

**DEPARTMENT OF STATE
OFFICE OF THE ASSISTANT SECRETARY FOR
ECONOMIC DEVELOPMENT AND REFORMS
WASHINGTON, D.C. 20520**

CAPITAL ASSISTANCE PAPER

**Proposal and Recommendations
For the Review of the
Development Loan Committee**

HONDURAS - MUNICIPAL DEVELOPMENT BANK (BANMA)

AID-DLC/P-2026

UNCLASSIFIED

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

UNCLASSIFIED

AID-DLC/P-2026

May 16, 1974

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: HONDURAS - Municipal Development Bank (BANMA)

Attached for your review are the recommendations for authorization of a loan to the Government of Honduras in an amount not to exceed four million one hundred thousand United States dollars (\$4,100,000) to assist in financing the United States dollar and local currency costs of its Municipal Development Program to be administered by the Banco Municipal Autonomo ("Administrator"). No less than \$3,500,000 shall be utilized to finance the construction and expansion of municipal infrastructure and services; up to \$550,000 may be utilized to finance technical assistance, training, and evaluation services; up to \$50,000 may be utilized for equipment.

No meeting will be scheduled for this proposal. However, please advise us of your concurrence or objection as early as possible, but in no event later than close of business on May 29, 1974. If you are a voting member a poll sheet has been enclosed for your response.

**Development Loan Committee
Office of Development
Program Review**

Attachments:

**Summary and Recommendations
Project Analysis
ANNEXES I-V**

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Capital Assistance Committee

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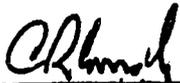
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May 16, 1974

MUNICIPAL DEVELOPMENT BANK (BANMA) - HONDURAS

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May 16, 1974

HONDURAS - MUNICIPAL DEVELOPMENT BANK (BANMA)

PART ONE - SUMMARY AND RECOMMENDATIONS

1. BORROWER: The Borrower will be the Government of Honduras, which will donate the Loan proceeds to the Municipal Bank of Honduras (Banco Municipal Aut6nomo - BANMA) to increase its capital. The executing agency will be BANMA, an autonomous government bank established in 1961 to provide local governments with credit, technical assistance and financial services.

2. LOAN:
 - a) Amount: Not to exceed Four Million, One Hundred Thousand Dollars (\$4,100,000).

 - b) Terms: Repayable in dollars within 40 years including a 10 year grace period, at an interest rate of 2% per annum during the grace period and 3% per annum thereafter.

3. GOAL AND PURPOSE: The overall goal of the Project is to improve the quality of life for the rural man. The specific purposes of the project are (a) complete the BANMA reform program and enable BANMA to provide financing and technical assistance on a systematic, continuing basis for municipal projects of benefit to the rural man; and (b) improve the capacity of the governments of the 27 rural polar and sub-polar counties to function effectively as agricultural service centers.

In addition, the Project should enhance local decision-making capability and the mobilization of resources for local development, thereby releasing central government management for national requirements. The infrastructure developed under the Loan will create jobs in construction as well as in maintenance and operation of municipal services.

Finally, the Loan will assist in meeting the rising medium and long term credit needs of the municipalities outside of Tegucigalpa and San Pedro Sula in a period of increasing need for public services.

Rate of Exchange: Lps. 2=US\$ 1

4. PROJECT DESCRIPTION: The Project consists of strengthening BANMA's institutional capacity and providing it with sufficient resources to carry out an expanded lending and technical assistance program for county governments. It includes: (a) lending to finance the construction and expansion of municipal infrastructure and services such as markets, slaughterhouses, water and sewerage systems, electricity; (b) technical assistance and training, complementing the sublending program, to strengthen municipal financial capacity and subproject administration; and (c) technical assistance and training for the BANMA staff, as well as necessary office equipment, to complete the Bank's reform effort.

Approximately 90% of BANMA's sublending will be concentrated in the 27 polar and subpolar municipios. The cities of Tegucigalpa and San Pedro Sula will be excluded although the rural areas surrounding them will be eligible. It is expected that as BANMA develops its financial and management capacity, it will expand its coverage to a larger number of rural municipalities. BANMA intends to give priority to those sub-projects which improve (a) the production and distribution of agricultural products, (b) the general financial and administrative capacity of the municipality, and (c) the welfare and income of the low income Honduran. Specifically excluded for Project financing are street paving, garbage collection, city halls, parks, and cemeteries. Technical assistance aimed at improving local government administration will be provided with subloans. These priorities and criteria are reflected in BANMA's draft financial and credit policies which will be mutually agreed upon in final form by A.I.D. and BANMA as a precondition to subloan disbursement. The Project will also provide BANMA with a sufficient capital base to continue expanding its operations, including technical assistance, after A.I.D. Loan disbursements end.

5. FINANCIAL PLAN:

	<u>A.I.D. LOAN</u>		GOH	<u>HOST COUNTRY</u>		Total
	<u>Dollar Cost</u>	<u>Local Cost</u>		<u>BANMA</u>	<u>Municipalities</u>	
Subloans	1,200	2,300	1,500	500	611	6,111
Technical Assistance	400					400
Training	40	110				150
Equipment	50					50
Subtotal	1,690	2,410	1,500	500	611	6,711
TOTALS		4,100		2,611		6,711

Of the \$6.7 million project total, the host country contribution is \$2.6 million or 39%. The Government will contribute \$1.5 million over the Project term on a pari passu basis with Loan disbursements. In addition the Government has agreed to continue to subsidize BANMA after disbursement of the loan. BANMA will contribute \$500,000 from its own lending capital. The municipalities will contribute 10% of subproject costs in cash or in kind.

6. OTHER SOURCES OF FUNDS: The Export-Import Bank, IBRD and its affiliates, and the IDB have all informed A.I.D. that they are not prepared to consider this Project. Commercial lines of credit are not appropriate for capitalizing a development institution; however as BANMA achieves financial stability, some commercial lines of credit may well be utilized for working capital.
7. PROJECT SETTING AND BACKGROUND: The secondary municipalities in Honduras have long been important in the economic and political life of the country. Over the years, however, central governments have attempted to dominate and weaken the municipalities and have successively reduced their taxing power. Municipalities inevitably have become increasingly dependent on the central government to provide local services to their inhabitants--demands that the government has proven unable to meet. The present government, preoccupied

with programs of national scope and faced with limited financial and administrative capacity, is looking to the municipalities to develop their own capacity to the fullest so that they can develop the local infrastructure and services demanded by their citizens. After long deliberation the GOH decided that BANMA would be the best mechanism for developing local government and reinforcing overall GOH development objectives with complementary local action. The Bank has undergone an internal reform over the last 18 months assisted by A.I.D. which has transformed it from a near bankrupt commercial bank to a functioning municipal development bank. This loan will now provide BANMA with the resources it needs to carry out a significant municipal program. The Bank has decided to concentrate its initial efforts under the loan on 27 polar and subpolar towns distributed throughout the country and designated as agricultural service centers by the National Planning Council. It is expected that major public and private investments in Honduras' agricultural development will be located near those towns and their success will depend in part on supporting services and local infrastructure being available.

8. LOAN ADMINISTRATION: Of the \$4.1 million loan, \$3.5 million will be utilized for sublending and \$600,000 for technical assistance, training, and evaluation over a three and one half year disbursement period. The Loan will finance engineering and construction services, equipment purchases, training and technical assistance and scholarships from CACM and Code 941 countries. Procurement under subloans will be carried out by sub-borrowers utilizing AID-approved BANMA procedures. Procurement for BANMA's account will be carried out by the Bank in accordance with the A.I.D. Capital Project Guidelines. Payments in U.S. Dollars will be made using Letter of Commitment procedures. Local currency will be disbursed under procedures established by the USAID Controller.
9. STATUTORY CRITERIA: All Statutory Criteria have been met (See Annex V).
10. VIEWS OF THE COUNTRY TEAM: The country team recommends that this project be authorized. It supports USAID's main priority in Honduras and offers the possibility of accelerated political development through the re-

inforcement of local democratic institutions.

11. RECOMMENDATIONS: It is recommended that a Loan be authorized to the Government of Honduras for an amount not to exceed \$4.1 million, subject to the following terms and conditions:

- a) Interest and Terms of Repayment. Repayment in dollars within 40 years, including a grace period of 10 years, at an interest rate of 2% per annum during the grace period and 3% per annum thereafter.
- b) Prior to Initial Disbursement:
 - (i) BANMA shall submit evidence of a contribution to the project of not less than \$500,000.
 - (ii) BANMA shall have hired qualified professional personnel for the positions of Chief of Technical Services Department and Chief of the Financial Department.
 - (iii) BANMA shall (a) submit a mutually acceptable plan showing the intended utilization of technical assistance funds including evaluation and auditing and (b) have contracted a capital projects advisor.
 - (iv) Borrower shall provide a financial plan acceptable to A.I.D. for providing \$1,500,000 to the capital of BANMA on a pari passu basis with A.I.D. loan disbursements.
- c) Prior to initial disbursement for other than technical assistance and training, BANMA shall submit for A.I.D. approval:
 - (i) All regulations and procedures governing sub-loans to be financed under the Project. These shall include, but not be limited to, Financial Policy, Credit Policy, Loan Approval Regulations, and Procurement Regulations.

- (ii) A standard subloan contract and annexes, including reporting requirements and accounting procedures.
 - (iii) Evidence that the correspondent Bank plan is in operation at least on a pilot basis.
- d) Unless A.I.D. otherwise agrees in writing BANMA will ensure that:
- (i) All subloans financed under the Project shall be approved and executed in accordance with the procedures approved above.
 - (ii) All subloans under the project over \$50,000 be approved by A.I.D. This limitation will be examined in the course of the joint project reviews.
 - (iii) Subloans for paving, city hall construction, garbage collection, cemeteries, or parks shall not be eligible for financing under the Project.
 - (iv) Subloans for projects located in the urban areas of Tegucigalpa and San Pedro Sula shall not be eligible for financing under the Project.
 - (v) Principal repayments from subloans financed under the Project shall be subject to the criteria in (iii) and (iv) for a period of 3 years after final disbursement of the Loan.
- e) The Borrower shall use its best efforts to bring about an increase in the municipal tax base and ensure that municipal revenues are not reduced through legislative action over the life of the Project.
- f) The Borrower, BANMA and A.I.D. shall undertake a joint project review before \$1.0 million of Loan funds are committed and a second review before \$3.0 million are committed under the Loan. The second review shall be based on an evaluation prepared by an independent consultant acceptable to Borrower, BANMA, and A.I.D.

May 16, 1974

SECTION I - PROJECT BACKGROUND

A. THE MUNICIPALITIES

1. Overview

Honduras is divided into 283 county-like units called "municipios". These municipios consist of townships or county seats with administrative responsibilities for the town plus surrounding rural populations and lands within their jurisdiction. Ten of the 283 county seats have over 10,000 inhabitants, representing a population of 516,000 or about 20% of all Hondurans. Two of these, Tegucigalpa and San Pedro Sula, contain 350,000 of the 516,000. In addition, there are 20 county seats with populations in the 3,500 - 10,000 range and 44 more in the 2,000 to 3,500 range. These 64 county seats comprise 29% of Honduras' population. The remaining 209 townships are in fact no more than rural hamlets, although a number of them will move into the 2,000 to 3,500 group within the next five years. The county government (municipalidad) is located in the county seat and is represented in every settlement in the county with more than 100 inhabitants (called "aldeas") in the person of a deputy mayor; in all, there are close to 7,500 aldeas.

Only 29% of the Honduran population (estimated in 1970 at 2.9 million) lives in towns of 2,000 or more inhabitants, making Honduras by far the least urbanized country in Central America. At the same time, however, it is experiencing a higher urban growth rate (5.4% per annum compared to 4.4%) than the other CACM countries combined. Internal migration and a high population growth rate are resulting in rapid urban growth, particularly in those towns which play the role of regional centers for their rural areas of influence. Various migration studies indicate that rural to urban migration in Honduras is a step-wise phenomenon, i.e., inhabitants of the smaller towns and villages tend to move to nearby intermediate size towns (these tend to be regional poles and sub-poles), while the migrants to the larger cities tend to come either from that city's immediate area of influence or from intermediate size towns outside of it. In addition to being a step-wise phenomenon, this migration has primarily economic motivations induced by the existing rural-urban and inter-regional income disparities. Other factors such as having relatives in the place of destination are also relevant. This urban growth has severely taxed the financial and administrative capabilities of the regional centers which have not been able to absorb it in an orderly manner and at the same time provide basic services to their rural hinterlands.

Honduras' rugged topography and resulting internal geographic isolation have been important factors in its social, economic, and political development in general and in the development of local government particularly. Honduras is criss-crossed by a series of mountain ranges between which are interspersed numerous small valleys, relatively isolated one from another. The majority of Honduras' population lives dispersed in small towns in these valleys. The ruggedness of the country has constituted an important obstacle to communications and has contributed to the population's traditional, parochial views, and distrust and avoidance of the outside world--which may include even neighboring valleys. Honduran topography and internal geographic isolation have been obstacles to the formation of a national market, with consequent high transport costs and poor communications impeding the movement of goods and services and the introduction of new technologies. The major political effect has been chronic instability, with the Central Government unable to control the administration of the national territory. Perhaps in reaction to this many Honduran officials today have an almost instinctive fear of administrative decentralization, and precisely because of the political importance of the municipios paternalistic national governments have attempted to dominate, neglect, and weaken them.

Nevertheless, Honduran topography and internal isolation coupled with the ineffectiveness of national administration have tended to perpetuate the importance of local governments. Rising rural expectations resulting from improvements in transport and communications over the last few years are intensifying demands for public services. The national government is aware that it has neither the financial nor the administrative capability to meet these demands, while at the local level inhabitants as well as officials are coming to the conclusion that if they have to wait for the national government to attend to their needs that they may have to wait forever. At both levels there increasingly exists the conviction that local governments have a vital role to play in the development process and that they should be more than mere appendages to a sterile national political process.

2. Municipal Government

The Constitution of 1965 divides Honduras into 18 Departments for the purposes of Public Administration. The Departments are further divided into autonomous counties ("municipios") which are represented by their elected officials. The county governments are independent in the exercise of their internal functions, subject to the general laws of the country.

The most important national law affecting the municipios is the Law of Municipalities (Ley de Municipalidades y del Régimen Político). This law dates from 1927 and although certain of its provisions are archaic and not observed, it delimits the basic elements of municipal organizations and structure. (Annex 1, Figure 1) Article 47 of the Law imposes on Honduras county governments, or corporations as they are called, considerable power and wide responsibilities:

"The Government, direction and administration of the interests of the settlements corresponds to the municipal corporations, especially when these are related to the following:

1. Municipal government, which comprehends internal regulations; the naming of employees; the organization of services; ordinances concerning police, hygiene, public instruction, and other areas under its control; and association with other corporations.
2. Municipal direction, which comprehends all branches of industry, labor, welfare, charity, health and education, building and decor and everything related to the promotion of the moral and material interests of its inhabitants.
3. Municipal Administration, which comprehend the conservation of community lands, goods, and rights, taxation, collection, investment and accounting of revenues as well as the proposing of new taxes and services charges.

Some of the above mentioned attributions have passed into the hands of Central Government or to autonomous agencies by default, because local governments have not had the financial and administrative capabilities to carry out their responsibilities. The county corporation is composed of the mayor (alcalde) and 3 to 7 councilman (regidores). Other officers include a secretary (who is an ex-officio member of the council) and a treasurer. The mayor presides over the county council and is the corporation's chief executive, but certain executive functions such as police, sanitation, etc., rotate among the council members. Under the Honduran Constitution elections for local officials should take place every three years, with no official allowed to succeed himself. In addition, the corporation council is made up of members of both political parties in order to ensure minority representation, the Mayor and majority of the council being

of the winning party. The next local elections should take place in June of 1974. These elections are not expected to take place, however, because the machinery for conducting elections has been abolished by the new military government. It is expected that the majority of local corporations will continue in office with some selective appointed changes from time to time.

Municipal Needs

a. Infrastructure and Services

To document what is obvious even to the casual observer, BANMA in early 1973 carried out a municipal survey which, among other things, quantified the availability and coverage of municipal infrastructure and services.^{1/} It is clear from the survey that there is a lack of public services, and those that do exist are not generally adequate or operating properly.

- Water. 230 Municipios have water systems in the county seats, of which 150 are in the hands of the local governments. Only 389 of Honduras' approximately 7,500 aldeas have some type of water system. The overwhelming majority of these systems are inadequate. 55% of the water systems need to be enlarged, 36% require repair or major improvements and only 9% are considered adequate. The survey found that only 61% of the systems provide water all day during the dry season and that in only 21% of the systems had the bacterial level of the water been tested and found satisfactory.
- Sewage. 43 Municipios in Honduras have some type of sewage system, none have any type of treatment system. 36 systems are municipally owned, of which 34 require enlargement and improvement. 160 of the mayors surveyed believed it necessary that a system be constructed in their towns and a larger number thought that more latrines and septic tanks should be built.

^{1/} As used in this document, infrastructure means investment in plant and facilities such as road construction, markets, slaughterhouses, agricultural storage facilities, water and sewage facilities, electrical energy systems, etc. Municipal services refers to operation and maintenance of these and other facilities, e.g., road maintenance and improvement, market and slaughterhouse operations, water and electric systems management and operation.

- **Electrical Energy:** Approximately 190 municipios have some type of electrical service. About 76% of the electrical systems are a local government or community service. These systems are generally used in the evening for lighting; they average about 5 hours of operation a day. These short operating hours impose a serious constraint on the development of small scale productive activities. Commercial, industrial and agricultural processing facilities must generate their own electricity - an expensive operation. The lack of all day service may be a serious barrier to entry for small businesses as it precludes the efficient use of electrically driven hand tools and pumps.

- **Markets.** There are around 75 public markets in 64 towns. All except one in Tegucigalpa are municipally owned and operated. More than 75% of the municipios in Honduras have no public market of any type. The existing public market facilities are generally inadequate. 39% of the municipal markets in Honduras do not have electricity, while 35% do not have running water. 82% of the markets do not have public restrooms. Only 3% of the markets have any type of refrigeration and none of this available for rent. Only 66% of the markets have sufficient space, and nearly 60% of them are considered to be unsatisfactory from a hygienic point of view. Where no public market exists residents use markets in nearby municipios; the average distance to these neighboring markets is 31 Kms.

- **Slaughterhouses.** Nearly 60% of Honduras' 283 municipios have some kind of animal slaughtering facilities. Except for a few export packing houses all are municipally owned. On the average about 200 animals per month are slaughtered in each of the 166 facilities. Only 33% of the existing slaughtering facilities are considered unsatisfactory. However, investigations made by members of the Agricultural Sector Analysis team indicate that in the majority of these installations there exists an inordinate amount of waste because of insufficient utilization of animal subproducts (blood, bones, skins, etc.). Much of this waste seems to be due to inadequate facilities and lack of trained administrators. Some is undoubtedly due to limited markets for the subproducts or their derivatives. Refrigeration does not exist in any of the slaughterhouses and elemental sanitation is grossly inadequate.

- Other Public Services: Only eight municipios in Honduras have organized fire departments. San Pedro Sula's mayor stated that fire protection was satisfactory, while 71 mayors stated that it was not satisfactory. Fires losses are a serious problem. 29 municipios, all with populations over 2,000 operate a garbage collection service. None of the mayors believed that the service was satisfactory. Where service is provided, on the average only 49% of the urban area is serviced because of inaccessibility, lack of equipment, or both. Other services provided at least in part by the local governments include:
 - 18 have at least some paved streets;
 - 161 have at least some street lighting. In 124 of them this is provided by the local government;
 - 92 have public parks;
 - 35 have some kind of public library; 71% of these are provided by the local governments;
 - 272 have a public cemetery;
 - 278 health centers exist; municipalities contribute to 65% of them;
 - 270 have at least one public school; 87% of these municipalities contribute to their construction, and maintenance;
 - 33 have community centers; in 64% of these the municipality has helped to construct or maintains these centers;
 - 52 have children's feeding centers; in 52% of these there is a municipal contribution;
 - 100 have recreation fields; in 82% of the cases these are municipal properties.

b. Accounting and Tax Administration

The accounting and tax administration systems of Honduran local governments are generally ineffective and poorly organized. Those accounting systems that do exist are in most cases limited to a cash control function. In most municipalities there is almost no control over inventories, equipment, municipal lands or other properties. There exists practically no fund accounting or use of depreciation. It is almost impossible to determine the cost of providing the various municipal services, to distinguish current

from capital expenditures, or interest payments from loan payments. Internal controls are almost non-existent. For example, in most cases the treasurers who receive cash payments also perform the accounting functions. There are very few effective controls to insure that the amount paid by the taxpayer finds its way into the municipal coffers.

