have read this application in full and agree with it,
and we believe that the applicant understands his
responsibility to repay the loan. We certify that the
funds requested are necessary in order that the applicant
may continue his education.

Signature

(Evidence must be presented that the applicant has been
accepted for enrollment in any given institution if this
application involves first entrance into the institution).

STUDENT LOAN FUND - EDUCREDITO

UNCLASSIFIED
ANNEX II, Page 41 of 46
Exhibit 18, Page 1 of 1

Analysis of Application No.
(Translation)

Date: _____

The undersigned has examined the application of _____
for studies of _____ for the period of _____
_____ in the following institution _____
and that such information, with attachments contains,
among other things, the following information:

The loan is for _____
The applicant is Honduran by birth?: _____
The applicant now resides in Honduras?: _____
If not, where: _____

The applicant has named the following guarantors: _____

The applicant studies in: _____
The applicant is employed by: _____
The applicant has demonstrated sufficient knowledge of
the language of the country of study: _____
The applicant has been accepted for enrollment by the
institution: _____

The average of his qualifications is:

Good _____
Normal _____
Deficient _____

The applicant has presented:

Loan application _____
Birth Certificate _____
Health Certificate _____
Letters of good conduct _____
Letters of guaranty from two cosignors _____
Photocopy of his diplomas _____

Observations: _____

Analyst

UNCLASSIFIED

STUDENT LOAN FUND - EDUCREDITO

UNCLASSIFIED
ANNEX II, Page 42 of 46
Exhibit 19, Page 1 of 1

Loan Approval Form No.
(Translation)

The Funding Committee, in accordance with Article 31 of the Statutes of EDUCREDITO, considering that: _____ has applied for a loan for _____ to continue his studies of _____ in _____ for the period of _____ and that the application has been adjusted to the requirements of the Statutes.

Resolves on _____ the authorization of a loan for _____ to be spent as follows:

Tuition, etc.....	L.
Round-trip transportation.....	
Books and supplies.....	
Graduation Expenses.....	
Living and personal expenses...	
Life insurance policy.....	
Medical Insurance.....	
Others (specify).....	
Contingencies.....	_____
TOTAL	L. _____

to _____ in order that he may continue or undertake the studies mentioned above. The loan will be executed by means of a contract as required by the Statutes, including all necessary clauses.

Director

Secretary-Treasurer

STUDENT LOAN FUND - EDUCREDITO

Information on EDUCREDITO students who had completed their studies as of December 31, 1970

<u>Number</u>	<u>Field of Study Completed</u>	<u>Present Position</u>	<u>Information indicating prior position and changes as result of his studies.</u>
1	Industrial and Mechanical Engineering (B.S)	Advisor, Centro Cooperativo Técnico Industrial (CCTI)	Was a student, now is the head of the Department of Technical Assistance of this development organization
2	Cytology (post-grad.)	San Felipe Hospital	Had previously been a doctor on the staff of another hospital now is a specialist in cancer treatment
3	Mechanical Engineering (B.S)	Quimicas Dinant	Had been a student, now a Project Supervisor
4	Agronomy (M.S.)	DESARRURAL (an agency of the GOH)	Had worked previously as extension agent, now Chief of Bean Program
5	Union Leadership (tech.)	TAN Airlines (official of employees' union)	Took course in union leadership representing his Union

UNCLASSIFIED

UNCLASSIFIED
ANNEX II
Page 43 of 46
Exhibit 20
Page 1 of 4

<u>Number</u>	<u>Field of Study Completed</u>	<u>Present Position</u>	<u>Information indicating prior position and changes as result of his studies</u>
6	Milk Production (tech.)	in U.S.A.	Failed to return to Honduras and now working in the USA. Has paid his loan in full. May eventually return to Honduras
7	Airport Engineering (M.S.)	Consulint América	Worked previously for the National Port Authority, now a consulting engineer.
8	Geology (tech.)	GOH Ministry of Natural Resources	Previously employed by Ministr at a lower level but this loan complemented a scholarship and is now an inspector of mines for the same Ministry
9	Interior Decoration (tech.)	Opened her own school in Tegucigalpa in this field	Was previously privately employed, but now has opened this school to train Hondurans in this field in-country