Perhaps even more defective than the accounting system is the tax control system. In most municipalities there exists no adequate system to insure that the taxpayer is charged with the full amount due for property tax, municipal services, and other charges. The municipios generally do not know whether property owners have paid the property tax and services charges corresponding to their properties. In most cases it is not possible to identify the property owner from municipal records, charge his account and send him a tax bill. Very few property mapping systems (cadasters) exist. Similarly, except in Tegucigalpa and San Pedro Sula, no property assessment capability exists to verify owner-declared property values.

c. Administration

Honduran municipalities have neither the technical tools nor trained personnel to manage modern local government. For example, such tools as subdivision regulations; building codes; or plans for streets and drainage, water and sewage, electrical power and other basic services do not exist. 90% of the mayors, councilmembers, secretaries, treasurers, and department chiefs have attended secondary school. However few have adequately trained market administrators or personnel in the areas of animal inspection, animal utilization and general administration, and this lack is repeated with municipal water systems, electrical systems, etc.

d. Project Development

Few Honduran municipalities have the capacity to develop projects. Perhaps half a dozen municipal engineering offices exist, poorly staffed and equipped. Only in San Pedro Sula and Tegucigalpa does any kind of formal municipal planning capability exist. The result is a reliance on local engineering firms, often operating without supervision or contract monitoring. In the past six years, Peace Corps Volunteers - engineers and architects assigned to some of the larger municipalities - have provided competent, but transient, project development capability.

4. Municipal Finances

In 1972 Honduran local Government expenditures totalled \$6.3 million (as shown in Table I-1), approximately 1.2% of G.N.P. and 7.2% of combined central Government/municipal revenues. Municipal expenditures during 1960-1972 rose at an annual rate of 6.7% while the rate of increase in G.N.P. was about 6.4%. During the same period, Central Government expenditures rose at an annual rate of 8.3%. (Annex I, Table 1). A meaningful breakdown of municipal expenditures by categories is not available. However, about 34% municipal revenues are spent on salaries. (Annex I, Table 2).

The current revenues of Honduran municipalities in 1972 were approximately \$ 7.3 million. During the 1965-1972 period the rate of growth in current revenues was about 6.7% per annum. (Annex I, Table 3). In 1972, 48.4% of current revenues came from taxation, 33.2% from service charges and 18.4% from rents, licenses, and other sources. Smaller municipalities derive a large proportion of their revenues from

TABLE I-1 CURRENT INCOME AND EXPENDITURES OF HONDURAN LOCAL GOVERNMENTS, 1960-1972
(Millions of Lempiras)

	Current Income	Current Expenditures	Current Savings	Current Savings as % Current Income
1960	7.3	5.7	1.6	21.9
1961	7.3	5.9	1.4	19.2
1962	7.6	5.7	1.9	25.0
1963	7.6	6.7	0.9	11.8
1964	7.1	6.9	0.2	2.8
1965	9.4	8.1	1.3	13.8
1966	9.8	10.3	0.5	(5.1)
1967	13.0	11.9	1.1	8.4
1968	11.6	11.1	0.5	4.3
1969	12.5	11.0	0.5	12.0
1970	12.8	11.6	1.2	9.4
1971	13.6	12.0	1.6	11.8
1972	14.6	12.6	2.0	13.7
1960-1972	134.2	119.5	14.7	11.0

SOURCE: GOH Planning Council.

taxes and a similar proportion from service charges than do the larger municipalities. (Annex I, Table 4).

In the 1960-1963 period, local government investment averaged about 9.1% of the total public sector investment; in the 1968-1970 period the local government portion had dropped to 4.2%. (Annex I, Table 5). Current savings as a percent of current income showed a marked tendency to decrease from 1960 to 1966 and increase from 1966 to 1972. The average figure for the 1960-1972 period was 11%, is significantly lower than for the public sector as a whole. Current savings of the public sector as a percent of current income was 17.1% in the 1960-1970 period.

During the 1960-1972 period, real investment made by Honduran local governments exceeded new indebtedness by a ratio of 2 to 1, and real investment averaged about 27% of current revenues. Both the level of real investment and the percentage of current revenues invested have been increasing rapidly during the past several years. (Table I-2).

TABLE I-2 REAL INVESTMENT AND NEW INDEBTEDNESS OF HONDURAN LOCAL GOVERNMENTS, 1960-1972
(Million of Lempiras)

<u>Year</u>	<u>Real Investment</u>	<u>Real Investment as % of Current Income</u>	<u>New Secured Indebtedness</u>	<u>1/</u>
1960	2.0	27.4	0.1	
1961	1.6	21.9	0.3	
1962	3.0	39.5	2.3	
1963	1.9	25.0	0.2	
1964	3.5	50.7	2.8	
1965	1.2	12.8	0.3	
1966	1.3	13.3	0.1	
1967	2.6	20.0	0.7	
1968	1.5	12.9	0.1	
1969	4.4	35.2	1.0	
1970	3.7	28.9	3.0	
1971	4.0	29.4	5.5	
1972	5.5 <u>2/</u>	37.7	1.1	
1960-1972	36.3	27.0	17.5	

1/ Does not include floating debt estimated at L.4.1 million in 1972.

2/ Preliminary

SOURCE: GOH Planning Council, Central Bank

Even though local government current revenues exceed current expenditures significantly, a correlation analysis indicates that investment by Honduran local governments historically has been more closely related to new indebtedness than to levels of current savings. Moreover, other correlation tests show that there exists no marked tendency to substitute credit for current savings, a tendency which if it existed would be counterproductive.

Some of the major problems existing in the area of Honduran municipal finance are the following:

- There are an excessive number of bases of taxation in relation to the amount collected, making tax administration and control more complicated than it should be.
- Except for the property tax which has a very low rate (1.5 miles), the tax structure is quite regressive.
- The complexity of the tax structure make equitable administration difficult.
- User charges for services do not have sufficient relationship to the cost of supplying services.
- Finally, the revenue base of local governments is insufficient given the immense local needs for infrastructure and public services.

B. THE MUNICIPAL BANK (BANMA)

1. Legal Status and Attributions

The Autonomous Municipal Bank (BANMA) was created by Decree No. 12 on November 4, 1961 to provide local governments with financial and technical assistance and to contribute to the economic and social development of the municipios. In addition the bank is recognized in Art. 338 of the Honduran Constitution of 1965 which provides for an Autonomous Municipal Bank having as its principal function the attainment of economic autonomy by local governments. In order to perform its functions the Bank is authorized to:

- Serve as the depository of all municipal subsidies, funds, guarantees, and bonds.
- Serve as the financial agent for municipal works and services.
- Serve as fiduciary agent, guarantor, and marketer for bonds or other municipal obligations.
- Serve as economic and financial advisor to the municipalities and as a promoter of savings.
- Serve as coordinator of economic and financial activities of the municipalities with the general policies of state.
- Serve as promotor and developer of designated private and municipal enterprises including inter-municipal projects.
- Serve as municipal purchasing agent.
- Serve as administrator of a retirement fund for municipal employees.

The Bank is also authorized to acquire, possess, administer and sell goods and securities of all types, receive deposits of cash or securities which are not municipal, open current amounts for the public, and employ its available

funds in loans or discounts. In general, it can perform all such auxiliary functions which are complimentary to its basic purposes or which are generally practiced by banks. In order to obtain additional resources, BANMA may issue obligations in accordance with the law, contract loans with national or international entities, and request advances and rediscounts in the Central Bank.

2. Organization

a) Board of Directors

BANMA's governing body is a Board of Directors composed of 2 representatives of the Municipalities and 4 representatives of the Central Government. The 2 municipal representatives are appointed by the Association of Municipalities and municipal shareholders and the government representatives are the Bank President and the Ministers of Finance, Economy, and Government. In addition the General Manager sits with the Board as an ex-officio member.

Biodata on each of the current members can be found in Annex II, Exhibit 1.

The functions of the Board are to formulate and determine policy, review and approve loans, and in general ensure the growth and progress of the Bank. The Board is presided over by the Bank's president and meets in regular session once a week and occasionally for extraordinary sessions. The representatives of three key Ministries on its Board provides BANMA regular access throughout the central Government. Recently the importance of that representation was seen as the GOH deliberated on the BANMA's future. The active promotion of the Government representatives on its Board was a key factor in the GOH's decision to go ahead with the Bank's first real capitalization effort.

The President, a full time employee, is in charge of carrying out the Board's policy directives, providing guidance and supervision to the operating departments, securing cooperation from other GOH and international agencies, and representing the bank.

b) Operations

The operations of the bank are directed by the Manager who is in charge of directing and organizing the Bank's administrative apparatus and keeping the Board of Directors informed of the Bank's operations and activities.

In order to meet its obligations as a municipal development bank, BANMA has recently reorganized its operating structure establishing three departments - Technical Services, Finance and Operations in addition to the Internal Auditing and Legal Advisers Offices. As illustrated in the BANMA Organization Chart (Annex II, Exhibit 2), the principal functions of these departments are:

- (i) Technical Services Department - helps the municipalities to identify financiable projects, solicit sub-loans, conduct grant funds search, and satisfy preconditions to loan disbursements. The Department also conducts municipal analyses, maintains a project shelf, and maintains contact with completed projects.
- (ii) Finance Department - analyses sub-loan proposals, prepares sub-loan contracts, and programs and supervises the execution of projects.
- (iii) Operations Department - monitors loan repayment, and provides banking services to municipalities and the public, and administrative services to the rest of the bank.

c) Branch Operations

BANMA has one branch office in San Pedro Sula. At the present time its principal function is to preside over the recovery of the commercial portfolio that was formerly developed through that office. BANMA will retain the branch office and intends to cover its operating expense by collecting the payments made by the taxpayers of the municipality of San Pedro Sula and serving as a custodian for all municipal funds. If BANMA expands sufficiently, some

municipal lending may be handled at the Branch.

d) Staff

At present there are 37 employees at the main office. There are three full time executives - the president, the manager and one department chief; two high level advisors - the internal auditor and the legal advisor; seven professionals - 3 engineers, 2 economists, one public administrator and a lawyer; and 25 clerical, secretarial, and service personnel - 7 secretaries, 5 accounting banking clerics, 3 collections agents for the commercial portfolio and 10 service and maintenance employees. BANMA is actively seeking two more department chiefs (one economist/public administrator and one engineer) and a municipal analyst (economist). In 1975, BANMA plans to add a loan follow-up specialist (engineer or public administration) and two loan supervisors (one or two engineers, possibly one economist).

Thus the present and projected staffing pattern is as follows:

<u>Classification</u>	<u>3/31/74 Actual</u>	<u>6/30/74 Projected</u>	<u>1/1/75 Projected</u>	<u>1/1/77 Projected</u>
Executive	3	5	5	5
Advisory	2	2	2	2
Professional	7	8	11	11
Clerical, Secretarial and service	25	25	25	24*
TOTAL	37	40	43	42

* Reduction of 3 employees expected when commercial portfolio largely recovered. Two men will be transferred to other positions in the operations department.

A staff of nine is currently employed at the San Pedro Sula Branch - an office chief, an accountant, a teller, a secretary, two collections agents and three maintenance personnel. BANMA has no plans for increasing the staff during the execution of the Loan.

3. Operation to Date

a) General Overview

The history of BANMA operations since its creation in 1961 is checkered. From its inception BANMA was under-capitalized; the Government of Honduras contributed its initial capital of L. 2.0 million and had the intention of seeking further capital from an international lending institution. Because of a change in government this never materialized. As the source of BANMA's continuing capitalization, the municipalities were obligated by law to set aside 5% of their current revenues for the purchase of BANMA shares and were obligated to deposit their funds in BANMA. After the first three or four years of operation the municipalities lost confidence in BANMA because of a lack of lending resources, inefficient management, and political interference in its operations. As a result the municipalities stopped purchasing BANMA shares and did not use the institution as their exclusive depository and fiscal agent. Finding itself short of capital and unable to meet operating expenses, BANMA turned to the supposedly more profitable commercial operations which grew to dominate its direct lending. However BANMA was never able to generate sufficient earnings to be able to properly staff its technical assistance activities, engage in supervised credit, or adequately monitor loans.

b) BANMA Lending to Date

Past BANMA lending activities can be separated into three general categories:

- BANMA direct lending to local governments has had two principal components: municipal bonds held in BANMA's own portfolio, and discounted taxpayer promissory notes. The

municipal bonds may be held either as an investment or awaiting bond buyers. To date BANMA has not made direct loans to municipalities outside of the bond mechanism. At the end of 1972 BANMA was holding about L. 1.4 million in direct municipal lending, largely in unsold municipal bonds.

- BANMA guaranteed lending to local governments includes municipal bonds held by commercial banks, autonomous institutions of the GOH, and the public. It also includes a small amount of taxpayer promissory notes held by commercial banks and guaranteed by BANMA. At the end of 1972 there was around L. 4.6 million in this category, including about L. 0.8 million in BANMA-guaranteed taxpayer promissory notes.

- BANMA private sector or commercial lending which at the end of 1972 totalled L. 2.3 million outstanding.

(i) BANMA Lending to Municipalities

The most important element in past BANMA lending to municipalities is the BANMA guaranteed municipal bond. Regardless of who holds the bonds, the Bank makes all payments to the bondholders and receives all payments from the municipalities. BANMA-guaranteed municipal bond emissions (hereafter also referred to as loans) totalled around L. 10.9 million from 1962 to the present, and financed 87 projects. As can be seen in Table I-3 of these 87 projects, 23 were rural electrification projects, 23 were markets, and 12 were water systems. The largest amount was in the construction of an airport at San Pedro Sula (accounting for L. 5.0 million). The largest number of projects were located in the Comayagua Region, with the regions of San Pedro Sula and Santa Rosa de Copán second and third respectively.

The amount and distribution of these bond emissions between the differing types of poles and other municipios is shown in Table I-4. As of 3/1/74 the outstanding balance of all guaranteed bonds was approximately L. 3.7 million. Of this amount 7.1% is located in Tegucigalpa and San Pedro Sula, 71.2% is in the agricultural service poles and sub-poles, and 21.7% is in other municipalities.

TABLE No. I-3

BANMA FINANCED MUNICIPAL PROJECTS - NUMBER OF PROJECTS
AND AMOUNT OF LOANS, BY REGION AND PROJECT TYPE, 1962 TO PRESENT

By Region	No. of Projects	Amount of Loans (000's of Lps)	% of Total Amount
Tegucigalpa	8	936	9
San Pedro Sula	15	6,187	57
La Ceiba	9	551	5
Choluteca	11	339	3
Santa Rosa de Copán	14	630	6
Comayagua	17	1,098	10
Juticalpa	4	596	5
Danlí	9	528	5
Gracias a Dios	-	-	-
Congolón	-	-	-
Honduras, Total	87	10,865	100
<u>By Project Type</u>			
Markets	20	1,883	17
Slaughterhouses	2	70	1
Water	12	890	8
Sewage	2	275	2
Electricity	23	656	6
Equipment	3	72	1
Paving	8	1,543	14
Airports	1	5,074	47
Others	16	402	4

Source: BANMA

TABLE No. I-4 BANMA GUARANTEED MUNICIPAL LOANS, 1962 TO PRESENT
AMOUNT, AND BALANCE OUTSTANDING, ACCORDING TO TYPE OF MUNICIPIO AS OF 3/1/74
(000's OF LEMPIRAS)

	ALL MUNICIPIOS	URBAN-INDUSTRIAL ^{1/} GROWTH POLES	AGRICULTURAL SERVICE POLES AND SUB-POLES	OTHER MUNICIPIOS
Amount of Loans, 1962-1973	10,865	6,195 ^{2/}	3,589	1,081
Amount of Loans, 1962-1966	5,420	4,183	854	383
Amount of Loans, 1967-1973	5,445	2,012	2,735	698
% of Total Loans	100.0	57.0	33.0	10.0
% of 1962-1966 Loans	100.0	77.2	15.8	7.0
% of 1967-1973 Loans	100.0	37.0	50.2	12.8
Balance Outstanding, Total	3,690	260	2,627	802
% of Balance Outstanding	100.0	7.1	71.2	21.7

^{1/} San Pedro Sula and Central District

^{2/} Includes L. 5,074,000 for financing of San Pedro Sula Airport

SOURCE: BANMA

(ii) BANMA Lending in Relation to other Municipal Creditors.

Before the creation of the Autonomous Municipal Bank local government debt was mostly in the form of secured short-term obligations held by commercial banks, public autonomous institutions, and the Central Bank. In addition to the secured local debt, there existed a considerable amount of floating debt. As can be seen in Table I-5, by 1966, the four-year old BANMA directly held half of the outstanding municipal obligations, Lps. 2,869,000, an amount larger than the entire municipal debt had been before BANMA's creation. In addition, the BANMA served as guarantor for an additional Lps. 2,426,000 of municipal debt which was held by commercial banks, autonomous institutions, and the public.

From 1966 to the present, BANMA's direct municipal lending has diminished both in absolute terms and in relation to other municipal creditors. By 1972 BANMA's direct holdings of municipal debt had decreased to 10.7% of the total (L. 1,353,000) while the Central Bank's share increased from 8.5% in 1966 to 59.5% in 1972 (L. 7,511,000). Most of this Central Bank credit is to San Pedro Sula and the Distrito Central. In addition BANMA has served as the fiscal agent for municipalities and as the guarantor and marketer of their bonds. The guaranteed bonds are held by commercial banks and the public, and constitute BANMA contingent liabilities. The total outstanding municipal credit channeled through BANMA increased from L. 682,000 in 1962 to L. 5,511,000 in 1965, decreasing gradually to L. 4,044,000 in 1970, increasing again in 1971 and 1972, reaching a level of L. 5,094,000 in the latter year (Annex II, Exhibit 4).

(iii) BANMA Lending in Relation to the Private Sector

With the change of government in late 1965 a major turnover in BANMA's administration occurred and with it a major change in the institution's policies. In 1965 only 3% of the total credit channeled through BANMA went to the private sector; by the end of 1970 this percentage had increased to 43%. The present BANMA administration took office in the latter part of 1970 and began to reverse this trend. The proportion of credit extended to the private sector dropped to 37% by the end of 1971 and to 33% by the

TABLE No. I-5

HONDURAN LOCAL GOVERNMENT SECURED DEBT, BY TYPE OF HOLDERS
1958 - 1972, THOUSAND OF LEMPIRAS

Year	Total	BANMA Held <u>1/</u>	Central Bank Held	Commercial Bank Held <u>3/</u>	Held by Others <u>3/</u>
1958	3,707	<u>2/</u>	869	960	1,878
1959	3,128	<u>2/</u>	702	827	1,599
1960	2,654	<u>2/</u>		490	2,164
1961	2,631	<u>2/</u>	611	321	1,699
1962	3,796	670	458	1,354	1,314
1963	3,452	925	432	1,064	1,031
1964	6,027	2,124	691	1,086	2,126
1965	6,341	2,703	830	1,232	1,576
1966	5,784	2,869	489	1,087	1,339
1967	5,912	2,245	603	892	2,172
1968	5,535	2,025	345	1,032	2,133
1969	5,486	1,690	1,284	683	1,829
1970	7,625	1,563	3,581	683	1,798
1971	12,328	1,538	7,242	892	2,656
1972	12,605	1,353	7,511	887	2,854

NOTES: 1/: Refers to BANMA direct lending.

2/: BANMA created in 1962

3/: After 1962 the majority of municipal debt held by commercial banks and others was BANMA guaranteed

SOURCE: Central Bank of Honduras

end of 1972. Corresponding increases in municipal lending took place during the period. (Annex II, Exhibit 4).

In the latter part of 1972 the BANMA's management and Board of Directors decided to phase out of commercial lending altogether. New commercial lending was stopped in the bank's main branch in September of 1972 and in the San Pedro Sula branch in August of 1973. Since closing out new commercial lending BANMA's efforts have been limited to collection, refinancing, and the writing off of bad loans.

(iv) BANMA Lending in Relation to Rural Sector

Although BANMA did not consciously attempt to relate its lending program to agricultural sector development, a large percentage of BANMA direct or guaranteed loans from 8/62 to 9/72 were closely related to agricultural sector activities. Table No. I-6 illustrates this, and indicates that generally speaking, the more closely related a loan application was to agricultural sector, the greater its probability of approval.

C. PREVIOUS A.I.D. ASSISTANCE

1. BANMA Reform Project

In October 1971, shortly after taking office, the President of BANMA approached USAID on the possibility of negotiating a capitalization loan. In response to his request, USAID arranged for the visit of a team of financial analysts -- Wayne McKeel (AID/W), Dan Turner (USAID/ECUADOR), and William Roach (USAID/PANAMA) to look at the situation of the Bank.

In February 1972, the analysts completed the first phase of a diagnostic of the BANMA. Their conclusions in part read:

"In our opinion the Bank has been unable to perform the basic function as an instrument for municipal development... the basic reason appears to be ambiguity as to its reasons for existence... BANMA

TABLE No.I-6 RELATION OF BANMA LENDING TO THE AGRICULTURAL SECTOR, 8/62-9/72

(in 000's Lempiras)

<u>Applications</u>	<u>Relation to Agricultural Sector 1/</u>					<u>As a Percentage of Total</u>			
	<u>TOTAL</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>	<u>A</u>	<u>B</u>	<u>C</u>	<u>D</u>
No. of Applications	136	31	72	17	16	22.8	52.9	12.5	11.8
Amount of Applications	14,665	2,686	3,143	8,420	416	18.3	21.5	57.4	2.8
<u>Loans</u>									
No. of Loans	81	23	40	11	7	28.4	49.4	13.6	8.6
Amount of Loans	8,636	2,373	1,585	4,365	313	27.4	18.4	50.6	3.6
Loans as % of Applications (No.)	59.6	74.2	55.6	64.7	43.8	-	-	-	-
Loans as % of Applications (Amt.)	58.9	88.3	50.4	51.8	75.2	-	-	-	-

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1/ For the purposes of this analysis the following classifications were employed:

- A. Projects that directly improve the efficiency of the production and distribution of agricultural products. These include: public markets, storage facilities for agricultural products, slaughterhouses, access roads to areas of high agricultural production, road construction and maintenance equipment, irrigation systems.
- B. Projects that indirectly improve the efficiency of the production and distribution of agricultural products. These include: potable water systems, sanitary sewerage, electrical energy, preparation of industrial sites, transport terminals, health centers, rural schools.
- C. Projects having marginal effect on agricultural productivity. These include: street paving, storm sewers, shopping centers.
- D. Other projects. These include: garbage collection equipment, fiscal cadasters, cemeteries, city halls, recreational facilities, tourism projects, technical and professional services.

SOURCE: BANMA

is an organization in desperate need of major reform. Forgetting development goals, Bank officials must immediately address the liquidity crises and begin to manage cash and liquid assets in an efficient manner... Internal reform should be the goal for the immediate future...BANMA officials must decide to concentrate exclusively on either municipal or commercial banking, but not both."

The report stated BANMA's internal banking systems were disorderly and accounting was not only behind operations, but much of it was incorrect. This report also noted that with its low initial capitalization and inadequate provision for continuing revenues, the Bank under the best of circumstances would have had a difficult time achieving a self-sustaining level of operations.

The report concluded that BANMA, as it was functioning, could not be considered a fit candidate for an external capitalization loan. Immediate reform was recommended along the following lines:

- Stop commercial lending and liquidate the commercial portfolio;
- Separate from the management and financial obligations of the San Pedro Sula airport;
- Straighten out internal operations, install a modern accounting system; put accounts in order; initiate an aggressive collection effort; install a general program of modern management; reduce overhead and bring operating costs within manageable limits;
- Develop a forward looking program of municipal lending that could provide the basis for an external capitalization loan;
- Develop a technical assistance capability to assure the soundness of project analysis, execution, and management (and assure BANMA of loan repayments through increased revenues).

BANMA's management accepted these findings and requested technical assistance to assist it in accomplishing the recommended reforms. The BANMA Reform Program (No. 522-15-810-03410) was approved November 15, 1972 for one year and a Pro/Ag was signed 2/28/73 providing the following assistance:

<u>Personnel</u>	FY 73 <u>\$ 84.2</u>	FY 74 <u>\$ 95.0</u>
Banking Systems Adv.	25.5/12MM	27/12MM
Economist	22.5/12MM	--
Municipal Cap. Projects Adv.	20.2/6MM	50/18MM
Training Advisors	16.0/3MM	18/12MM
Equipment Advisor <u>1/</u>	(33.3/15MM)	(28/12MM)
<u>Participant Training</u>	<u>1.2</u>	<u>20.0</u>
Management Personnel <u>2/</u>	1.2	12/10MM
Technical Operations Staff	-	8/8MM
<u>Other Costs</u>	<u>24.6</u>	<u>29.0</u>
In-country Training (inclu PAIGH Seminar)	12.3	29.0
Municipal Survey	6.0	--
Short-term Advisors	<u>6.3</u>	<u>--</u>
TOTAL	\$ 110.0	\$ 144.0

In September of 1973 a PAR was conducted. On the basis of progress documented by the PAR, funding for the project was extended through FY 74. Since the initiation of the TA project BANMA with the assistance of USAID-financed advisors has instituted the following reforms:

- i. The municipal portfolio was analyzed and a large portion of past due bonds and loans have been collected or refinanced. (See Annex II, Exhibit 5).
- ii. The BANMA's short-term debt to the National port Authority has been consolidated into a long-term debt of \$1.85 million payable between 1974-1981 (See Annex IV, Projected Cash Flow Statement), freeing for municipal lending approximately \$1.2 million previously earmarked for paying these short-term obligations.

1/ Non-add: funded from USAID Tech Support

2/ Participant training \$13,800/16MM from prior year funds.

- iii. GOH Decree No. 110 of 3/1/74 transfers the ownership and management of the San Pedro Sula Airport's outstanding debt of \$1.7 million. This outstanding debt constituted a BANMA contingent liability and the CAB-FAA studies indicated that the airport facility probably could not generate sufficient surplus to service and retire this outstanding debt. In addition, Decree No. 110 provides that the BANMA will be reimbursed over the next ten years for construction advances totalling \$900,000 as part of the GOH's counterpart contribution to the BANMA.
- iv. After serious efforts to sell the commercial portfolio to commercial banks proved fruitless BANMA embarked on an aggressive collection policy and the writing off of uncollectable loans as summarized in Annex II, Exhibit 6. The commercial portfolio has decreased from \$1,436,000 on January 1, 1972, to \$623,000 on March 1, 1974, a reduction of almost 57%. It is anticipated that while future collections may be slower, by 1977 the commercial portfolio will have a zero balance.
- v. BANMA has reduced its personnel by over 1/3, from 70 to 46 employees. In part this was accomplished by the closing of its San Isidro Market Branch in Tegucigalpa which handled only commercial loans. Further reduction is not considered feasible.
- vi. A nucleus municipal development staff has been trained. A group of four young professionals have received training in the U.S. and other Latin American countries. The Bank's top executives have observed the workings of similar institutions in Costa Rica and Guatemala. A training program for municipal officials and employees has been initiated.
- vii. BANMA has developed a lending program of high priority projects in 38 municipios, including all polar and sub-polar municipios but with special emphasis on GOH ag-sector priority areas. (see illustrative Project List).
- viii. A set of municipal lending criteria has been developed, guided by the pole/sub-pole framework, including a variable interest rate structure and identi-

fications of priorities. New financial and credit policies have been developed and approved by BANMA management.

- iv. BANMA has established a new organizational structure which reflects its role as a municipal development bank, and has improved its top-level administration and technical assistance.

In short, BANMA has resolved its liquidity crisis, disposed of those functions not properly those of a municipal bank, and reorganized as a municipal bank. It is now ready to initiate a municipal financial and technical assistance program of nationwide scope.

2. The BANMA Image

BANMA has come a long way towards regaining the confidence of municipal officials. This increase in confidence is due principally to BANMA's reorientation. Frequent discussions between BANMA officers and municipal officials have helped municipal officials understand BANMA's institutional problems and the measures being taken to overcome them. BANMA's municipal training and the municipal survey have made a favorable impression. The presence of the BANMA TA staff and the high quality of their work have had a positive impact. BANMA management feels certain that when the Bank has sufficient lending resources it will regain the confidence of the municipalities. Discussions with various mayors have confirmed this. They are willing, for example, to honor past purchase obligations for BANMA shares as a precondition to new loans.

BANMA's leadership in the promotion of interinstitutional cooperation to reduce duplications of effort and to keep the cost of providing needed infrastructure low has significantly improved the institution's image among other entities of the Honduran national government. Moreover, BANMA overcoming its liquidity crisis, its basic institutional reorientation, the support for the reform program at the highest levels of government, the new seriousness in the institution, as well as A.I.D. support and the prospect of recapitalization have all contributed to a new image among decision makers in the GOH and in the Honduran banking community.

D. PROGRAM JUSTIFICATION

1. National Development Priorities

The Honduran socio-economic situation is marked by the following interrelated characteristics:

- Low productivity in general, but especially in the traditional, small producer segment of the rural economy which contains more than 50% of the nation's labor force;
- High dependence on export crops with limited markets and extreme vulnerability to climatic conditions;
- Limited internal demand for agricultural products;
- Skewed income distribution;
- Poor utilization of limited productive land resources and high concentration of ownership;
- Limited basic infrastructure, especially roads, ports, and electrical energy;
- Rapid growth of the rural population coupled with limited employment opportunities in the non-agrarian sectors of the economy has resulted in a sharp decrease in the amount of agricultural land available per farmer;
- The small producer has not shared in the benefits of the limited economic growth that has occurred and probably has suffered a reduction in real income.

Over the last ten years Government programs have concentrated on costly projects aimed at overcoming basic infrastructure deficiencies. These programs have absorbed a large proportion of Honduras' investment budget and two thirds of all international agency lending. While expansion of basic infrastructure has been significant, it has become obvious to government planners and high officials that complementary investment in government services and facilities related to agricultural production and the resolution of the land productivity/tenancy problems are

needed to realize the full potential of those infrastructure investments.

When the present government came to power in December of 1972, the campesino's situation was particularly severe. Drought, disputes over land ownership and use, and the general neglect of the needs of the campesino were causing widespread disruption of productive activities. To alleviate the immediate problem an interim land redistribution program was initiated under Decree No. 8. Longer range programs are under development and will be presented as part of the new National Development Plan, 1974-1978, which is scheduled to be released by June.

In his new year's address to the nation on January 1, 1974, the Chief of State presented the explicit goals of the Plan. They include, among others:

- a) Ensuring each person a level of income adequate to basic needs;
- b) Lowering permanently the level of unemployment and underemployment;
- c) Improving the quality of life for the rural population;
- d) Achieving a more equitable distribution of income and assets; and
- e) Transforming the productive structure to diversify it to achieve a sustained growth in national production.

The Plan has been completed in draft and is presently undergoing revision by the Council of State. Although details of the program are consequently not fixed, the broad outlines are clear:

- 1) The Plan will show a marked shift in GOH priorities towards the development of the agricultural and forestry sectors, with these sectors to receive a higher percentage of national investment. The agricultural sector program will consolidate and extend the ongoing agrarian reform effort, including the reorganization of many existing settlements (asentamientos) under Decree No. 8 into cooperatives, the continuation of the Agúan Valley coloniza-

tion programs, and credit and technical assistance programs for campesino settlements. In addition to the Agrarian Reform Program, the agricultural sector program contemplates increased extension services and supervised credit, grain storage and price stabilization, irrigation, livestock promotion, several regional development projects, and diversified crop production.

2) Planned investment in basic infrastructure such as transport, energy, and port facilities will necessarily remain high but will decrease in relative importance and will be more directly supportive of the productive sector (i.e. feeder roads, facilities related to agricultural and industrial projects, etc).

3) Industrial projects will be more resource-based than in the past (i.e. emphasizing the transformation of mineral resources and agricultural and forestry products).

4) The social sectors (health, education, etc.) will place greater emphasis on nutrition and preventive medicine, and on vocational and other productivity linked education.

5) The GOH regional development framework will be incorporated into the majority of the Plan's sectoral programs.

6) A new program is included for strengthening the capacity of local governments to execute local infrastructure projects by means of financial and technical assistance channeled through BANMA.

2. BANMA's Role in the National Development Program

In order to carry out its program for strengthening the capacity of local governments to execute local infrastructure projects, the new government considered three alternatives:

- Capitalizing the Municipal Bank (BANMA);
- Expanding the activities of the Central Bank in the municipal lending field;
- Directly improving local infrastructure through the GOH ministries and autonomous institutions.

The successes of the ongoing A.I.D.-supported BANMA reform program, the desirability of properly supervised credit programs, and the reports of improved performance from BANMA's Board of Directors convinced the Government to utilize BANMA. Since then (October, 1973) the pace of the BANMA reform program increased markedly. The transfer of the San Pedro Sula airport on terms favorable to BANMA has been completed, the relatively high counterpart requirements for the Loan were accepted, and heads of key Government agencies such as the Central Bank and the Planning Council, who had formerly avoided involvement in BANMA's reorganization, have offered their assistance to the Bank.

The Government intends to utilize BANMA to help the municipalities help themselves in providing high priority local infrastructure and services, rather than attempting to meet these needs directly. By using BANMA to develop more capable local governments, the national government can turn its limited administrative and financial capacity to projects whose scope in fact requires its direct action. This Project will channel in accordance with Plan priorities municipal resources that might otherwise be dissipated in lower priority projects and current expenditures. To the extent that the project is effective in improving local tax collections and administration, additional resources will become available for local infrastructure projects and needed public services.

3. BANMA Lending Strategy

In order to distribute rationally its limited resources and yet support national development goals, BANMA has employed the regional planning framework established by the National Planning Council to develop its sublending program. The GOH Planning Council has divided the country into regions and subregions and within these has designated certain cities and towns as growth poles and service poles. The regions and poles are:

<u>Region</u>	<u>No.</u>	<u>Poles</u>	<u>No.</u>	<u>Names of Regions/Poles</u>
1. Central America	(2)	Urban/Industrial	(2)	Tegucigalpa, San Pedro Sula
2. Region	(10)	Agricultural Service	(6)	La Ceiba, Choluteca, Santa Rosa, Comayagua, Juticalpa, Danlí
3. Subregion	(30)	Subpoles	(21)	(See Map I-1)

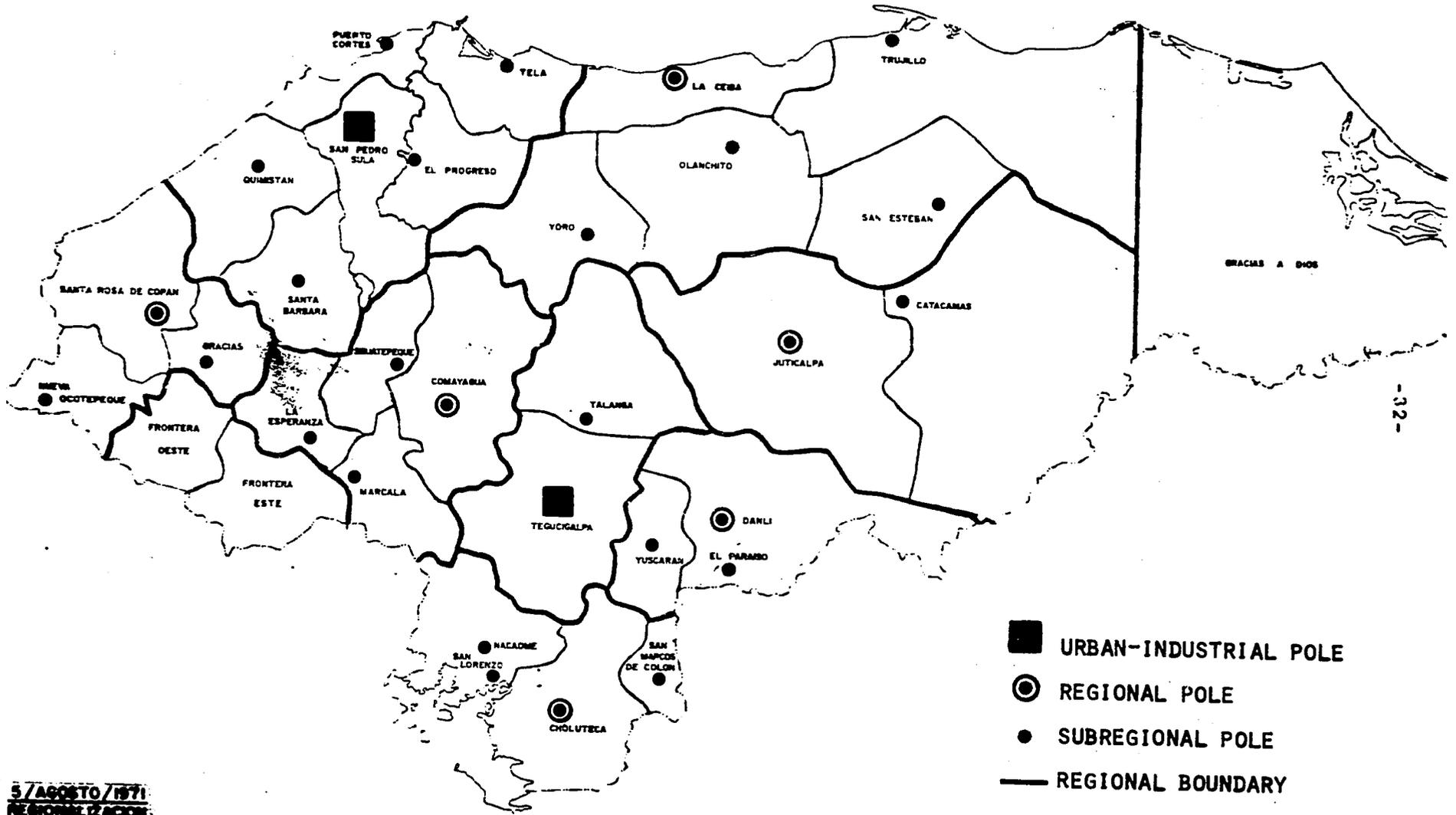
Note: In the Planning Council scheme urban-industrial poles also function as agricultural service poles and these service poles in turn function as subpoles. Thus there are 8 service poles including Tegucigalpa and San Pedro Sula.

The principal criteria used in defining these regions are the flows of money, goods, and services and communications between the regional center (pole) and its hinterland. The pole serves its area of influence as its center of internal communication, its marketing center, its supply center, its social center, etc. Similarly, the pole depends on the hinterland as its source of raw materials, its market, etc.

Implicit in the regionalization scheme and thus BANMA's lending strategy is Lloyd Rodwin's "dispersed concentration" strategy which suggests that efforts be focused on potential growth centers as well as in active development poles. Even though this implies some loss in overall growth, it makes possible the extension of the benefits of growth to a greater proportion of the population, while avoiding excessive dispersion which would make it difficult to generate and utilize external and scale economies which accompany concentration and make sustained growth possible.

BANMA will concentrate its lending on the six polar and twenty-one subpolar municipios throughout the country which serve their areas of influence as agricultural service centers. This concentration of resources will permit a project scope that is neither too broad nor so restrictive as to totally eliminate areas of the country where political realities, substantial effective demand for lending resources, or localized development potential justify sub-lending. The concentration will also maximize BANMA's

MAP I-1
 HONDURAN GEO-ECONOMIC REGIONS & POLES
 BY TYPE



- URBAN-INDUSTRIAL POLE
- ⊙ REGIONAL POLE
- SUBREGIONAL POLE
- REGIONAL BOUNDARY
- SUBREGIONAL BOUNDARY

5/AGOSTO/1971
 REGIONALIZACION
 13/OCTUBRE/1967

SECTOR DE DESARROLLO URBANO Y REGIONAL
 CONSEJO SUPERIOR DE PLANIFICACION ECONOMICA
 SECRETARIA TECNICA TEGUCIGALPA, HONDURAS

contribution towards the achievement of national development objectives. The policy has the further advantage of concentrating sub lending in areas whose debt service capacity can support a lending program.