UNCLASSIFIED

UNCLASSIFIED
ANNEX II, Pg 44 of 46
Exhibit 20, Pg 2 of 4

<u>Number</u>	<u>Field of Study Completed</u>	<u>Present Position</u>	<u>Information indicating prior position and changes as result of his studies</u>
10	Psychology (M.S.)	National University of Honduras	Had received B.S. from the National University but now teaching there with M.S.
11	Mathematics (B.S.)	National University of Honduras	Was previously a student, now a professor
12	Business Administration (B.B.A.)	Cementos de Honduras	Was a student, now an administrative head of this cement factory
13	Motors and instrumentation (tech.)	Private business (bakery)	Not working in his field of study and delinquent in his payments (EDUCREDITO's one "bad" loan so far) collection efforts are now underway
14	Business Administration (M.B.A.)	Standard Fruit Co.	Had prior work experience but now a financial analyst
15	Agronomy (B.S.)	DESARRURAL	Was unable to finish college due to financial difficulties and obtained a loan for this purpose

UNCLASSIFIED

UNCLASSIFIED
ANNEX II
Page 45 of 46
Exhibit 20
Page 3 of 4

<u>Number</u>	<u>Field of Study Completed</u>	<u>Present Position</u>	<u>Information indicating prior position and changes as result of his studies</u>
16	Medicine (M.D.)	Tela Hospital	Was previously a student, now on Hospital staff.

UNCLASSIFIED

UNCLASSIFIED
ANNEX II, Page 46 of 46
Exhibit 20, Page 4 of 4

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, for each item write answer or, as appropriate, a summary of required discussion. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended.

App. - Foreign Assistance and Related Agencies Appropriations Act, 1971.

MMA - Merchant Marine Act of 1936, as amended

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. FAA § 208; §.251(b).

A. Describe extent to which country is:

(1) Making appropriate efforts to increase food production and improve means for food storage and distribution.

(2) Creating a favorable climate for foreign and domestic private enterprise and investment.

1. Through a number of loans granted by A.I.D., the IDB, and the IBRD, in addition to a grant project funded by the UN, Honduras is placing heavy emphasis on increasing food production, storage, and distribution.

2. Honduras is receptive to foreign private investment. The A.I.D. Specific Risk Investment Guarantee Program is fully operative. Loans for projects are available from a number of sources, among them the Government-owned National Development Bank and the Central American Bank for Economic Integration.

(3) Increasing the public's role in the developmental process.

3. Honduras is making efforts to increase private sector participation in the development process. This proposed loan is specifically designed to encourage the development of the human resources within Honduras necessary to participate in this process.

(4) (a) Allocating available budgetary resources to development.

4(a). Honduras is allocating a satisfactory portion of its annual budget to developmental purposes. Approximately 26% of its 1971 budget is allocated for investment-type activities.

(b) Diverting such resources for unnecessary military expenditure (see also Item No. 16) and intervention in affairs of other free and independent nations. (See also Item No. 14)

4(b). Military expenditures of Honduras increased following the 1969 hostilities with El Salvador. However, these increases do not appear to have been disproportionate to Honduras' defense needs and are not being used to intervene in the affairs of other free and independent nations.

(5) Willing to contribute funds to the project or program.

5. The implementing agency, EDUCREDITO, is a private organization and has expressed willingness to provide a reasonable contribution to this project. Please refer to page of the Capital Assistance Paper for details.

- (6) *Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangements, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.*
6. Honduras permits free political expression. Improvements in land tenure arrangements and tax collection are being realized now and will be further supported by an A.I.D. loan for the initiation of a cadaster project which was authorized in 1970.
- (7) *Adhering to the principles of the Act of Bogota and Charter of Punta del Este.*
7. Honduras is adhering to the principles of the Act of Bogotá and the Charter of Punta del Este.
- (8) *Attempting to repatriate capital invested in other countries by its own citizens.*
8. Honduras has been attempting to encourage its own citizens to repatriate capital invested in other countries through the encouragement of investment in new projects within Honduras which will contribute to economic development.
- (9) *Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.*
9. Honduras has just held national elections in accordance with the terms of the Constitution thus enabling the people to participate directly in the country's political process and to express their political, economic, and social concerns. In addition, the Government actively encourages self-help development projects both large and small.

B. *Are above factors taken into account in the furnishing of the subject assistance?*

B. Yes

Treatment of U.S. Citizens

2. FAA § 620(c). If assistance is to government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) debt is not denied or contested by such government?