Not surprisingly, the 27 agricultural service poles and subpoles tend to be located in the most productive agricultural areas of the country (See Map No. 1, Annex I). Almost all of them serve valley areas that have good agricultural potential. In addition, they service the areas of highest concentration of rural population (See Map No. 2, Annex I). A breakdown of the population by regions and by polar, sub-polar and other municipios is presented in Annex I, Table 6.

The regional distribution of planned BANMA sub lending follows closely the regional distribution of programmed GOH agricultural sector investment under the Plan and the spatial distributions of the rural population and of Honduras' cultivable land. These regional distributions are shown in Table I-7.

4. Beneficiary

This project will most directly benefit Hondurans who depend on the country's agricultural base for earning a living. The target is the rural Honduran citizen and his family who receive basic public service from local government. This citizen is both the townsman who earns his living by servicing the community's agricultural base and the producer for whom local government develops infrastructure to enable him to more easily sell, transport, and process his production. As indicated previously, with the exception of Tegucigalpa and San Pedro Sula, Honduran counties are overwhelmingly rural. The urban areas of San Pedro Sula and Tegucigalpa will not be eligible to receive subloans under this project; however, the rural areas under their jurisdiction will be eligible.

The infrastructure and services developed under this Loan will help improve the standard of living for rural inhabitants and townsmen living in or within the areas of influence of 27 agricultural service poles and subpoles. This project will strengthen the financial base and general administrative capacity of these key county governments and

TABLE No. I-7 DISTRIBUTION BY HONDURAN GEO- ECONOMIC REGIONS OF:
1974-1978 PROGRAMMED LOCATABLE PUBLIC INVESTMENT IN AGRICULTURAL SECTOR
PLANNED BANMA INVESTMENT, 1974-1977; RURAL POPULATION; AND CULTIVABLE
LAND

Region	(1) Programmed Public Investment in Agricultural Sec- tor (%)	(2) Planned BANMA Investment (%)	(3) Rural Popula- tion, 1973 (%)	(4) Cultivable Land (%)	(5) Index Combining Rural Population and cultivable Land
Tegucigalpa	5.6	3.3	8.5	4.1	3.4
San Pedro Sula	36.5	35.1	21.5	15.0	31.6
La Ceiba	24.7	22.8	11.6	18.7	21.3
Choluteca	11.0	10.3	17.6	6.1	10.5
Sta. Rosa de Copán	7.9	7.4	12.5	7.0	8.6
Comayagua	0.2	4.9	10.7	11.3	11.9
Juticalpa	11.2	3.9	4.3	13.5	5.7
Danlí	2.2	12.3	5.7	8.0	4.5
Gracias a Dios	0.7	-	0.9	14.5	1.3
Congolón	-	-	6.7	1.8	1.2
Honduras, Total	100.0	100.0	100.0	100.0	100.0

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SOURCE: National Planning Council (Items 1, 3 and 4) and BANMA (Item 2).

provide needed infrastructure so that they can better perform their function as agricultural service centers. In addition, the Loan will create employment in construction as well as in the maintenance and operation of municipal services and facilities in these centers, which may to some degree slow migration to larger urban areas. In order to maintain the emphasis on improving the capacity of the regional and subregional poles to function as agricultural service centers for their hinterlands, BANMA is giving priority under the Project to the financing of sub-projects which clearly benefit the agricultural producer, e.g., markets, slaughterhouses, access roads. Specifically excluded from project lending are those projects which clearly have minimum benefits for the producer, i.e., street paving, garbage collection, town halls, cemeteries, and parks.

5. Place in Country Program

The latest Development Assistance Program statement prepared by the Mission states that A.I.D.'s principal area of concentration in Honduras will be rural development, focussed specifically on improving the socio-economic standards of the rural man. In order to carry out its rural development program, the Mission is proposing an agricultural sector loan (which will finance the following activities: agricultural credit, sector coordination, planning and evaluation, agricultural services, agricultural education and access roads), a national cadaster loan, technical assistance to key agricultural institutions, and the BANMA project. These new programs will complement the existing A.I.D. projects, mainly a farm-to-market access road loan, a grain marketing program, and a credit program.

The proposed Loan complements these activities in that it focuses on (a) improving the functioning of regional agro-service and marketing centers, (b) improving municipio provided services and facilities which affect the standard of living of rural inhabitants, and (c) improving the general functioning of the governmental units closest to the Honduran rural dweller. It is another approach to reaching the "rural man" although it cannot be limited to supporting only small producers since it will assist both large rural producers as well as town dwellers. While there is a lack of institutional capacity in Honduras for servicing the small producer, this Project is an attempt to strengthen

another institution, the municipio, with responsibilities for providing services to rural residents.

6. Consistency with CIAP Recommendations and IBRD Country Study

While the current CIAP report (May, 1973) did not deal specifically with Honduran municipal development, the CIAP representative attending the DAEC review of the BANMA IRR in February, 1974 stated that the BANMA project was considered of high priority and consistent with CIAP recommendations.

The latest draft World Bank macroeconomic report (dated January 8, 1974) contains no specific reference to either municipal development or the BANMA project. It approvingly notes, however, the intent of the GOH to concentrate its efforts on development of agriculture. It later recommends that the Government improve the utilization of capital investments, undertaking such measures as building more feeder roads to complement the existing major road network. This project is in line with both IBRD recommendations.

SECTION II THE PROJECT

A. GOAL AND PURPOSE

The overall goal of the project is to improve the quality of life for the rural man by providing him the basic public services essential to a minimally acceptable standard of living and the infrastructure which will assist him in reaching his production potential. Within this context the specific purposes of the project are to (1) complete the BANMA reform and enable it to provide financing and technical assistance on a systematic, continuing basis for municipal projects of benefit to the rural man; and (2) improve the capacity of the governments of the 27 rural polar and subpolar counties to function effectively as agricultural service centers.

Honduras is basically rural. Agricultural activities directly contribute 36% of the Gross Domestic Product and 73% of the population lives in the countryside. Outside of Tegucigalpa and San Pedro Sula, it is a country of a few large towns (ten) and many small ones. Public services are non-existent or inadequate. The economy operates at a low level of productivity relative to its resource base. One of the reasons for this low productivity is the low level of infrastructure development. The lack of access roads, markets, slaughterhouses, and storage and distribution facilities keeps the producer isolated, increases his costs, decreases his income and in general restricts his production potential.

The county governments, with their county seats serving as agricultural service centers and marketing centers for rural areas, play the key role in developing local infrastructure and providing municipal services. Twenty-seven of these county seats have been identified by the Central Government as development poles serving the agricultural areas around them. This Project calls for strengthening the capacity of these key counties to function as service centers.

In addition, the Project should enhance local decision-making capabilities and spur the mobilization of resources for local development, thereby releasing central government management for national requirements. The infrastructure developed under the loan will create jobs in construction as well as in maintenance and operation of municipal services.

B. PROJECT DESCRIPTION

1. General

The Project consists of strengthening the BANMA's institutional capacity and providing it with sufficient resources to carry out an expanded lending and technical assistance program for county governments. It includes: (a) lending for the construction and expansion of municipal infrastructure; (b) technical assistance and training to strengthen municipal financial capacity and administration of loan-financed projects; and (c) technical assistance and training for the BANMA staff, as well as necessary equipment, to complete the Bank's reform program. The A.I.D. loan will provide credit and training for the municipalities; and technical assistance, training and equipment for the Bank.

BANMA will place about 90% of its lending under the Project in the 27 polar and subpolar municipios. The cities of Tegucigalpa and San Pedro Sula will be excluded from the Project, although rural areas surrounding them will be eligible. The Bank may lend to any local government with its own resources not committed to the Project. It is expected that as BANMA develops its own capacity it will gradually expand its coverage to a larger number of municipalities. The Loan will provide BANMA with an adequate capital base to maintain a portfolio which will generate sufficient income to cover operating costs and sustain a technical assistance program.

Technical assistance and training will be tied directly to the Bank's lending. Loan applications are considered in the light of a municipal analysis designed to reveal administrative or financial deficiencies requiring technical assistance or training.

2. Sublending Program

In preparation for the loan BANMA has tentatively identified projects totaling \$18.6 million. (See Summary Table II-1 and Annex III.) In May 1973 a potential project survey was taken of all polar and subpolar municipalities and other potential borrowers. After an initial Bank eligibility check, the project list was reviewed with other GOH agencies (ie. SANAA, ENEE, the Central Bank etc.) to exclude projects included in their investment programs, identify new projects, and determine the existence of feasibility or other project studies.

The resulting project list currently serves as a basis

SUMMARY OF BANMA LENDING PROGRAM

(USD)

A. BY PROJECT TYPE	BANMA/AID PROGRAM		OTHER BANMA LENDING		TOTAL PROJECTS IDENTIFIED	
	TOTAL PROJECT COST	PLANNED BANMA INVESTMENT	TOTAL PROJECT COST	PLANNED BANMA INVESTMENT	TOTAL PROJECT COST	FINANCING PORTION
Market	2,351.8	1,998.1	-0-	-0-	2,381.8	2,023.6
Slaughterhouse	488.3	415.0	-0-	-0-	500.8	425.6
Potable Water	1,477.7	1,256.0	626.4	523.2	2,504.1	2,204.2
Sanitary Sewerage	-0-	-0-	1,130.1	960.1	3,096.0	2,631.1
Roads	1,443.0	1,226.5	-0-	-0-	2,015.0	1,712.7
Cadaster	534.3	451.4	-0-	-0-	534.3	451.4
Paving	-0-	-0-	1,770.2	1,504.8	6,224.4	5,290.9
Other	232.3	197.5	42.0	35.7	1,292.7	1,098.9
TOTAL	6,527.4	5,544.5	3,568.7	3,023.8	18,649.1	15,838.4
B. BY POLE, SUB-POLE AND OTHER						
Pole	2,095.5	1,780.2	1,240.0	1,054.0	5,261.9	4,471.7
Sub-Pole	2,739.6	2,325.8	1,835.2	1,559.9	9,568.9	8,130.7
Other	249.4	212.0	493.5	409.9	1,803.4	1,523.3
Regional <u>1/</u>	1,442.9	1,226.5	-0-	-0-	2,014.9	1,712.7
TOTAL	6,527.4	5,544.5	3,568.7	3,023.8	18,649.1	15,838.4
C. BY REGION						
Tegucigalpa	333.9	283.8	-0-	-0-	333.9	283.8
San Pedro Sula	2,450.9	2,080.6	1,091.0	927.0	7,766.2	6,598.3
La Ceiba	1,672.3	1,421.3	624.6	530.9	3,318.2	2,820.2
Choluteca	486.7	413.7	555.0	471.8	1,607.0	1,366.0
Santa Rosa de Copán	515.9	438.5	238.0	193.1	933.9	784.6
Comayagua	346.4	293.5	150.1	127.6	1,721.3	1,462.2
Juticalpa	235.7	200.3	152.5	129.6	1,365.9	1,160.9
Danlí	485.6	412.8	757.5	643.9	1,602.7	1,362.4
TOTAL	6,527.4	5,544.5	3,568.7	3,023.9	18,649.1	15,838.4

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1/ Intermunicipal Coops

SOURCE: BANMA

for programing the Bank's lending operations, taking into account project priority and readiness, and for planning the Bank's technical assistance activities. The Technical Services staff has recently initiated a round of visits to conduct municipal analyses and prepare loan applications. So far the 1973 survey appears reliable. The 135 projects (\$18,6 million) identified to date imply financing of \$15.8 million. Of these, 67 requiring \$5.5 million in Bank financing (\$3.5 million from the A.I.D. loan) have been tentatively selected for the Project.

Any municipal project is considered eligible with the specific exception of street paving, garbage collection, town halls, cemeteries, and parks. These have been eliminated because they hold minimum benefits for the producer and the functioning of the municipio as an agricultural service center. Proposals holding the highest priority include:

i) Municipal Tax Administration (\$0.5 million - 24 sub-loans)

BANMA intends to finance the development of local tax billing, accounting and collection systems. Based on low precision property mapping and assessments, tax billing systems may be installed under which tax bills will be delivered to each house or business on a bi-monthly or quarterly basis. Municipal incomes are expected to increase between 20% and 50% over the following two years, thus ensuring sub-loan repayment and creating the income base for further investment.

ii) Markets and Slaughterhouses (\$2.4 million - 22 sub-loans)

This includes financing for 13 markets and 9 slaughterhouses. The markets will have refrigeration facilities, storage facilities for agricultural products, and sufficient land for eventual expansion or incorporation of small wholesaling operations.

iii) Roads (\$1.2 million - 9 sub-loans)

These will consist of access road and town street maintenance and improvement, and perhaps some access road construction. Road maintenance and improvement will be carried out through intermunicipal cooperatives. BANMA will finance intermunicipal cooperative

equipment packages consisting of a tractor, motor-grader, loader and dump trucks. In addition the Bank will make equipment loans to individual municipalities.

iv) Potable Water Systems (\$1.2 million - 5 sub-loans)

Direct loans will be made to municipalities owning their water systems. They will sign contracts with SANAA for administration, operation and maintenance of the systems. In cases where SANAA owns the municipal water system, BANMA is considering financing their improvement if an agreement can be reached on allowing the municipality some cash return on its investment.

v) Other Projects (\$0.2 million - 7 sub-loans)

This category includes bridges (2), transport terminals (1), rural electrification (3), and facilities for storage of agricultural products (1). The rural electrification systems will probably be administered by the National Electric Energy Authority (ENEE) under contract to the municipality. The facility for storage of agricultural projects will be viewed as a pilot project.

In addition to the 67 sub-loan projects described above, BANMA plans to finance from its own resources approximately 34 other projects requiring \$3.0 in financing during the life of the Project. These are shown under "Other BANMA Lending" in Table II-1.

3. Municipal Technical Assistance Program

BANMA intends to provide technical assistance and training to the municipalities in three ways: i) directly by BANMA staff; ii) through the ongoing municipal training program; and iii) through personnel from other agencies. The A.I.D. loan would provide \$110,000 for the municipal training program.

a) Staff Technical Assistance

Technical assistance at no charge to the municipalities will be provided by BANMA's Technical Services Department in the areas listed below. In order to minimize staff requirements initially, BANMA will restrict its staff technical assistance to those areas related to the sublending program. These include:

- * Municipal administrative/economic analyses
- * Municipal debt capacity study preparation
- * Municipal capital improvements programming
- * Preparation of loan applications to BANMA
- * Helping to meet conditions precedent to loan disbursement
- * Preparing project administration and maintenance plans as required by BANMA.
- * Setting up separate accounting systems for loan funded projects
- * Carrying out public bidding on loan funded projects
- * Adjudication and preparation of sub-contracts
- * Familiarization of municipal officials with BANMA policies, procedures and regulations.
- * Contracting with construction firms
- * Organization of tax administration system projects.
- * Preparing equipment specifications and parts orders; operating and maintaining equipment.
- * Organizing inter-municipal associations for the initial purpose of providing street and road maintenance services on a low-cost, wide coverage basis.
- * Assistance in locating grant funds for projects in municipalities with insufficient or no debt capacity.
- * General assistance in local government organization, operation, and administration.

During March 1974 the Technical Services group spent three weeks assisting various municipalities in preparing analyses, debt capacity studies, and loan applications. It is expected that this rhythm will be maintained, thus ensuring that in the space of a year the team will have visited each member of the client group of municipalities at least once. After the municipal analysis, short follow-up visits by one or two team members may be scheduled if needed to attend municipal council meetings to discuss project funding applications and further TA requirements.

b) Training Program for Municipal Officials and Employees

Last September, the Bank began a program with the Ministries of Public Works and Government for training municipal officials and employees. The program is designed to provide

a basic knowledge of municipal administration, including: proper fund accounting and budgeting, operation of local planning councils, administration and maintenance of public services, tax accounting and collection, and civil registry recording. Coordination, planning, and selection of participants is done by the Ministry of Government. BANMA and the Ministry of Public Works contribute their personnel as instructors. Personnel from other agencies, e.g. SANAA, Forestry Corporation, and Ministries are invited to serve as instructors in their respective fields of competence.

Courses for more than 150 mayors and other municipal officials have been held so far on subjects including municipal tax administration, information systems and basic operations. The program has been received enthusiastically by the municipalities and the Bank proposes to continue funding it under the Loan when present funding runs out in July 1974. Loan funds would be used for short term consulting instructors, participant per diem and operating costs.

In addition to participating in the training program, the Technical Services Department has prepared various technical pamphlets for municipal officials and employees. Among the pamphlets prepared and distributed are:

- * Nomenclature (street naming and house numbering) Systems: How to prepare a nomenclature system for your municipality.
- * Guide for planning municipal cadasters
- * Personnel administration in the municipality
- * Calculating municipal debt capacity
- * The formation of intermunicipal associations and municipal road maintenance and improvement programs
- * Model statutes for intermunicipal associations.

c) Technical Assistance Provided by Other Agencies

There are a number of central government agencies providing technical assistance to municipalities. BANMA has entered into agreements with several to provide assistance for Bank-financed projects. SANAA will provide design and supervision for water works; the Ministry of Public Works will do likewise for other municipal infrastructure projects. In addition, BANMA will attempt to locate appropriate technical services for project types where no agreements exist. The Bank

considers this function important, and is making a serious effort to identify all such services available.

4. BANMA Technical Assistance

Technical assistance to BANMA in the amount of \$440,000 is contemplated for loan financing:

a. Training of BANMA Employees (\$40,000)

New BANMA employees will receive training through observation and on the job in other Latin American municipal development institutions. This is a continuation, through use of Loan funds, of the successful training begun under an A.I.D. grant. Also fellowships and/or partially paid opportunities for advanced degree programs would be offered to a few individuals for training in the following areas:

- * Urban Planning and Capital Improvements Programming
- * Municipal Administration
- * Public Works and Administration
- * Regional Economic Development

Recipients of these fellowships will commit themselves to work for the Bank for twice the period of duration of the fellowship, and in any case for at least two years after completing their advanced degree. The scholarships program will be administered by EDUCREDITO.

b. Technical Assistance to BANMA (\$400,000)

To further improve operations and develop technical assistance expertise in new areas, BANMA plans to contract the following advisors;

Capital Projects Advisor

He would advise Bank officials and staff on all aspects of its lending and technical assistance program, and identify such additional advisory services as the bank may need, in large part carrying on the functions of the present grant-funded Capital Projects Advisor.

Tax Administration Advisor

He would continue to train the Bank's tax administration

project supervisors and assist in the design of individual projects.

Equipment Advisor

Should the expected number of road maintenance and improvement projects, either on a cooperative or individual municipality basis, materialize an equipment advisor would be hired to train the Bank's staff to organize and supervise these projects.

Marketing Advisor

The marketing advisor would train the Bank's staff in analyzing the marketing implications of the Bank's slaughterhouse and market sub-projects particularly as they affect the low income producer. Such analysis would also include the implications of the national and regional marketing systems on the particular subproject being considered.

Other Short Term Advisors

Short term advisors would be contracted for specific tasks. Among tasks that can be foreseen at this time are further development of management information systems, social welfare aspects of project appraisal, and procurement procedures.

Evaluation

The services of an evaluation team will be contracted with Loan funds to assist as described in Section V.B. In addition, annual independent audits will be contracted.

5. BANMA Sublending Priorities

In its Financial Policy (Annex III, Exhibit 4) BANMA assigns a general order of priority to subprojects it is willing to consider for financing. These priorities are further reinforced by its interest rate structure as outlined in its Credit Policy (Annex III, Exhibit 3). Sub-projects are classified by project type as follows:

- Class A. Projects that directly improve the efficiency of the production and distribution of agricultural products; e.g. markets, slaughterhouses, access roads to areas of high agricultural production, road maintenance and improvement, bridges, and storage facilities for agricultural products.
- Class B. Projects that indirectly improve the efficiency of the production and distribution of agricultural products, e.g. potable water systems, sewage, electrical energy, preparation of industrial sites, transport terminals, health centers, rural schools.
- Class C. Projects having marginal effects on agricultural productivity: street paving, storm drainage, shopping centers.
- Class D. Other Projects. These include: garbage collection

equipment, tax administration, cemeteries, city halls, recreational facilities, tourism projects, technical and professional services.

In general BANMA considers class A and B projects high priority and class C and D projects low priority. AID funds will finance class A&B projects and tax administration projects. The Bank's financial policy calls for the following priorities in terms of amount of portfolio invested in each class.

Class A	40-50%
Class B	30-40%
Class C	10-30%
Class D	0-15%

Based on the preliminary sub-project survey and most recent indications of municipal interest, BANMA's portfolio at the end of the Project is expected to look as follows:

Sub-Projects in:

	<u>A.I.D.</u>	<u>Loan</u>	<u>Other Lending</u>		<u>Total</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
Class A	3.6	66	-0-	-0-	3.6	42
Class B	1.5	26	1.4	49	2.9	34
Class C	-0-	0	1.5	50	1.5	18
Class D	0.4	8	0.1	1	0.5	6
TOTAL	5.5	100	3.0	100	8.5	100

This distribution follows the Financial Policy and the priority given to agricultural production and distribution.

C. BANMA OPERATIONS

1. Lending Procedure

BANMA has developed a procedure (see Annex III, Exhibit 5) to be followed in making subloans which ensures that loans are tied to improvements in municipal administration. As BANMA's municipal lending experience and capacity increases, the Bank will develop financial techniques and procedures (e.g. loan/grant mechanisms, interest free loans, effective grant search procedures, project analysis capacity, etc.) to permit it to reach low income groups both in terms of subborrower (i.e. the smaller, poorer municipality) and of subprojects which benefit this group in the county. Progress in developing such procedures will be examined during the two loan progress reviews. The first step is a municipal analysis.

(a) Municipal Analysis

Utilizing the project list as a guide, the Technical Services Department is visiting 40 municipalities that have sufficient income to contract for sub-loans, starting with the poles and proceeding to the sub-poles and then other municipalities. They will analyze the economic and administrative capacity of the municipality; develop a preliminary capital improvements program; and assist local government officials to prepare sub-loan applications for proposed projects. A copy of the standard format used in the municipal analysis is available in LA/DR files.

From the visit, sub-projects are identified and programmed, the municipal debt capacity is calculated, training and technical assistance needs are defined, and the effects of the sub-loans on projected municipal budgets and debt capacity are analyzed. Where serious administrative deficiencies are found, sub-loans will be conditioned to ensure improvements. At this point also a tax administration project may be recommended.

(b) Sub-Project Applications

The municipalities with the assistance of the Technical Services Department submit loan applications to BANMA. BANMA is providing this technical assistance in preparing subloan applications to ensure adequate preliminary project analysis, encourage the submission of high priority projects, and to gain the municipalities' confidence. Copies of the loan application forms are available in LA/DR files.

BANMA conducts an eligibility review within 2 weeks of receipt of an application. During the eligibility review, the Technical Services Department presents its recommendations to a Technical Commission composed of BANMA's Manager and the three Department Chiefs. These recommendations will be based on project priority, the municipalities' credit history and debt capacity, municipal administrative improvement efforts, and economic feasibility. For eligible projects a priority is assigned, possible preconditions to be met before loan disbursement are defined, additional data needed is determined, field visits are scheduled, and the details of project execution are planned.

Eligible applications are then sent to the Finance Department for detailed analysis. Loan analysts prepare a detailed economic analysis of the project and a recommended financial plan as required by the Bank's Credit Policy (see Annex III, Exhibit 3). At the same time the engineering aspects are reviewed by Finance Department engineers and arrangements are made to correct any deficiencies. If the loan amount is \$50,000 or over and is to be financed from AID funds, the project is forwarded to A.I.D. for approval.

The project is then returned to the Technical Commission for final review and forwarded to the Board of Directors for final approval. In the case of a project having a total value of less than \$25,000 or a loan amount of less than \$12,500 it may be approved by the BANMA Manager. Any subsequent adjustment to a loan amount originally approved by the Manager requires approval of the Board of Directors.

(c) Sub-Loan Contracts

The contracting officer (a lawyer) prepares a sub-loan contract, consisting of a standard form, (a copy is available in LA/DR files), annexes, and necessary public deeds and other documents required by the municipal law and civil code. Annexes to the sub-loan contract may refer to preconditions to disbursement, standard regulations governing public bidding, supervision of construction, and required municipal sub-loan project accounting systems. Preconditions to disbursement may include requirements for training of municipal officials and/or employees, bonding of municipal officials and employees, the presentation of operation and maintenance plans according to Bank regulations, etc. The contract is then sent to the municipality for signing. The time required from receipt of sub-loan application to signing of sub-loan agreement is estimated to be about 90 days.

2. Credit Terms, Repayment and Execution

(a) Credit Terms

The Bank has established the maximum and minimum sub-loan interest rates, grace periods, and maximum repayment periods in its Credit Policy (Annex III, Exhibit 3). Within these limits the terms governing any specific subloan will depend on an analysis of the degree to which the project is self-financing and on the repayment capacity of the municipality. The financing plan developed for each project will be based on the maximum interest rate and the minimum repayment period possible to allow the municipality a 10% average annual return on its

investment. To meet that criterion interest rates, repayment period, and counterpart requirements can be adjusted within the following limits:

<u>Sub-Project Class</u>	<u>Int. Range</u>	<u>Maximum Repayment Period (years)</u>	<u>Counterpart Range</u>
A	4-10%	15	10-30%
B	5-10%	12	10-40%
C	6-10%	10	10-50%
D	7-10%	10	10-60%

These limits reflect BANMA's survey of likely demand. They may be modified as the Bank develops more lending experience. The granting of any interest rate lower than 6% per annum will require a special justification. Grace periods will cover the expected execution period of subloans up to 18 months. The Bank intends to finance a maximum of 90% of any project, with the municipality contributing the remainder. The counterpart range indicates the relative amount of municipal support or grant funding that may have to be sought. This will be especially important in cases where a project will not be fully self-financing. The Bank will accept as counterpart both cash and in-kind contributions including those from other GOH agencies, local donors and international agencies. BANMA will help the municipalities locate appropriate sources of grant funding where BANMA's softest terms fail to allow a priority project to be financed on a self-paying basis.

(b) Repayment

BANMA has several methods to guarantee repayment of sub-loans:

- i) The standard sub-loan contract requires municipalities to authorize BANMA to deduct loan repayments from municipal deposits in BANMA or other banks and will allow BANMA to attach municipal deposits to cover loan repayments. Although the municipalities are required to maintain their accounts with BANMA, a large number have not done so. Satisfying this requirement may become a condition for lending.
- ii) BANMA is testing a correspondent bank plan which will enable it to offer checking account and other bank services (through the offices of other public and

private banks) to all major municipalities. This system will provide municipalities with a convenient method of depositing their funds in BANMA. Until now this deposit requirement has not been met in part because of the limited accessibility of BANMA.

- iii) The standard sub-loan contract also has provision requiring the municipalities to open a separate bank account in BANMA for each sub-loan funded project. BANMA authorization is then required before net project income can be transferred to the municipal budget.

(c) Sub-Project Execution

Execution of all sub-loans will be supervised. Construction projects will be supervised by agreement with the appropriate GOH agency or by contract with a consulting engineer. Intermunicipal road maintenance cooperatives and tax administration projects will be supervised by the BANMA staff.

Procurement of materials, equipment, goods, and construction and consulting services of less than \$5,000 will be carried out employing good commercial practice i.e.: three or more quotations from reputable firms. Procurement of goods over \$5,000 will be carried out by advertised, competitive bidding. Procurement of consulting, engineering, and construction services of less than \$25,000 will be carried out by assignment of the project to pre-qualified firms based on established unit costs. Procurement of consulting and construction services of \$25,000 or more will be carried out by advertising for proposals from pre-qualified firms. Construction firms will be required to post a 5% bid bond, a 20% performance bond, and a 15% payment bond for projects over \$50,000. A retention of 10% will be required.

Disbursements will be made against paid vouchers, certified by the supervisor. Separate accounts will be maintained by municipalities to account for project funds.

3. Coordination

a) Coordination With Other Agencies

In order to reduce duplication of effort and the cost of projects, BANMA is promoting interinstitutional cooperation. The Interinstitutional Coordinating Group - the Council for

Planned Municipal Action (CONAPLAM) - has established a committee for reviewing municipal projects. It is expected that the committee will begin to function shortly. It will attempt to eliminate duplications in the programming of the member agencies, and will serve as a centralized source for locating grant funds for non-self financing projects. Prior to financing any municipal services requiring participation (planning, staffing, equipping, etc.) by other central government agencies, e.g. health centers and schools, BANMA will enter into an agreement with the appropriate agency to assure their participation in the project. The members of the Coordinating Group are the Ministries of Government, Public Works, and Public Health, INVA, BANMA, the Tourism Institute, the Honduran Municipal Association, SANAA and ENEE.

The Ministry of Public Works, the Electrical Energy Authority (ENEE) and the Water and Sewer Authority (SANAA), will provide project feasibility studies and designs. BANMA has signed agreements with SANAA and Public Works and is negotiating a third with ENEE. The project types covered by the agreements are water systems, markets, slaughterhouses, street paving, and storm sewerage. These agencies also provide construction supervision for the projects they have designed. BANMA will exercise care not to substitute its funding for financing that is available from any of the central government agencies.

The Ministry of Public Works is preparing with IDB assistance local development plans for all polar and sub-polar municipalities over the next 5-10 years. BANMA is participating in the elaboration of these plans by providing the results of its municipal analyses and debt capacity studies to the Ministry for inclusion into the plans.

The personnel of the Ministry of Government's Office of Municipal Technical Assistance are receiving training in the installation of prototype municipal budgeting and accounting systems that have been designed by an IDB-funded advisor working at the Ministry of Public Works. The Ministry of Government personnel will begin installation of the systems in June, 1974.

(b) Coordination With Other Sources of Financing

There are 4 major loans currently being executed or negotiated that relate to BANMA's sphere of operations:

- i) SANAA is negotiating a loan with IDB for the financing of 150 rural aqueducts in villages of less than 2,000 inhabitants. Since these systems are not self-financing, BANMA would not (except in unusual circumstances) be involved in their financing.
- ii) The Urban Development Office of the Ministry of Public Works is assisting the Municipality of Puerto Cortes to secure concessionary financing from IDB for carrying out their Master Development Plan. Should the IDB financing materialize BANMA will take necessary steps to ensure coordination with the Bank and avoid duplication of effort.
- iii) The General Direction of Roads is also seeking in conjunction with the Planning Council the inclusion of \$1.0 million for access

road construction in the proposed A.I.D. rural sector program. Consequently BANMA has no direct construction of access roads planned at present.

- iv) The Central Bank has \$1.0 million available for construction of slaughterhouses through the livestock fund created under a World Bank loan. It is estimated that about 5 or 6 slaughterhouses will be built with the funds. The probable sites for these investments have been excluded from BANMA's project list.

The SANAA and Public Works loan programs referred to above represent, to a great degree, grant funds available to the municipalities. In addition, the Ministry of Public Works and other GOH agencies directly finance specific projects from the national budget each year. Also, various private and international agencies have materials and funds which they make available on a grant basis. BANMA is in the process of compiling a directory of available sources of such grants which it wishes to tap for municipalities.

4. Other BANMA Operations

BANMA will continue to offer various banking services to the municipalities and the public:

- i) Checking, savings and time deposit accounts. These accounts currently provide BANMA with almost \$1 million of capital.
- ii) Trust and fiduciary services for the municipalities. This includes guaranty and placement of municipal bond issues and discounting of letters signed by taxpayers for payment of tax bills and paving charges. The small commissions earned on these activities have provided a substantial portion of BANMA's operating income. BANMA will continue to use the bond guaranty and placement service as a means of financing projects for which its lending capital is insufficient.
- iii) Miscellaneous banking operations. These include travelers checks, line of credit arrangements with foreign banks, purchase and sale of foreign currencies, handling of GOH subsidies to municipalities, rotating fund for USAID funded projects, and tax collection services for the municipalities.

5. Evaluation

BANMA proposes to have an ongoing evaluative process that will enable it to see the degree to which it is accomplishing the various objectives it has been assigned. At first, the objectives may be somewhat narrow (i.e., emphasis on developing BANMA as a strong financial institution)

but it is expected that over time more ample criteria will be employed. This evaluation process includes:

(a) A quarterly review of all projects' status vs. program will be held to assist top management and the operating departments to spot problem areas and bottlenecks in the whole process of execution.

The Technical Services Department will include in this review a list of projects that it plans to promote during the incoming quarter as well as a summary of inspections and findings on ongoing projects, problems municipalities encounter in the operation and maintainance of completed projects, training received and underway, and the degree to which the projects are serving their intended purposes.

(b) The sub-loans granted to the municipalities for tax administration will include requirements for reporting certain data to BANMA including number and types of households and businesses, their locations, importance to the community's economy, services being provided and lacking, and other basic information.

(c) BANMA will continue financial reporting as before. Financial Statements will be presented quarterly to the Board of Directors, supplemented by status and aging reports on loan and bond repayments, movements in major accounts, and a series of financial indicators illustrating improvement or deterioration in the Bank's financial situation.

(d) An annual review will be conducted by the Board of Directors of the sub-loans programmed, in process of execution, and completed. This review should occur about the same time as the yearly budget review. Sub-loans will be reviewed in terms of regional distribution, distribution among polar, sub-polar and other municipalities, and distribution among different project types. The overall performance of the BANMA in light of developmental objectives will be reviewed and operating objectives for the following year set.

5

SECTION III - TECHNICAL SOUNDNESS

A. MUNICIPAL DEBT SERVICE

The capacity of the municipios to service the increased level of indebtedness which will result from the contemplated BANMA sublending program will not constitute an important factor limiting the amount of credit they can absorb or service.

It is estimated that by the end of 1980 outstanding municipal debt channeled through the BANMA will total nearly L. 20 million. Because of the strategy of focusing programmed investment in the 27 agricultural service poles and sub-poles, around L. 17 million, or 86%, is expected to have been invested in these regional centers. Since at present these 27 centers account for only 32% of Honduran municipal revenues, any debt service bottlenecks that may exist would be in these 27 regional centers. At the same time, and although the lack of reliable data for the smaller municipalities precludes a more thorough analysis of their debt capacity, it is thought that since smaller municipalities handle 25% of Honduran municipal revenues their debt servicing of only 12% of the contemplated sub-loans should not constitute an excessive burden. In light of the above, the Mission and BANMA undertook the following analysis of the projected debt capacity of only the regional centers.

The debt service capacity of the 27 poles and sub-poles doubled from L. 663,000 in 1970 to L. 1,332,000 in 1973 (see Table III-1). It is expected to double again by 1977, and by 1980 to reach almost L. 4 million, triple the 1973 capacity. The basic reasons behind this are:

- Current revenues are growing at a faster rate (8%) than current expenditures (5.1%), with the result that current savings are growing at the rate of nearly 12% per annum.

- Debt service is increasing at an annual rate of only 6%, in spite of higher interest rates; this reflects the large percentage of municipal investment financed by current savings resulting from insufficient availabilities of credit at present.

The projections of current revenues and expenditures in Table III-1 are based on historical tendencies and therefore do not reflect the effects of the new BANMA sublending program (i.e., they do not take into account the favorable effects of the tax administration projects, nor the fact that most projects will generate revenues). Table III-2 projects total new BANMA sublending, the average balance of the subloan portfolio and the subloan debt service from 1974 to 1980. Table III-3 combines the elements of projected debt service capacity, debt service, and municipal subloan counterpart under two sets of assumptions. In the first, all subloan debt servicing is assumed to be met by current

Table III-1, PROJECTION OF CURRENT REVENUES, CURRENT EXPENDITURES, CURRENT SAVINGS, AMORTIZATION OF PRESENT DEBT, AND ADDITIONAL DEBT SERVICE CAPACITY FOR AGRICULTURAL ROLES AND SCHEDULES
(000's of Lempiras)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Current Revenues	3,801	4,114	4,609	4,988	5,388	5,819	6,284	6,787	7,330	7,916	8,549
Less: Current Expenditures	2,678	2,791	2,956	3,107	3,265	3,432	3,607	3,791	3,984	4,188	4,401
Current Savings	1,123	1,323	1,653	1,881	2,123	2,387	2,677	2,996	3,346	3,728	4,148
Less: Service of Existing Debt	460	494	479	548	959	797	660	462	240	230	171
Additional Debt Service Capacity	663	829	1,174	1,333	1,164	1,590	2,017	2,534	3,097	3,498	3,977

Note: 1970-1973 are historical figures; 1974-1980 are projected according to the following criteria:

- (1) Current Revenues are projected to increase at the rate of 8.0% per annum, the 1965-1973 growth rate, the 1970-1973 rate being 10.1%.
- (2) Current expenditures are projected to increase at the rate of 5.1% per annum, the 1970-1973 growth rate -- the only figures available.
- (3) Service of existing debt is based on projection of seven in-depth studies; it assumes amortization of debts for the purchase of BANMA shares over a twenty year period starting in 1974 and the ratio of present debt amortization to be the same in the 27 poles and sub-poles as in the seven municipios studied have an estimated 51% of the total current revenues received by the 27 poles and sub-poles.

TABLE III-2 MUNICIPAL SUBLENDING PROGRAM, AGRICULTURAL SERVICE POLES AND SUBPOLES
TOTAL NEW LENDING, AVERAGE BALANCE OF SUBLOAN PORTFOLIO, AND SUBLOAN
DEBT SERVICING - 1974 - 1980 (000's of Lempiras)

	1974	1975	1976	1977	1978	1979	1980
<u>Total New Sublending</u> (A.I.D., General and Reinvestment)	906	4,137	4,726	5,219	2,376	2,816	3,212
<u>Sub-Loan Portfolio:</u>							
Beginning Balance	-	896	4,931	9,278	13,687	14,729	15,879
Add: New Subloans	906	4,137	4,726	5,219	2,376	2,816	3,212
Less: Repayments	10	102	379	810	1,334	1,666	1,862
Year-end Balance	896	4,931	9,278	13,687	14,729	15,879	17,229
Average Balance	448	2,914	7,104	11,483	14,208	15,304	16,554
<u>Sub-Loan Debt Servicing:</u>							
Interest	34	228	592	989	1,224	1,305	1,408
Repayments	10	102	379	810	1,334	1,666	1,862
Commissions	9	41	50	49	18	19	24
Sub-Loan Debt Service	53	371	1,021	1,848	2,576	2,990	3,294

SOURCE: Figures in this Chart were derived by multiplying the relevant items in the cash flow by a factor of 0.88 (the proportion of BANMA sublending slated for the agricultural service poles and subpoles).

revenues growing at the 1965-1972 growth rate. This assumption implies that none of the projects to be financed by the BANMA sublending program will generate sufficient new revenues to contribute to new debt servicing. Because approximately 80% of the programmed projects are self financing this is clearly the limiting case. The second assumes that only 20% of the subloan debt service will be met by current revenues because 80% of the programmed projects are expected to be self financing. It is of course possible that these projects will generate surpluses in excess of their operating and debt servicing costs and contribute to defraying the costs of projects which are not self financing (principally the access road construction and maintenance element) -- but this is not considered probable or even necessarily desirable.

The range between the two projections in Table III-3 is a large one. In the case of the first projection, the amount of current savings available to finance non-subloan financed investment falls beyond 1975 to a clearly unacceptable level, being negative in 1977. In the case of the second projection, the amount of current savings available for non-subloan financed investment is more than sufficient. It is probable that the current savings available for non-subloan financed investment will fall somewhere between these two projections because some of the self financing projects may not reach their projected break-even points or do so as rapidly as expected. When the BANMA technical staff performs the detailed project analyses and feasibility studies required for each project, it will be possible to determine where between these two limiting cases the current savings available for non-subloan financed investment will fall. It is expected that the average will be much closer to the second projection than to the first and that in an overwhelming majority of cases the break-even point will not extend beyond the subloan grace period. Sufficient debt service capacity thus exists in the 27 agricultural poles and sub-poles to service the programmed levels of indebtedness.

The BANMA's technical staff has been conducting in-depth studies in each of the municipios to determine debt capacity on a case by case basis. It is clearly possible that while in combination the 27 centers have sufficient debt capacity, individual municipalities might not. Of the seven municipalities that have been studied in depth to date, five show more than sufficient debt capacity to finance programmed projects. In two, insufficient immediate debt service capacity was encountered. In both of these cases, improved user charge collections or better control over current expenses during the first half of the disbursement period would provide sufficient debt capacity to permit the execution of programmed projects during the later half. It is expected that similar results will be encountered in the other 20 polar and sub-polar centers. Moreover, BANMA will provide direct TA and finance tax billing and collection system installation in those municipalities presently having insufficient debt capacity so as to develop more quickly their investment potential. Thus it is not anticipated that insufficient debt capacity will require major revisions of the list of programmed projects.