2. There is no evidence of such indebtedness.

3. FAA § 620(c)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing-ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

3. There is no evidence of any such action.

AID 1240-2

4. FAA § 620(o); Fishermen's Protective Act. 8.5. *If country has seized, or imposed any penalty or sanction against, any U.S. fishing vessel on account of its fishing activities in international waters,*

4. During the last three years, Honduras has not seized or imposed sanctions on any U.S. fishing vessels on account of activities in international waters.

a. *has any deduction required by Fishermen's Protective Act been made?*

b. *has complete denial of assistance been considered by A.I.D. Administrator?*

Relations with U.S. Government and Other Nations

5. FAA § 620(d). *If assistance is for any productive enterprise which will compete in the U.S. with U.S. enterprise, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan?*

5. This loan is not for a productive enterprise.

6. FAA § 620(j). *Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action, of U.S. property?*

6. During the period of tension and public commotion resulting from the 1969 hostilities with El Salvador, the GOH failed to take adequate measures to prevent damage to the US Chancery building in Tegucigalpa and the US Consulate in San Pedro Sula from mob action. Honduran officials subsequently assure adequate protection in any future disturbances, have now provided 24-hour police guards, and are complying with their agreement to compensate the USG in full for damages sustained.

7. FAA § 620(l). *If the country has failed to institute the investment guaranty program for the specific risks of expropriation, in convertibility or confiscation, has the A.I.D. administration within the past year considered denying assistance to such government for this reason?*
7. Honduras has fully initiated the A.I.D. Investment Guarantee Program.
8. FAA § 620(q). *Is the government of the recipient country in default on interest or principal of any A.I.D. loan to the country?*
8. Honduras is not in default under any FAA loan.
9. FAA § 620(t). *Has the country severed diplomatic relations with U.S.? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?*
9. Honduras has maintained diplomatic relations with the United States.
10. FAA § 620(u). *What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearage taken into account by the A.I.D. Administrator in determining the current A.I.D. Operating Year Budget?*
10. Honduras is not in arrears to the extent described by Article 19 of the UN Charter.
11. FAA § 620(a). *Does recipient country furnish assistance to Cuba or fail to take appropriate steps to prevent ships or aircraft under its flag from carrying cargoes to or from Cuba?*
11. Honduras does not furnish assistance to Cuba or permit ships or aircraft under its flag to carry cargoes to or from Cuba.

- | | |
|---|--|
| <p>12. <u>FAA § 620(b)</u>. If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?</p> | <p>12. The Secretary of State has determined that Honduras is not so controlled.</p> |
| <p>13. <u>FAA § 620(f)</u>. Is recipient country a Communist country?</p> | <p>13. Honduras is not a Communist country.</p> |
| <p>14. <u>FAA § 620(i)</u>. Is recipient country in any way involved in (a) subversion of, or military aggression against, the U.S. or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?</p> | <p>14. A.I.D. has no evidence of any subversion or aggression, or of plans for such action, against any country.</p> |
| <p>15. <u>FAA § 620(n)</u>. Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?</p> | <p>15. Honduras does not furnish goods to North Vietnam or permit ships or aircraft under its flag to carry cargoes to or from North Vietnam</p> |

Military Expenditures

- | | |
|---|--|
| <p>16. <u>FAA § 620(s)</u>. What percentage of country budget is for military expenditures? How much of foreign exchange resources spent on military equipment? How much spent for the purchase of sophisticated weapons systems? (Consideration of these points to be coordinated with PPC/MAS.)</p> | <p>According to published figures, roughly 9% of the GOH budget was allocated for military expenditures during FY1970. The major portion of this amount is believed to have been used for standard arms and ammunition, personnel costs, maintenance, etc. There is no reason to believe that the GOH has any sophisticated weapons systems.</p> |
|---|--|

CONDITIONS OF THE LOANGeneral Soundness

17. FAA § 201(d). *Information and conclusion on reasonableness and legality (under laws of country and U.S.) of lending and relending terms of the loan.*
17. The proposed loan is legal under Honduran and U.S. law and the proposed terms are reasonable for Honduras.
18. FAA § 251(b)(2); §.251(e). *Information and conclusion on activity's economic and technical soundness. If loan is not made pursuant to a multilateral plan, and the amount of the loan exceeds \$100,000, has country submitted to A.I.D. an application for such funds together with assurances to indicate that funds will be used in an economically and technically sound manner?*
18. A.I.D. believes that the project to be financed under this loan is economically and technically sound. The Borrower has submitted to A.I.D. an application for these funds dated March 9, 1971 which contained assurances that the funds will be used in a sound manner.