TABLE III-3, PROJECTIONS OF CURRENT SAVINGS AVAILABLE FOR NON-SUBLOAN FINANCED INVESTMENT IN AGRICULTURAL SERVICE POLES AND SUBPOLES, 1974 - 1980 (000's of Lempiras)

	1974	1975	1976	1977	1978	1979	1980
Projection No. 1, 100% of subloan debt service to be met by current revenues							
Additional debt service capacity	1163	1590	2017	2534	3097	3498	3977
Less: 100% of subloan debt service	53	371	1021	1848	2576	2990	3294
Less: Mun. subloan counterpart	160	730	834	921	419	497	567
Current savings available for non-subloan financed investment	950	489	162	(235)	102	11	116
Projection No. 2, 20% of subloan debt service to be met by current revenues							
Additional debt service capacity	1163	1590	2017	2534	3097	3498	3977
Less: 20% of subloan debt service	11	74	204	370	515	598	659
Less: Mun. subloan counterpart	160	730	834	921	419	497	567
Current savings available for non-subloan financed investment	992	786	979	1243	2163	2403	2751

SOURCES: Additional debt service capacity, Table III-1.

Subloan debt service, Table III-2.

Municipal subloan counterpart is equal to 15% of sub-project cost and is therefore equal to 17.65% of total new lending of Table III-2.

B. NEED FOR INCREASED REVENUES

Many local needs cannot be met by self financing capital investment projects, but require increased levels of current expenditures, financed by increased tax collections or other current revenues. Among these needs are such activities as schools, health centers, children's feeding stations, access road improvement and maintenance and other local government activities for which user charges are not easily applicable. The BANMA sub lending program includes one such activity, --access road maintenance and improvement. This activity amounts to about 20% of the cost of BANMA subprojects. The estimated cost of these subprojects in the 27 agricultural service poles and sub-poles is around L. 1.2 million.

Although the preceding debt capacity section indicated that sufficient capacity existed for servicing the debt entered into for these non self-financing projects, it did not take into account the increased current expenditures resulting from these projects. In the 27 regional centers, such projects will increase current expenditures for operations and maintenance by about L. 500,000 per annum. These expenditures are not likely to be offset by increased user charges. If expenditure increases are not offset by corresponding revenue increases, they will have serious consequences for current savings and debt capacity.

It is expected, however, that increases in current revenues resulting from the establishment of improved tax administration measures (mapping and related tax billing systems) will provide more than enough current expenditures to offset non self-financing projects. Based on studies of the San Pedro Sula cadaster program to date, it is expected that after the first year or two of operation, the current revenue base of these 27 agricultural poles and sub-poles will increase by about 15% to 18% (L. 1.0 million to L. 1.2 million). This projected increase is considerably more than the L. 500,000 increase in current expenditures previously mentioned, and will probably provide some surplus. This surplus should both make it easier to attend those local needs not met by this project as well as increase debt service capacity.

In conclusion, it is expected that future revenues in the 27 agricultural poles and sub-poles will be sufficient to cover debt servicing requirements and leave a margin sufficiently large to allow the municipalities to respond to local investment needs not contemplated under this project. Although increased municipal revenues are not necessary for the success of this loan, a major decrease in municipal revenues or shrinkage in the legal tax base could seriously weaken the project's feasibility. It is not anticipated that revenues would decrease if the municipal tax base is left intact. A Covenant assuring that no governmental action will be taken to reduce this tax base will be included in the Loan Agreement.

C. BANMA CAPACITY

The Board of Directors has approved a new organizational structure that reflects BANMA's role as a development bank (See Section I-B-2, Organization) consisting of 3 departments: Technical Services, Financial, and Operations.

The Operations Department, in the Bank since its inception, has begun to operate well under the leadership of the former San Pedro Sula branch manager. A new central accounting system has been designed and installed. Internal accounts such as the loan portfolio, inventory, and sundry debtor and creditor accounts have been reviewed, outdated items have been removed, and subsidiary records reconciled to control accounts.

The Financial Department consists of 4 professionals - a chief loan supervisor, 2 analysts, and a contracts officer. The financial analysis performed for the Bank's bond marketing and guarantee operations has been adequate. Changes have been made to broaden this analysis to include more detailed economic study and engineering review. Two of this staff have been hired over the past year and trained at the Bank and abroad. A Department chief will be hired before the first sub-loan disbursement.

The Technical Services Department consists of an urban planning specialist and a municipal analyst. A Department chief has been hired and will begin work May 11, 1974. Four new professionals - two in each of the departments - were sent on a 6 month training program to other Latin and U.S. municipal development institutions ^{1/}. This group joined BANMA in June, 1973 and have been drafting policy and administrative procedures, identifying potential projects, and providing technical assistance to municipalities and municipal officials. A fifth professional has spent several weeks in observation at some of the same institutions. Plans for adding to the staff as the workload increases are described in Section I-B-2.

USAID/H has reviewed the progress achieved by BANMA to date and considers BANMA to have sufficient organizational capacity, with the technical assistance herein proposed, to successfully execute the Project. The Capital Project Advisor has been training the technical staff and has certified to their competence. The Mission controller has

1/ FUNDACOMUN of Venezuela, IBAM of Brazil, IFAM of Costa Rica, INFOM of Guatemala, and the University of California.

reviewed the accounting system and procedures and has found them adequate to provide control and reporting on present and projected operations. Two steps to be completed prior to Loan disbursement are:

- (i) Completing improvements in banking operations and other internal operations, and establishing the accounts and procedures to maintain separate accountability for Loan funds as well as Project reporting.
- (ii) Hiring and training of two Department chiefs:
Technical Services and Financial.

The tentative project list has a total of 101 projects slated for execution over the period CY 1974-77. 67 of these form the A.I.D. lending program; 34 are specific projects involving construction, and 33 are cadasters (24) or loans to regional intermunicipal cooperatives (9). In these latter two cases, BANMA plans to have advisors on board and special staffs under contract or donated by the Peace Corps to do the necessary feasibility studies, training, and project supervision. These sub-projects will not involve contracted engineering or architectural design work, and only in cases of equipment procurement will there be bidding required. The demands on BANMA's direct hire technical staff in these projects should be minimal. The 34 specific projects of the A.I.D. lending program, plus the 34 projects which form BANMA's other lending program over the next 3 years, will occupy the direct hire technical staff of 12 full-time professionals. Many of the projects will be designed and supervised by personnel of other GOH agencies, thus reducing the demands on BANMA's staff. The total workload for the two technical departments will be about 23 sub-projects per year. The Operations Department is considered to be capable of handling the expected average workload of 34 sub-projects per year. BANMA expects to have contracts ready for the first year's sub-projects by the time funds become available under the A.I.D. Loan.

D. END OF PROJECT STATUS

By the end of the Loan disbursement period BANMA will have established itself as a self-sustaining sound financial institution, and is expected to have achieved the following:

- i. Financing of at least 100 projects in 35-40 municipalities with a total subloan amount of \$8.5 million.

- ii. Be operating in the black.
- iii. Reduced its delinquency rate to no more than 2% of the amount due and payable.
- iv. Increased its capital from \$1.4 million as of 12/31/73 to \$8.0 million of 12/31/77.
- v. Reduced its long term debt by \$600,000.
- vi. Have assets of \$10 million with a municipal loan portfolio of \$8.0 million.
- vii. Have increased its municipal deposits from \$285,000 as of 12/31/73 to \$735,000 by 12/31/77.
- viii. Have the deposits of 120 municipalities among its assets through the correspondent bank plans.
- ix. Have provided or coordinated provision of direct technical assistance to 60 municipalities.
- x. Established formal channels of communication with the various agencies of the GOH that influence municipal operations in order to assist in the development of programs and policies beneficial to the municipalities.
- xi. Created an on-going T.A. program for municipal officials as evidenced by a plan of operations, a budget, and past performance.
- xii. The BANMA staff will have developed sufficient expertise in planning, administration and accounting to permit the institution to operate without external T.A.
- xiii. Developed operational procedural manuals based on the policies, regulations, and directives developed during its reform period, and established a procedure for amending the manuals as required.
- xiv. Developed policies and procedures (including project analysis) which accounts for and gives priority to social equity considerations in approving projects.
- xv. Managing its operations in compliance with the instructions found in the manuals and procedures mentioned in xiii and xiv above.

The polar and subpolar municipalities, by the end of the Loan disbursement period will have:

- i. Emphasized the development of services required by the low income rural population living outside of the county seat.
- ii. Raised the percentage of their revenues spent on investment to 35% per year.
- iii. Raised the percentage of their revenues spent on investment in class A and B (high priority) projects to 25% per year.
- iv. Made accessible to 50% of rural residents a hygienic market or slaughterhouse within 2 hours travel of their farms.
- v. Have created 600 temporary and 300 permanent jobs through loan funded projects and 2,500 temporary jobs through subcontracts with construction companies.
- vi. Have installed tax billing and accounting systems and be collecting in 1977 80% more taxes than in 1973.
- vii. Have installed double entry accounting systems and be maintaining them up to date.
- viii. Formed 8 intermunicipal cooperatives which will be providing efficient road maintenance and improvement services on over 800 Km. of roads in key agricultural areas.
- ix. Developed a planning and budgeting capacity.

E. ENVIRONMENTAL CONSIDERATIONS

The USAID Capital Assistance Committee has determined that the activities of the proposed project will have no long range adverse effects on the Honduran natural environment. To the contrary, most of the public works projects financed with A.I.D. loan funds will result in an improved and more healthy urban environment. This will be particularly true in the cases of water and sewer system projects, and improved markets and slaughterhouses. It is the intention, however, of the Mission to include a clause in the Loan Agreement bringing environmental considerations to the attention of BANMA. It is anticipated that when the

the nature and size of sub-projects merits it, BANMA will include a discussion of the environmental impact in their reviews of sub-project proposals.

SECTION IV FINANCIAL ANALYSIS

A. FINANCIAL PLAN

1. Fund Use and Source

The use and source of Project funds over the three-and-one-half year disbursement period of the Loan is as follows (\$000):

	<u>A.I.D.</u>		<u>HOST COUNTRY</u>			<u>TOTAL</u>
	<u>\$</u>	<u>L</u>	<u>GOH</u>	<u>BANMA</u>	<u>Munic.</u>	
Subloans	1,200	2,300	1,500	500	611	6,111
Tech. A.	400					400
Training	40	110				150
Equipment	50					50
Subtotal	1,690	2,410	1,500	500	611	6,711
TOTALS	4,100			2,611		6,711

The A.I.D. loan totals \$4.1 million or 61% of the total project cost. The host country contribution totals \$2.611 million or 39% of the total cost. The municipal portion of the host country contribution represents the municipality's contribution to each subproject (10%) as the Bank will finance a maximum of 90% of each project. In most cases a larger municipal counterpart is expected but a conservative figure of 10% has been used here. This contribution may be in cash or kind. The Bank contribution of \$500,000 will come from its own resources and will be made available immediately upon signature of the Loan. The Government contribution of \$1,500,000 will come from budgetary sources and will be made available on a pari passu basis with Loan disbursements. In addition, in order to assure the continued capitalization of BANMA after the Loan disbursement period, the Government has agreed to provide budgetary support to BANMA of \$3.5 million over the 7 years following disbursement of the AID Loan. Because of the relatively high GOH contribution it has been agreed that the Government may include reimbursement for BANMA's investment in the San Pedro Sula airport (represented by unrepaid advances to contractors) as Loan counterpart. Under the bond amortization schedule, this would amount to \$122,185 per annum or a total of \$427,048 over a 3 1/2 year period. Its effect on BANMA's financial situation is to replace an uncollectable debt with a bona fide GOH receivable. The remaining \$1,072,352 of the GOH contribution would be a straight budgetary transfer.

2. Loan Amount

Several considerations were taken into account in setting the amount of the Loan. The first was the amount of funds that BANMA could be

expected to commit for eligible projects over a three year period. Of the total number of municipal projects that the Bank has identified, priority was given to those projects which clearly met the agro-service center concept, and to those which would increase municipal income and municipal repayment capacity. Allowances were made for the fact that some of these may not materialize, and the operating capacity of the Bank was taken into account.

Lending at the levels proposed represents an increase in its volume of new municipal lending from an annual average of \$442,000 for the 1970-72 period to \$2,578,000 for the 1975-78 period. Although BANMA has clear lending and credit procedures on paper and has already begun developing subloans, the direct loan process (and the degree of subloan analysis) is new. Key staff members are new. The Bank's history in general is one of inadequate performance. Consequently, the Bank's experience can be considered somewhat thin at this point meriting a conservative approach.

A second major consideration was the need to establish a financial base adequate to enable the Bank to raise funds and continue operations including technical assistance after the Loan disbursement period. In addition the Bank should have enough resources to make an impact on the municipalities and so enable it to overcome its previous poor reputation. A \$3.5 million Loan added to the GOH contribution of \$1.5 million is expected to meet this requirement. Technical assistance, training and equipment requirements added to this then yields a Loan level of \$4.1 million.

3. Borrower and Loan Repayment

The Borrower will be the Government of Honduras, who will donate the Loan proceeds to the BANMA to increase its capital and assume the repayment obligation. Given the low levels of Government incurred international debt, contracted on fairly soft terms, the amount of foreign exchange going to service outstanding debt as a percentage of exports is quite low. Table IV-1 shows Honduras has the lowest debt service ratio (debt service to foreign exchange) in Central America.

TABLE IV-1, CENTRAL AMERICAN DEBT SERVICE RATIOS: 1972
(Percent)

Guatemala	10.5
Nicaragua	10.1
Costa Rica	10.0
El Salvador	4.0
Honduras	3.4

Source: IERD data

The trend of this ratio over the recent past indicates a slight rise to 3.8 percent in 1973 as can be seen in Table IV-2. There remains more than adequate capacity to service the Government's international debt.

TABLE IV-2, HONDURAN DEBT SERVICE RATIO: 1965-73

	<u>Debt Service</u> <u>(\$ Millions)</u>	<u>Exports</u> <u>(\$ Millions)</u>	<u>Debt Service Ratio</u> <u>(Percent)</u>
1965	3.3	138.6	2.4
1966	3.4	157.4	2.2
1967	3.5	170.6	2.1
1968	3.4	196.7	1.7
1969	4.3	186.7	2.3
1970	5.6	195.5	2.8
1971	7.0	215.6	3.2
1972	7.9	230.6	3.4
1973	10.6	279.3	3.8

Sources: 1965-72: IERD data

1973 : Mission estimates

B. BANMA FINANCIAL POSITION

1. Situation at December 31, 1971

The financial statements of BANMA for the year ended December 31, 1971 (Annex IV), as adjusted by AID financial analysts to reflect their opinion as to the true financial position of the Bank, show that the organization was facing a serious liquidity crisis due primarily to the historical lack of earning capacity coupled with under-capitalization. The debt/equity ratio was 4.7 to 1 which must be considered as excessive leverage, particularly when negative returns on capital had been demonstrated. The Bank was virtually operating on funds provided by time deposits from the National Port Authority, and had the time deposits been withdrawn BANMA would have been forced into a position of technical bankruptcy. Outstanding long-term debt in the form of Bonds had been issued with a three year grace period on amortization of principal. BANMA was unable to service that debt, and was in very serious financial straits.

2. Current Financial Position

BANMA management has taken actions during the past eighteen months that have resulted in major progress toward solving the liquidity problem and operational problems that have plagued the Bank. BANMA has accomplished the following:

- (a) The municipal loan portfolio has been analyzed and a major portion of delinquent accounts collected or re-financed. BANMA officials continue to monitor the portfolio closely to improve the delinquency rate and improve collection procedures.
- (b) Commercial operations have been discontinued. The commercial loan portfolio was purged of uncollectible accounts. An aggressive collection policy has been established and the portfolio has been reduced considerably. Estimates are that the remaining balances will be collected through 1977.
- (c) BANMA has issued bonds totaling \$1.85 million redeemable through 1981 to the National Port Authority, thereby converting into long-term debt capital a short-term obligation that had been a major liquidity burden.
- (d) The BANMA has negotiated a settlement to the problem related to the construction advances made for the San Pedro Sula airport project. By government decree, the GOH has agreed to pay to BANMA approximately \$900,000. These payments will be considered a part of the ten year capital contribution by the GOH.

(e) Considerable cost savings have been effected by closing one branch office and reducing the number of Bank employees by 24.

The financial statements for the year ended December 31, 1973 presented in Annex IV, show the improved financial condition of the Bank. The liquidity crisis has been resolved to the point where the Bank has invested in short-term securities to utilize excess liquidity. The balance sheet shows an investment of approximately 1.6 billion Lempiras in marketable securities and some 655 thousand Lempiras in cash and cash items. Against these relatively liquid assets the balance sheet shows current liabilities of 738,000 Lempiras including interest payable and loans approved but not disbursed. The statement of operations for 1973 discloses that BANMA through reduction of personnel, consolidation of physical plant, and investment of excess liquidity was able to produce a small return on capital for the year.

3. Projected Future Operations

Projections of future operations have been prepared for the ten year period through 1983. Cash flow projections and balance sheet and statements of income and expense are presented in Annex IV. Based on conservative estimates of growth from the infusion of capital from the AID loan and the GOH ten year contribution, BANMA will attain a position of self-sufficiency with a capital base and loan portfolio adequate to generate profits and accumulate reserves to cover legal requirements and contingencies. During the initial two years of the AID Loan Project, losses from operations have been projected due to estimated increases in administration costs being incurred before lending increases sufficiently to generate offsetting revenues. In 1976, however, a break-even point is reached and revenues from the expanding lending program continue to grow through 1983 at a rate greater than the administrative costs required to operate the Bank. Conservative profit projections through 1983 indicate that by then BANMA will reach a level of operation that may provide a return on capital sufficient to attract new equity capital to expand its lending program. Additionally the Bank will have liquidated its long-term debt and will be in an excellent financial position to seek leverage (debt capital) thereby broadening its operating ability and further expanding its municipal lending capacity. The projected balance sheet and income statement for 1983 shows that the BANMA should generate a return of Lps. 1,160,000 or 4.3% on capital. Total capitalization of the Bank will have increased by almost nine times from Lps. 3,038,000 in 1973 to \$26,965,000 estimated for 1983.

3. Municipal Loan Delinquencies

During the past two years BANMA management has addressed the problem of delinquent municipal obligations. Working on a case by case basis,

some obligations have been refinanced and others have been brought into current status. BANMA officials continue to work on the remaining delinquent or defaulted municipal obligations. The balance sheet as of February 28, 1974 (Annex IV) shows the balances held by BANMA in municipal obligations as follows:

Municipal Bonds	Lps. 204,700
Municipal loans and discounts	254,539
Municipal loans assumed by as guarantor	<u>700,575</u>
	<u>Lps. 1,260,814</u>

In addition BANMA is contingently liable as guarantor for Lps. 2,459,000 in outstanding loans and bonds. Of the total Lps. 3,689,814 in outstanding municipal obligations either held or guaranteed by BANMA, Lps. 700,000 are delinquent. Of the delinquent total approximately Lps. 260,000 is in the process of being refinanced. The remainder of Lps. 440,000 represents approximately 12% of the BANMA municipal loan portfolio. The reserve for doubtful loans totals Lps. 150,000 or approximately 34% of the delinquencies. If the entire balance of delinquent loans at February 28, 1974 should prove to be uncollectible, which is highly unlikely since the municipal entities continue to exist and produce revenues, the operations of BANMA would not be materially affected.

Considering that BANMA officials are working to bring the delinquent loans up to a current basis and that a number of safeguards have been built into the future municipal lending program to ensure against a continuation of the problem, the current level of delinquent municipal loan does not constitute a major problem.

SECTION V - LOAN ADMINISTRATION

A. EXECUTION PLAN

It is expected that the Loan will be authorized by May 30, 1974. Allowing two months to draft and negotiate the Loan Agreement, the Loan may be signed by July 30, 1974. Ratification of the Loan Agreement consists of the official publication of the Agreement and can be accomplished within two weeks. The Conditions Precedent to Disbursement are expected to be met within 90 days of ratification. The promotional campaign, bringing BANMA's reform to the attention of the municipalities and assisting them in preparation of subloan requests, has been underway since March, 1974. By the end of July the bank will have completed 10 municipal analyses and have initiated processing on 15 subloan applications. The first subloan should be approved in August and the first disbursement request (on a reimbursement basis) can be expected by November or December. However heavy disbursements will not begin for at least 6 months when construction under subloans gets fully underway. Joint BANMA/GOH and A.I.D. progress reviews will be conducted at the \$1.0 million loan commitment level and again at the \$3.0 million level. The second review will be based on an evaluation by an outside consultant. It is expected that the Loan will be committed within 3 years (June 1977) and disbursed within three and one half years (December 1977).

B. PROGRAM REVIEWS AND EVALUATION

The first progress review mentioned above will focus primarily on Loan compliance, use of funds, and institutional aspects (subloan eligibility, subloan processing problems, technical assistance requirements, staffing modifications, etc.). Any changes to the Project can be addressed at that time. The second review will be based on a major evaluation to be performed by an outside consultant. Shortly after signing the Loan Agreement BANMA will contract with an evaluator to organize an evaluation framework, select baseline data, and ensure that the data needed will be collected on a routine basis. It is expected that the Government as Borrower will also have an interest and participate in the reviews and evaluation.

The general terms of reference for the evaluation will be as follows:

- a) **Development Role.** Is BANMA functioning as a development bank? Has BANMA understood and fulfilled the development role assigned to it? Have BANMA's coordinative activities helped it to carry out its functions and improve municipal functioning? Have GOH programs, policies and actions helped or hindered BANMA in carrying out its functions?
- b) **Institutional Progress.** Is BANMA a well run self sustaining institution? Have the financial projections described in the loan paper been achieved? Has BANMA provided or facilitated delivery of the expected types and amounts of financial and technical assistance to the municipalities? Have BANMA's policies, regulations and directives been developed and utilized as described in this Loan Paper? And improved? Has its professional staff been developed as outlined in the Loan Paper? Have internal evaluation mechanisms functioned as expected? And improved? Has BANMA played a leadership role in providing the development viewpoint of municipal government with the GOH? With the municipalities?
- c) **Municipal Improvement.** What improvements in municipal administration have occurred? Have revenues increased to the degree expected. Have administrative procedures, especially accounting and tax administration systems been improved? Has municipal investment gone up? Did current savings increase significantly? Has municipal ability to provide public services and infrastructure improved? Who have been the primary beneficiaries of the investments?
- d) **Subproject Costs and Benefits.** Which subproject types have been the best investments? What have been the costs and benefits of different types of sub-projects? Which sub-project types have been best administered by the municipalities or contracting agencies? Which sub-project types have been most difficult administratively for the municipalities and what steps could be taken to improve their administration? Have the costs and benefits met expectations? Have the sub-projects been financially good investments for the municipalities from an economic and cash flow point of view.

C. MONITORING RESPONSIBILITIES

The loan will be monitored for the USAID by the Chief of the Institutional Development Division supported closely by the Capital Development and Engineering staffs. The latter are expected to be heavily involved initially in procurement, loan compliance, and engineering aspects of the project as it gets underway. The Mission Controller will assist in reviewing the financial aspects of the project. These offices will also be responsible for reviewing and approving all subloans over \$50,000. Subloans over this amount will be reviewed for conformity to BANMA operating criteria and Project criteria, appropriateness for A.I.D. financing, and general engineering and economic soundness. This subloan ceiling will be reviewed in the course of program reviews and may be modified at that time.

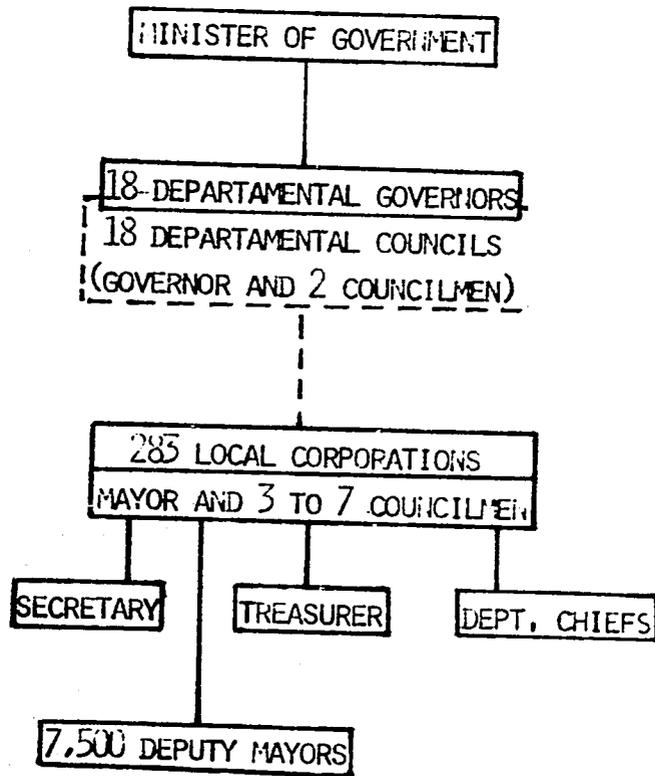
D. PROCUREMENT AND DISBURSEMENT

Procurement will be authorized from Code 941 and CACM countries. The subborrower (the municipality) will procure directly under BANMA's supervision in compliance with BANMA's A.I.D. approved procurement regulations. (See Section II-C-2, Subproject Execution). The majority of such procurement is expected to be local procurement of consultant and construction services for small civil works projects, although approximately \$1.0 million in road equipment under various subloans will also be purchased. Since the jobs will be so small as to preclude the interest of U.S. firms and since this is an ICI loan, no advertisement will be conducted in the U.S. except for road equipment procurement. All procurement for the Bank's own account will be conducted in accordance with A.I.D. Project Guidelines.

Disbursement for local costs will be in accordance with procedures to be determined by the USAID Controller. Disbursement for dollar cost will be made through normal Letter of Commitment procedure.

ORGANIZATION OF LOCAL GOVERNMENT SECTOR IN NICARAGUA

STRUCTURE



HOW SELECTED

- MINISTER APPOINTED BY CHIEF OF STATE
- GOVERNORS APPOINTED BY MINISTER OF GOVERNMENT
- COUNCILMEN ELECTED BY REPRESENTATIVES OF LOCAL CORPORATIONS
- MAYORS AND COUNCILMEN ELECTED BY VOTERS, EXCEPT IN CENTRAL DISTRICT WHERE THEY ARE APPOINTED BY CHIEF OF STATE
- SECRETARY, TREASURER, DEPARTMENT CHIEFS AND OTHER EMPLOYEES APPOINTED BY COUNCIL
- APPOINTED BY MAYORS

UNCLASSIFIED

TABLE No. 1 LOCAL GOVERNMENT AND CENTRAL GOVERNMENT EXPENDITURES
IN RELATION GROSS NATIONAL PRODUCT, 1960-1972

	GROSS NACIONAL PRODUCT	CENTRAL GOVERNMENT EXPENDITURES		LOCAL GOV. EXPENDITURES	
	MILLIONS OF LEMPIRAS	MILLIONS OF LEMPIRAS	AS % OF G. N. P.	MILLIONS OF LEMPIRAS	AS % OF G. N. P.
1960	763.9	92.1	12.6	8.4	1.1
1961	785.4	93.2	11.9	8.5	1.1
1962	843.6	98.9	11.7	10.9	1.3
1963	862.2	104.4	12.1	8.9	1.0
1964	930.5	112.9	12.1	12.0	1.3
1965	1,025.2	125.5	12.2	11.6	1.1
1966	1,082.3	143.5	13.3	14.2	1.3
1967	1,162.9	145.3	12.5	17.0	1.5
1968	1,247.4	169.3	13.6	14.0	1.1
1969	1,302.0	205.6	15.8	16.7	1.3
1970	1,382.5	228.6	16.5	16.9	1.2
1971	1,466.6	227.7	15.5	17.5	1.2
1972	1,566.4	239.0	15.3	18.5	1.2
Rate of Growth, 1960-1972	6.4	8.3		6.7	

SOURCE: G.O.H. Planning Council and Central Bank.

TABLE No. 2 MUNICIPAL PAYROLLS AND THEIR RELATION TO REVENUES, 1972

Region	Number of Employees	Ave. No. of Employees	Annual Payroll (000's Lps.)	Average Monthly Compensation (Lps.)	Payroll Costs as % of Revenues
Tegucigalpa 1/	253	12	202.3	67	
San Pedro Sula	790	18	1,869.3	197	42.9
La Ceiba	527	15	612.7	97	30.7
Choluteca	408	12	318.2	77	37.2
Santa Rosa de Copán	453	10	300.9	55	36.3
Comayagua	437	10	372.6	72	47.8
Juticalpa	182	14	167.7	77	46.5
Danlí	213	16	179.9	70	38.2
Gracias a Dios 2/	13	7	35.4	227	40.1
Congolón	223	8	75.4	29	266.4
Honduras Total 1/	3,499	13	4,194.4	95	62.7
					33.5
Size of Population					
100,000 and over 1/	827				
10,000 - 99,999	57	827	919.6	93	
5,000 - 9,999	16	57	348.4	142	21.3
3,500 - 4,999	16	16	374.4	87	33.1
2,000 - 3,499	11	16	253.2	100	34.7
Less Than 2,000	4	11	471.0	64	47.5
		4	827.7	100	47.1
					54.9

1/ excludes the Central District

2/ Subsidized by Central Government

TABLE No. 3 MUNICIPAL REVENUES, EXCLUDING SAN PEDRO SULA AND
TEGUCIGALPA 1965-1972 (THOUSANDS OF LEMPIRAS)

REGION	1965	1966	1967	1968	1969	1970	1971	1972	RATE OF DROWTH 1965-1972
Tegucigalpa	253.2	374.5	540.4	618.4	516.5	507.6	471.7	483.8	8.4
San Pedro Sula	1,667.2	2,187.0	1,987.3	2,272.9	2,252.2	2,415.6	2,238.8	2,571.1	5.5
La Ceiba	1,007.6	1,198.5	1,083.4	1,032.6	1,189.2	1,367.8	1,478.6	1,646.3	6.3
Choluteca	653.8	750.2	677.3	741.2	791.9	724.1	900.4	1,041.7	6.0
Santa Rosa de Co- pán	408.7	513.2	554.7	508.8	497.2	500.1	515.7	629.7	5.6
Comayagua	429.6	546.5	759.4	531.2	596.1	622.3	692.3	800.7	8.1
Juticalpa	182.7	293.7	286.9	353.3	327.1	351.6	449.6	439.6	11.6
Danlí	186.4	234.9	222.6	249.0	246.6	249.8	299.0	448.5	11.6
Gracias a Dios	9.4	10.5	12.7	13.5	13.6	16.1	15.6	13.3	4.4
Congolón	74.4	93.0	89.2	77.6	83.0	74.1	84.8	120.4	6.6
Honduras, Total	4,871.1	6,201.6	6,203.8	6,398.5	6,513.6	6,823.8	7,146.4	8,195.4	6.7
Size of Population									
100,000 and Over	-	-	-	-	-	-	-	-	-
10,000-99,999	2,475.8	3,057.8	3,015.7	3,033.0	3,296.1	3,347.8	3,561.2	4,073.9	6.4
5,000- 9,999	573.8	755.9	847.3	810.7	765.4	912.9	979.2	1,079.8	8.2
3,500- 4,999	349.3	459.8	588.4	574.1	584.0	565.0	522.1	533.3	5.4
2,000- 3,499	621.6	854.1	717.2	860.4	772.1	817.5	821.2	1,001.0	6.1
Less than 2,000	850.6	1,064.1	1,035.1	1,110.7	1,096.1	1,179.7	1,262.8	1,507.2	7.4

TABLE No. 4 , STRUCTURE OF MUNICIPAL REVENUES, BY SOURCE AND SIZE, 1972
 SIZE OF POPULATION

Source	Honduras Total	100,000 and more	10,000 to 99,999	5,000 to 9,999	3,500 to 4,999	2,000 to 3,499	less Than 2,000
Total Revenue (000's Lps.)	12,509	4,314	4,074	1,080	533	1,001	1,507
% Taxation	48.4	N.A.	44.9	45.3	52.2	58.4	67.7
% Property Tax	6.8	N.A.	7.7	6.1	8.6	13.5	17.1
% Head Tax	9.9	N.A.	6.2	15.6	15.9	21.5	33.5
% Business and Banking Tax	31.7	N.A.	31.0	23.6	27.7	23.4	16.6
% Service Charges	33.2	N.A.	33.3	40.2	35.3	26.7	12.8
% Water	9.5	8.7	6.6	9.7	6.8	7.9	5.2
% Garbage Collection	3.6	4.6	2.5	1.0	0.7	---	---
% Sewage	0.8	0.9	0.5	0.6	0.5	+	+
% Pavement	2.2	N.A.	5.4	5.4	--	0.2	+
% Electrical Energy	4.9	2.5	4.7	3.6	7.1	10.7	5.4
% Markets	9.4	7.4	12.2	7.8	6.3	1.7	0.3
% Slaughterhouses	2.8	0.4	1.4	12.1	14.4	6.2	1.9
% Rents, Licences, and other	18.4	11.3	21.8	14.5	13.5	14.9	20.0

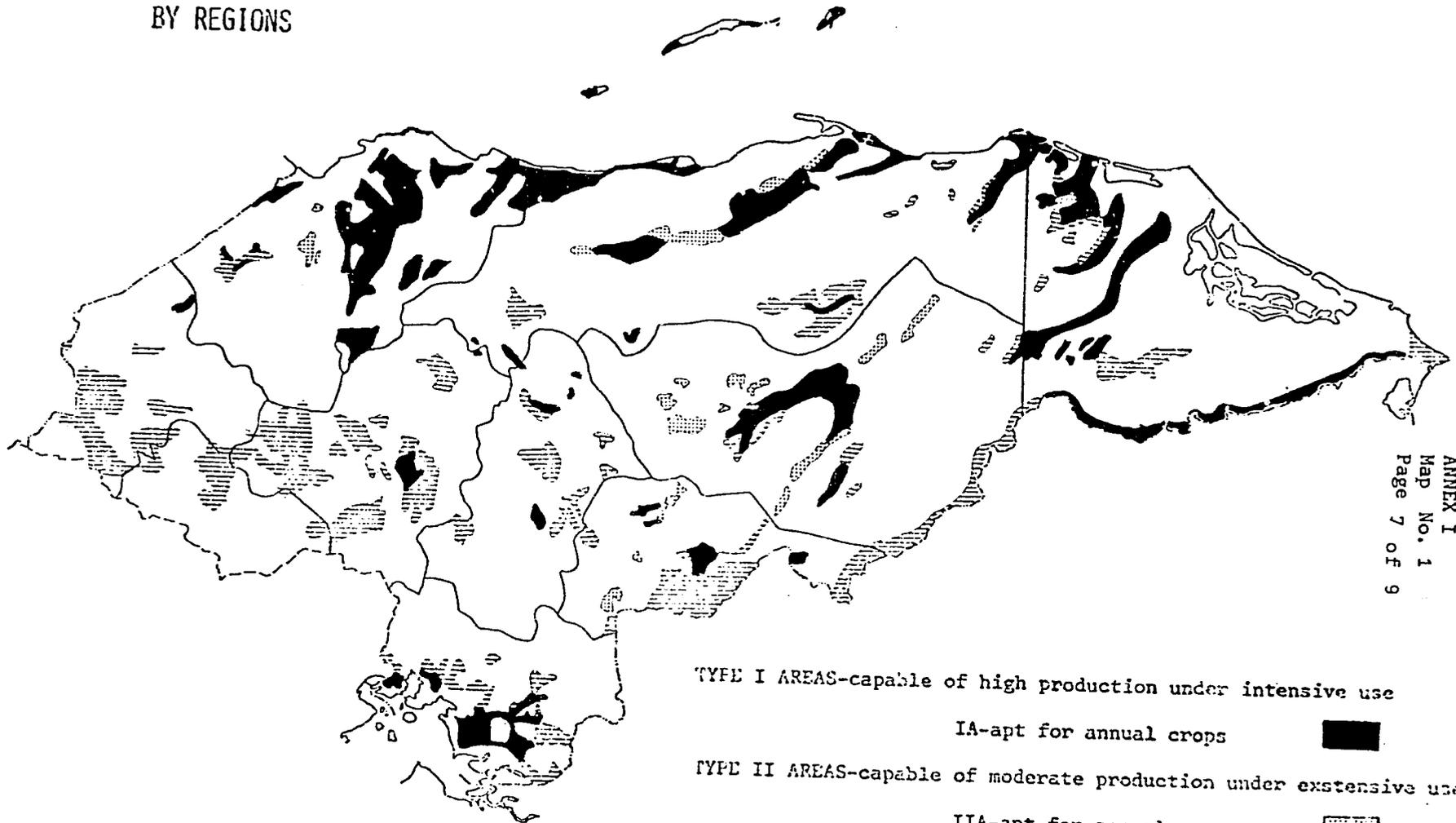
Source: Municipal Survey, 1973

TABLE No. 5 LOCAL GOVERNMENT INVESTMENT RELATED TO TOTAL
 PUBLIC SECTOR INVESTMENT, 1960 - 1970
 (Millions of Lempiras)

	PUBLIC SECTOR TOTAL	LOCAL GOVERNMENT	LOCAL GOVERNMENT AS % OF PUBLIC SECTOR
1960	20.0	2.0	10.0
1961	19.5	1.6	8.2
1962	33.3	3.0	9.0
1963	33.8	1.9	5.6
1964	24.9	3.6	14.5
1965	23.7	1.2	5.0
1966	26.0	1.3	5.0
1967	40.5	2.6	6.4
1968	48.0	1.5	3.1
1969	81.4	4.4	5.4
1970	91.4	3.7	4.0
Total, 1960- 1970	442.5	26.8	6.1

SOURCE: G.O.H. Planning Council

AREAS OF AGRICULTURAL IMPORTANCE
BY REGIONS



ANNEX I
Map No. 1
Page 7 of 9

TYPE I AREAS-capable of high production under intensive use

IA-apt for annual crops 

TYPE II AREAS-capable of moderate production under extensive use

IIA-apt for annual crops 

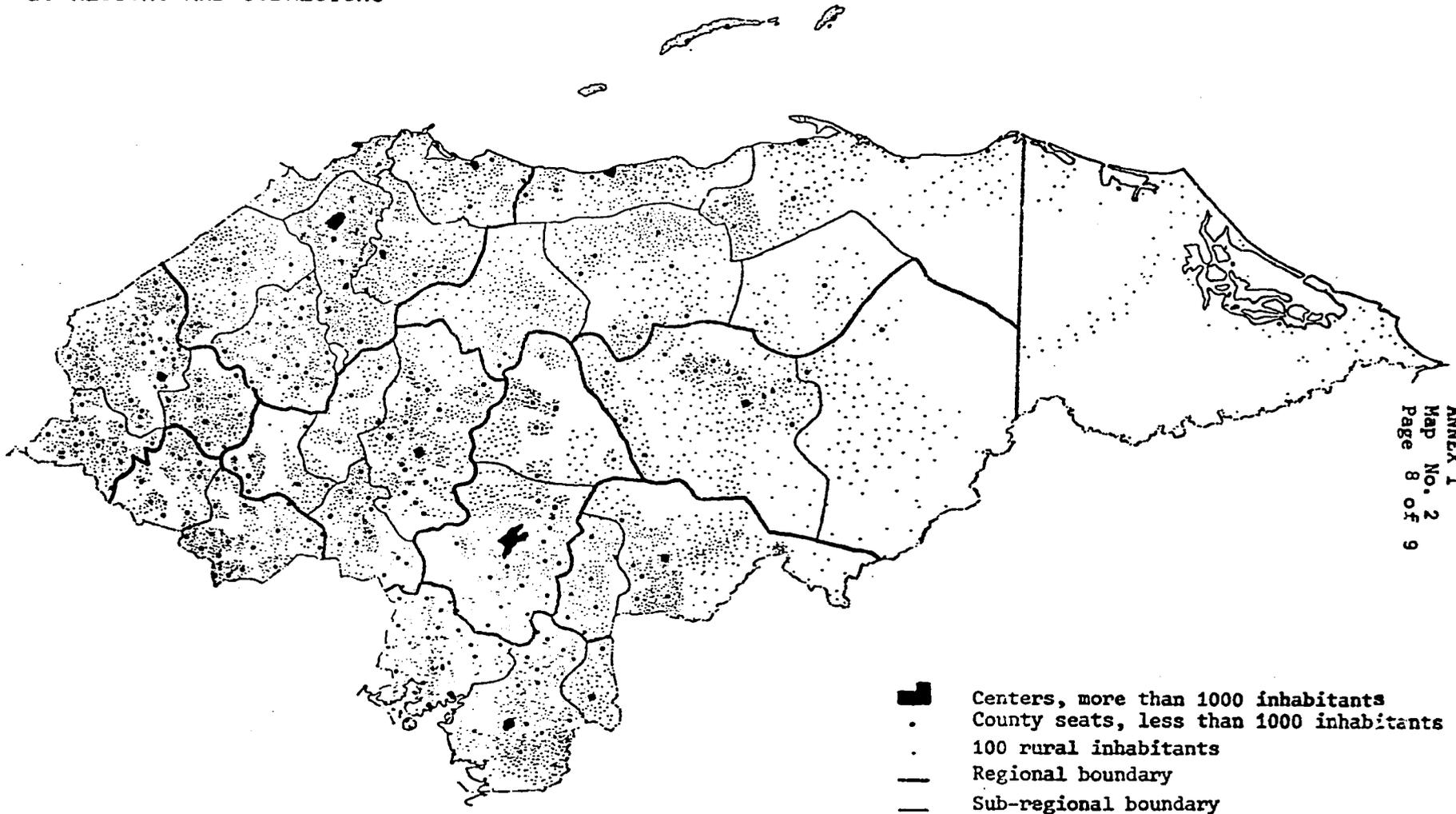
IIP-apt for permanent crops 

{Source: "Uso Potencial de la Tierra" FAO, Roma, 1967)