AID 1240-2

19. FAA § 251(b). *Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.*
19. A.I.D. believes that it is reasonably sure that the Borrower will be able to repay the loan.
20. FAA § 611(a)(1). *Prior to signing of loan will there be (a) engineering, financial, and other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?*
20. Financial and technical plans necessary to carry out the assistance and a reasonably firm estimate of the cost to the U.S. of such assistance have been completed.
21. FAA § 611(a)(2). *If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purposes of loan?*
21. Since the GOH will be the borrower under this loan, ratification by the Honduran Congress will be necessary prior to initiation of disbursements. The Mission has consulted with Government officials and the indications are that such ratification will be accomplished during mid-1971.
22. FAA § 611(e). *If loan is for capital assistance, and all U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability effectively to maintain and utilize the project?*
22. The Mission Director (Acting) has signed a certification included in Annex I of this Capital Assistance Paper.
23. FAA § 251(b). *Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.*
23. Financing for this activity is apparently not available from other free world sources including private sources within the U.S.

Loan's Relationship to Achievement
of Country and Regional Goals

24. FAA § 207; § 251(a). Extent to which assistance reflects appropriate emphasis on; (a) encouraging development of democratic economic, political, and social institutions; (b) self help in meeting the country's food needs; (c) improving availability of trained manpower in the country; (d) programs designed to meet the country's health needs, or (e) other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.
24. This loan will have a direct effect on the development of democratic institutions, adding to the availability of trained manpower in the country and other important elements of development.
25. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?
25. This project is not suitable for execution as part of a regional project.
26. FAA § 251(b)(3). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable long-range objectives.
26. This project is directly related to and consistent with other development activities in Honduras since it is involved with the development of the human resources necessary to carry out development activities in all fields. This project will make a positive contribution toward the achievement of realizable long-range objectives.

AID 1240-2

27. FAA § 251(b)(7). *Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.*
27. This project will contribute to the achievement of self-sustaining growth through the development of human resources and trained personnel necessary to such a growth process.
28. FAA § 281(a). *Describe extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic, private, and local governmental institutions.*
28. This loan will finance the expansion of a democratic institution which assists citizens of Honduras and will also help provide trained personnel necessary for the staffing and formation of other such institutions.
29. FAA § 281(b). *Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.*
29. This project is aimed at encouraging the development of human resources of Honduras for participation in the institution building process.

AID 1240-2

30. FAA § 601(a). *Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.*
30. All of these objectives will be indirectly influenced by the availability of more trained Hondurans who will work in various sectors of Honduran life which are involved with these objectives.
31. FAA § 619. *If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?*
31. Not applicable, Honduras is not a newly-independent country.
32. FAA § 251(h). *Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its annual review of national development activities.*
32. It has been determined that this activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress. See page of this Capital Assistance Paper.
33. FAA § 251(g). *Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.*
33. It is anticipated that this program will assist in training people for the cooperative movement in Honduras.

AID 1240-2

34. FAA § 209; § 251(b)(8).
Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.

34. It is anticipated that this program will promote the exchange of students with other Latin American countries and thereby contribute to regional understanding and the integration of Latin America.

Loan's Effect on U.S. and A.I.D Program

35. FAA § 251(b)(4); § 102.
Information and conclusion on possible effects of loan on U.S. economy, with special reference to areas of substantial labor surplus, and extent to which U.S. commodities and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

35. This project will have no foreseeable adverse effects on the U.S. economy.

36. FAA § 601(b). *Information and conclusion on how the loan will encourage U.S. private trade and investment abroad and how it will encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).*

36. The Borrower has made contact with numerous private organizations in the U.S. which can make a positive contribution to this project thereby encouraging participation by such organizations in foreign assistance programs.

AID 1240-2

37. FAA § 601(d). *If a capital project, are engineering and professional services of U.S. firms and their affiliates used to the maximum extent consistent with the national interest?*
37. Not applicable
38. FAA § 602. *Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services finance by the loan.*
38. In accordance with A.I.D regulations concerning advertisement of procurement opportunities, U.S. Small Business will be permitted to participate in furnishing goods and services for this project.
39. FAA § 620(h). *Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?*
39. No.
40. FAA § 621. *If technical assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.*
40. Technical assistance to be financed under the loan will be furnished to the fullest extent practicable by private organizations. No use of federal agencies is contemplated.

AID 1240-2

41. FAA § 252(a). *Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.*
41. The entire amount of the loan shall be made available to an intermediate credit institution for making sub-loans, financing technical assistance, and helping to cover administrative expenses for a limited time period.

Loan's Compliance with Specific Requirements

42. FAA § 201(d). *Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter?*
42. Yes.
43. FAA § 608(a). *Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.*
43. A requirement to this effect will be included in the Loan Agreement.
44. FAA § 604(a). *Will all commodity procurement financed under the loan be from U.S. except as otherwise determined by the President?*
44. Commodity procurement under the loan will be restricted to countries included in A.I.D Geographic Code 941.

45. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?
45. No bulk commodity procurement is contemplated under this loan.
46. FAA § 604(d). If the host country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the U.S. on commodities financed by the loan?
46. The loan agreement will provide for compliance with this provision.
47. FAA § 604(e). If off-shore procurement of agricultural commodity or product is to be financed, is there provision against such procurement when the domestic price of such commodity is less than parity?
47. Not applicable
48. FAA § 611(b); App. § 101. If loan finances water or water-related land resource construction project or program, is there a benefit-cost computation made, insofar as practicable, in accordance with the procedures set forth in the Memorandum of the President dated May 15, 1962?
48. Not applicable
49. FAA § 611(c). If contracts for construction are to be financed, what provision will be made that they be let on a competitive basis to maximum extent practicable?
49. Not applicable

AID 1240-2

50. FAA § 620(g). *What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?*
50. No assistance will be provided which could be used to compensate owners for expropriated or nationalized property.
51. FAA § 612(b); § 636(h). *Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized to meet the cost of contractual and other services.*
51. No Honduran Lempiras owned by the U.S. are available for financing this project. Honduras is making a considerable contribution in local currency to this project.
52. App. § 104. *Will any loan funds be used to pay pensions, etc., for military personnel?*
52. No.

VID 1240-2

53. App. § 106. *If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?* 53. Not applicable
54. App. § 108. *Will any loan funds be used to pay U.N. assessments?* 54. No loan funds will be used to pay obligations to the U.N.
55. App. § 109. *Compliance with regulations on employment of U.S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).* 55. This provision will be complied with.
56. FAA § 630(i). *Will any loan funds be used to finance purchase, long-term lease, or exchange of motor vehicle manufactured outside the United States, or any guaranty of such a transaction?* 56. No.
57. App. § 401. *Will any loan funds be used for publicity or propaganda purposes within U.S. not authorized by the Congress?* 57. No.

58. FAA § 620(k). *If construction of productive enterprise, will aggregate value of assistance to be furnished by U.S. exceed \$100 million?*
58. Not applicable
59. FAA § 612(d). *Does the U.S. own excess foreign currency and, if so, what arrangements have been made for its release?*
59. No.
60. MMA § 901.b. *Compliance with requirement that at least 50 per centum of the gross tonnage of commodities (computed separately for dry bulk carriers, dry cargo liners, and tankers) financed with funds made available under this loan shall be transported on privately owned U.S. flag commercial vessels to the extent that such vessels are available at fair and reasonable rates.*
60. This provision will be complied with.

UNCLASSIFIED
AID-DLC/P-963
ANNEX IV, Page 1 of 4
Project Activity No.
522-23-690-101

DRAFT

LOAN AUTHORIZATION

Provided from: Alliance for Progress Loan Funds
HONDURAS: Student Loan Fund - EDUCREDITO

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the Delegations of Authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said act, to the Government of Honduras ("Borrower") of not to exceed two million United States Dollars (\$2,000,000) to assist in financing the U.S. dollar and local currency costs of an expansion of the activities of EDUCREDITO ("Project"). Not to exceed the equivalent of fifty thousand United States dollars (\$50,000) may be used for technical assistance and related commodity procurement by Borrower and not to exceed the equivalent of one hundred twenty-five thousand United States dollars (\$125,000) may be used to finance administrative expenses, including related commodity procurement, of Borrower. The loan shall be subject to the following terms and conditions:

A. Interest and Terms of Repayment: Borrower shall repay the loan to the Agency for International Development (A.I.D.) in United States dollars within forty years from the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the loan interest of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

B. Other Terms and Conditions:

1. Except for marine insurance, goods, services

UNCLASSIFIED

UNCLASSIFIED

ANNEX IV, Page 2 of 4

and ocean shipping financed under the loan shall have their source and origin in the United States or any independent country of the free world included in A.I.D. Geographic Code 941 or Honduras itself. Marine insurance financed under the loan shall have its source and origin in the United States or any independent country in the free world included in A.I.D. Geographic Code 941 or Honduras provided, however, that such insurance may be financed under the loan only if it is obtainable on a competitive basis and any claims thereunder are payable in convertible currencies. If, in connection with the placement of marine insurance on shipments financed under United States legislation authorizing assistance to other nations, Honduras, by statute, decree, rule or regulation, favors any marine insurance company of any country over any marine insurance company authorized to do business in any state of the United States of America, goods financed under the loan and imported into Honduras from outside of Central America shall during the continuance of such discrimination be insured against marine risk in the United States of America with a company or companies authorized to do marine insurance business in any state of the United States of America.

2. Prior to the first disbursement or issuance of the first commitment document under the Loan, the Borrower shall present to A.I.D. in form and content satisfactory to A.I.D. an executed sub-loan agreement between the Borrower and EDUCREDITO which will make the entire amount of the loan available to EDUCREDITO in local currency in order that EDUCREDITO may carry out the project. The Borrower shall covenant with A.I.D. that the terms of this sub-loan agreement shall not be modified except as may be mutually agreed to by A.I.D., the GOH, and EDUCREDITO.

3. Prior to the first disbursement or issuance of the first commitment document under the Loan and then annually thereafter, EDUCREDITO shall present to A.I.D. for its review and approval, a plan, including a cash budget, for the management, during the next succeeding

UNCLASSIFIED

UNCLASSIFIED
ANNEX IV

Page 3 of 4

year, of the sub-loan revolving fund established from the repayment proceeds from loans previously made by the Borrower.

4. EDUCREDITO shall annually, or at such other times as A.I.D. may request, furnish such financial statements to A.I.D. as A.I.D. may request. Such financial statements shall be in form and substance satisfactory to A.I.D.

5. Technical assistance and related commodity procurement financed under the loan shall be in accordance with policies and procedures agreed to in advance by the Borrower and A.I.D.

6. Except as A.I.D. may otherwise agree in writing, not to exceed the equivalent of twenty-five thousand United States dollars (\$25,000) may be used to finance the administrative expenses of EDUCREDITO, including related commodity procurement, in any one-year period.

7. Except as A.I.D. may otherwise agree in writing, the amount of the loan used to finance Local Currency Costs shall not exceed the equivalent of six hundred thousand United States dollars (\$600,000). Local Currency Costs are those costs incurred for goods and services of Central American source and origin.

8. During the A.I.D. loan disbursement period, any proposed substantial changes to be made by EDUCREDITO to the present student selection criteria, standard sub-loan terms, or other matters which would have a major effect on modifying EDUCREDITO's current established operating procedures shall receive prior approval by A.I.D.

9. Borrower shall inform A.I.D. of any changes made during the A.I.D. loan disbursement period which involved matters of personnel policy such as staffing, salary levels, and administrative costs.

UNCLASSIFIED

UNCLASSIFIED
ANNEX IV
Page 4 of 4

10. Semi-annually during the first year, and annually each year thereafter during the A.I.D. loan disbursement period, a joint review of the progress of the program will be held by representatives of A.I.D., EDUCREDITO, and the Government of Honduras.

11. Disbursements under the loan shall be subject to the condition that the total amount disbursed under the loan shall at no time exceed the US dollar equivalent of ten (10) times the total cash receipts of donations to EDUCREDITO received subsequent to March 9, 1971.

12. The loan shall be subject to such other terms and conditions as A.I.D. shall consider appropriate.

Deputy U.S. Coordinator
Alliance for Progress

Date

UNCLASSIFIED