5/AGOSTO/1971
REALIZACION
1967

INSTITUTO DE DESARROLLO URBANO Y REGIONAL
COMISION SUPERIOR DE PLANIFICACION ECONOMICA
SECRETARIA TECNICA TEGUCIGALPA, HONDURAS

DISTRIBUTION OF THE POPULATION
BY REGIONS AND SUBREGIONS



ANNEX I
Map No. 2
Page 8 of 9

5 / AGOSTO / 1971
REGIONALIZACION
1 / OCTUBRE / 1967

SECTOR DE DESARROLLO URBANO Y REGIONAL
CONSEJO SUPERIOR DE PLANIFICACION ECONOMICA
SECRETARIA TECNICA, TEGUCIGALPA, HONDURAS

(Source: National Inventory of Physical Resources, 1966; based on 1961 Census)

ESTIMATED POPULATION - 1973
BY REGION, POLE AND SUB-POLE (FIGURES IN 000's)

Región	POLAR MUNICIPIOS			SUB-POLAR MUNICIPIOS			OTHER MUNICIPIOS			TOTAL						
	No.	Urban	Rural	Total	No.	Urban	Rural	Total	No.	Urban	Rural	Total	No.	Urban	Rural	Total
Tegucigalpa	1	274.8	27.6	302.4	1	6.2	5.9	12.1	21	27.0	116.1	143.1	23	308.0	149.6	457.6
San Pedro Sula (SPS)	1	133.7	19.6	153.3	5	86.5	66.5	152.6	37	98.9	285.9	384.8	43	318.7	372.0	690.7
La Ceiba	1	44.0	8.9	52.9	4	18.7	71.2	89.9	30	35.1	122.8	157.9	35	97.8	202.9	300.7
Choluteca	1	22.3	26.2	48.5	3	17.6	37.2	54.8	30	30.2	245.6	275.8	34	70.1	309.0	379.1
Santa Rosa de Copán	1	11.8	7.8	19.6	2	8.6	17.4	26.0	44	54.7	195.0	249.7	47	75.1	220.2	295.3
Comayagua	1	16.0	12.7	28.7	3	16.8	28.9	45.7	41	42.1	146.4	188.5	45	74.9	188.0	262.9
Juticalpa	1	11.3	23.3	34.6	1	8.4	11.5	19.9	12	14.7	40.2	54.9	14	34.4	75.0	109.4
Danlí	1	10.0	36.7	46.7	2	9.6	17.4	27.0	10	10.9	45.9	56.8	13	30.5	100.0	130.5
Gracias a Dios	0	*	*	*	0	*	*	*	2	1.8	16.0	17.8	2	1.8	16.0	17.8
Congolón	0	*	*	*	0	*	*	*	27	13.5	123.8	137.3	27	13.5	123.8	137.3
TOTAL	8	523.9	162.8	686.7	21	172.0	256.0	428.0	254	328.9	1337.7	1666.6	283	1024.8	1756.5	2781.3
TOTAL - Excluding urban areas of Teg. and SPS		115.4	162.8	278.2		172.0	256.0	428.0		328.9	1337.7	1666.6		616.3	1756.5	2372.8
% of total Urban, Rural, Total		51.1	9.3	24.7		16.8	14.6	15.4		32.1	76.2	59.9		100.0	100.0	100.0
% of total in Polar, Sub-polar, Other Municipios		76.3	23.7	100.0		40.2	59.8	100.0		19.7	80.3	100.0		36.8	63.2	100%
% of total excluding urban areas of Teg. and SPS		18.7	9.3	11.7		27.9	14.6	18.0		53.4	76.2	70.3		100.0	100.0	100%
% of Polar, Sub-polar, Other excluding Teg. and SPS		41.5	58.5	100%		40.2	59.8	100.0		19.7	80.3	100.0		26.0%	74.0	100%

* Not Polar or Sub-polar Municipio

Source: Demographic Statistics - National Planning Council, March, '72, Tegucigalpa - Table 10. Figures may not add precisely due to rounding.

BIOGRAPHICAL SKETCHES
BANMA BOARD OF DIRECTORS

President

Armando Blanco Paniagua

Mr. Blanco's curriculum vitae are included in Annex II, Exhibit 3 .

Board Members

Marco Tulio Banegas Reyes

Mr. Banegas is an economist and has received specialized training in Public Sector Planning and Programming (ILPES - Santiago, Chile) Public Administration and Planning (Puerto Rico) and data processing (U.S.A.). He is currently Sub-Secretary of the Ministry of Finance and Public Credit. He has previously served as advisor in administration and budgetting in four GOH Ministries (Finance and Public Credit, Education, Natural Resources, and Communications and Public Works) and two autonomous agencies (National Child Care Agency and the Central District).

Vicente Díaz

Mr. Díaz - an economist - is Sub-Secretary of the Ministry of Economics. Additional data are not available.

Rafael Oliva

Mr. Oliva - a lawyer - is legal adviser in the Ministry of Government. Additional data are not available.

Víctor F. Ardón

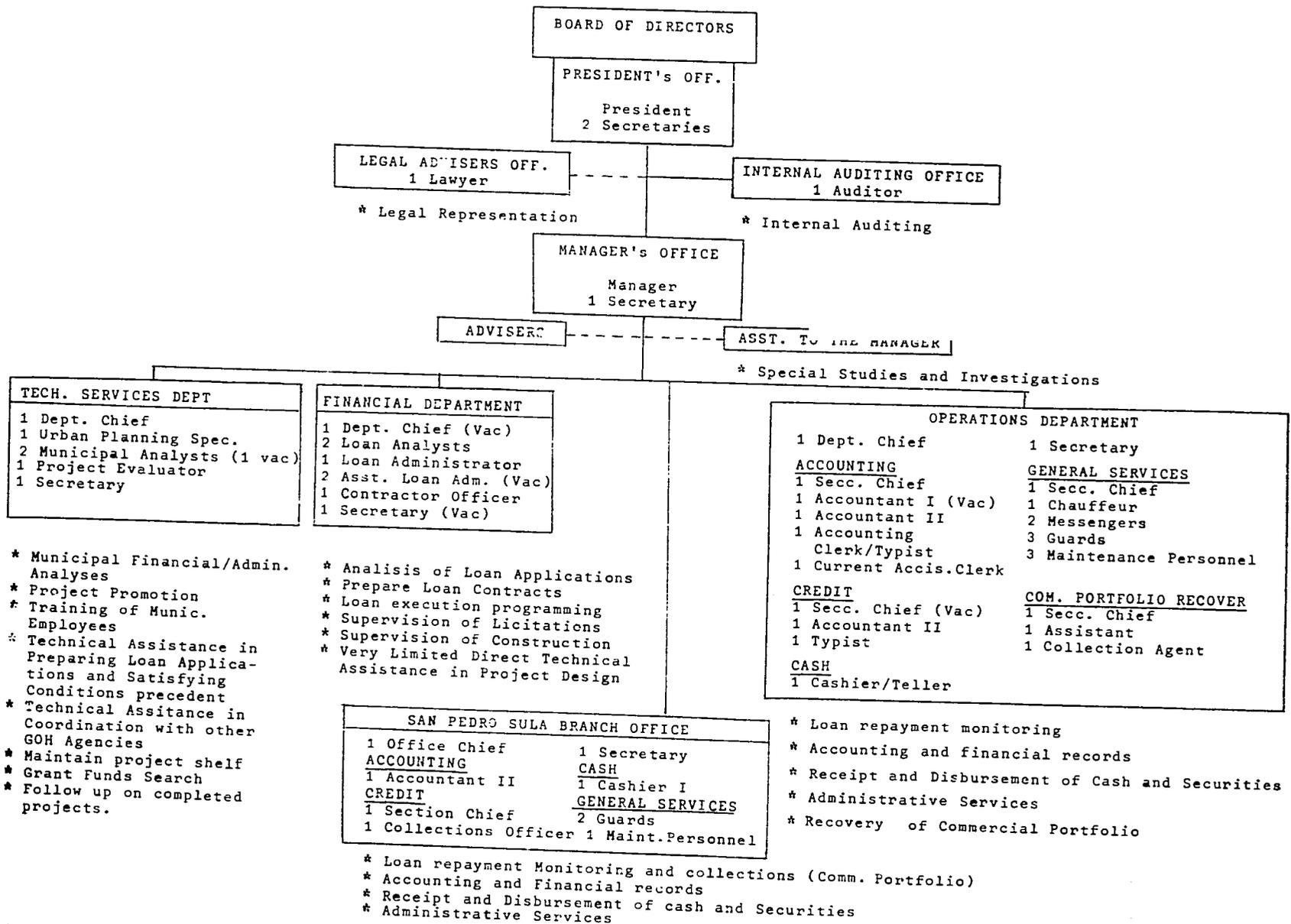
Mr. Ardón is a professor of the Spanish Language. Among his many publications are basic Spanish texts widely used in Honduras and other Central American countries. During his long career he has served as Director General of Secondary Schools, City Council Member of the Central District and lecturer in the National University. He was a delegate to the Second

Central American Municipal Assembly (El Salvador, 1960) and has served as President and Vice-President of the Central American Intermunicipal Association (1960-61).

José Mario Suazo Osorio

Mr. Suazo has held various positions with the General Direction of Civil Aeronautics. He is presently in charge of the Civil Aeronautics Registry. He has studied air traffic control in the U.S. and Panama.

BANMA - ORGANIZATION PLAN



BIO DATA

NAME: Armando Blanco Paniagua

DATE AND PLACE OF BIRTH: La Ceiba, Department of Atlántida, 10/3/30

CIVIL STATUS: Married

CHILDREN: Three

PROFESSION: Lawyer and Notary

ADDRESS: Colonia Viera, Tegucigalpa, D.C.
Tel 22-6415 (home)
22-8501 (office)

ACTUAL POSITION: President Autonomous Municipal Bank (BANMA)

EXPERIENCE:

- Standard Fruit Co. Fruit Department, Materials and Supplies Assistant, Timekeeper
- La Ceiba, Construction Department
- Ministry of Natural Resources, Land Section, Office of Agrarian Certificates, Assistant
- Ministry of Foreign Affairs, Treaty and International Organizations Section, Assistant
- Dept. of Francisco Morazán, Legal Clerk, Labor Court
- Central Institute, Honduras Institute, Professor, Interim Professor (respectively) in following subjects: Public Finance, Tax Law, Business Law, Principles of Economic Science and Sociology
- Controller General of Honduras, Chief of Legal Dept.
- Controller General, Chief of Secretarial and Admin. Services Dept.
- Ministry of Labor, General Directorate of Labor, Acting Chief
- Attorney General of Honduras, Assistant Public Prosecutor
- District of Yoro, Civil Court Judge and Property Registrar
- Comayagua Dept., Civil Court Judge and Departmental Registrar
- Tegucigalpa, Civil Appeals Court Judge

- Justice of Comayagua Appeals Court
- Tegucigalpa, Director, Legal firm "Blanco Paniagua" (9 years)
- National Autonomous University of Honduras (UNAH), Member of Examining Board for Law School General Examinations

STUDIES:

- Course in Comparative Business Law (Central American Institute for Comparative Law); Tegucigalpa, June, 1972
- Third Course for Post Graduates in Legal and Institutional Problems of Central American Integration; UNAH and Central American Bank for Economic Integration (CABEI)
- Course for Programs on Latin American Political and Economic Organizations; sponsored by International Comparative Legal Teaching Faculty of Stasbourg France; Tegucigalpa, Honduras (1965)
- Course in Legal and Institutional Structures for Integration Processes UNAH; Tegucigalpa, November, 1967
- Inter American Seminar on Municipal Banks; Caracas, Venezuela, March 1972
- National Seminar for High Level Managers of Public Enterprises; Tegucigalpa, 1973
- Course in Civil Law (unions); UNAH, 1972
- Observation visit to Planning Office, Municipal Development Institute; Bogota, Colombia, 1972
- Observation visit, Brazilian Institute for Municipal Administration (IBAM); Rio de Janeiro, 1972
- Visit to Institute for Municipal Development and Assistance; San Jose, Costa Rica
- Visit to National Institute for Municipal Development (INPON) and National Institute for Development Administration (INAD); Guatemala, 1972
- Course in Municipal Administration at Technological Institute for Higher Studies; Monterrey, Mexico September, 1972

OTHER ACTIVITIES:

- Member, Tegucigalpa Country Club
- Member, Tegucigalpa Lions Club

CURRICULUM VITAE

Name: Miguel Angel Meña L.

Place and Date of Birth:

Professional Qualifications: Degree in Administration; Public Accountant.

Civil Status: Married.

No. of Children: Three

Address: La Ronda, House No. 12, Tegucigalpa

Primary Studies: 6 years, Esteban Guardiola School La Lima, Cortés.

Secondary Studies: 5 years, San Francisco Institute, Tegucigalpa.

University Studies: 5 years, National Autonomous University of Honduras.

Actual Occupation: General Manager, Municipal Bank.

Prior Experience: Accounting Assistant, National Development Bank (1956).
Auditor in GOH Controller General (1958).
Chief of Audit Department, GOH Controller General (1956-1960).
Assistant Director General of Agriculture (1961).
Internal Auditor for National (Autonomous) Water and Sewer Service (1962-67).
Assistant General Manager of Honduras Electric Materials Inc., MEHSA (1968-71).

Foreign Studies: Budget Administration; Central American Institute of Public Administration (ICAP) San José, Costa Rica.
Administration and Control of Aqueducts; San Juan, Puerto Rico.
Project Evaluation; Inter American Development Bank (IDB), Whashington, D.C.

Other Activities:

Course for Executives; IBM Training Center, Cuernavaca, Mexico.

Foreign Commerce Seminar; Inter American Center for Export Promotion (CIPE), Bogotá, Colombia.

Second Regional Seminar of High Level Management for State Enterprises; (ICAP) San José, Costa Rica.

President, Junior Chamber of Commerce; Tegucigalpa (1964).

President, National Association of Junior Chambers of Commerce of Honduras (1965).

Chief of Delegation, Conference of Junior Chambers of Commerce; Managua (1964).

Chief of Delegation, World Conference of Junior Chambers of Commerce; Oklahoma (1964).

Chief of Delegation, Junior Chamber of Commerce; Panamá (1965).

Director of Junior Chamber of Commerce Conference; Tegucigalpa (1966).

Vice President, Student Association Economic Sciences Department; Tegucigalpa.

Member, Superior University Council; National Autonomous University of Honduras.

Delegation Member, University of Honduras visiting University of Athens, Ohio.

Member of Board, Chamber of Commerce and Industries; Tegucigalpa (1971-73)

Member of Tegucigalpa Country Club.

Member of Rotary Club, Tegucigalpa.

Countries Visited:

Guatemala, El Salvador, Nicaragua, Costa Rica, Panamá, Colombia, Puerto Rico, Mexico, U.S.A.

Awards:

Distinguished Member; Junior Chamber
of Commerce, Tegucigalpa.

Candidate from National Association
of Honduran Junior Chambers of
Commerce for World Vice President,
Junior Chamber of Commerce World
Congress; Sidney, Australia.

Senator, Junior Chamber of Commerce.

BIO DATA

NAME : José Saúl García

NATIONALITY : Honduran

DATE & PLACE OF BIRTH:

CIVIL STATUS : Married

HIGH SCHOOL STUDIES : Public Accountant and Bookkeeping

UNIVERSITY STUDIES : Degree in Economics. Subject of thesis: Analysis of Reforms in the Taxation System in Honduras.

POST-GRADUATE STUDIES: 1. Intensive Basic Course in Project Planning and Evaluation (ECLA, United Nations, Tegucigalpa, Honduras).

2. Human Relations (CCTI, Tegucigalpa, Honduras).

3. Marketing (CCTI, Tegucigalpa, Honduras).

4. Course in Tax Administration (ICAP, United Nations, San José, C. R.).

5. Course in Financing for Economic Development, (CEMLA, México).

6. Course in Analysis of Financial Policy, (International Monetary Fund, Washington, D.C.).

7. Seminar on High Level Management, (CCTI, SPS, Honduras).
8. Seminar on Capital Markets (Secretariat of the C.A. Monetary Council, SIECA, CABEI, OAS, and Central Bank, Tegucigalpa, Honduras).
9. Seminar on Loan Administration (Interamerican Development Bank, Tegucigalpa, Honduras).

EXPERIENCE

1. Accountant, Fábrica de Ladrillos y Tubos de Cemento "La Hondureña" and Honduras Grava, S.A. Tegucigalpa, D.C.
2. Chief, Income and Expenditures Section, General Accounting Office of the Republic, Ministry of Economy and Finance
3. Chief, Public Debt Section, General Accounting Office of the Republic, Ministry of Economy and Finance.
4. High School Professor, Tegucigalpa, D.C.
5. Associate Professor, School of Economics National Autonomous University of Honduras (UNAH), Tegucigalpa, D.C.
6. Professor, School of Economics, National Autonomous University of Honduras (UNAH), Tegucigalpa, D.C.
7. Analyst, Technical Advisor Group, Ministry of Economy and Finance.

8. Assistant Chief, Technical Advisory Group, Ministry of Economy and Finance.
9. Chief, Technical Advisory Group, Ministry of Economy and Finance.
10. General Coordinator, Commission for the Restructuring of the Central District Council, Tegucigalpa, D.C.
11. Chief, Stock Market Program, Central Bank of Honduras, Tegucigalpa, D.C.

PRESENT POSITION : 12. Economist in Project Planning, Administration of IDB Loan No. 291/SF-HO. Executive Unit Ministry of Communication, Public Works and Transportation

PARTICIPATION IN INTERNATIONAL MEETINGS: Assistant Chief, GOH Delegation to the XIII Meeting of ECLA, Lima Perú

Note: Mr. Garcia has been hired by BANMA as chief of the Technical Services Department and will begin his job on May 1, 1974.

BIO DATA

Name : Efraín López Padilla

Civil Status : Married

Date of Birth :

Residence :

Secondary Studies : 1957, Diploma as Public Accountant from Héctor Pineda Ugarte Institute.

University Studies : 1963, Degree in Economic Sciences, National Autonomous University of Honduras (UNAH), Tegucigalpa.

Post Graduate Studies: Human Relations, Dale Carnegie Inst.; High Level Management, San Pedro Sula Chamber of Commerce; Industrial Projects, Technical Industrial Cooperative Center; High Level Management, School of Public Administration, Costa Rica; Professor and Inspector for three semesters in various subprojects for Northern Regional University Center (UNAH).

Languages : English reading - fair.

Professional Experience :
1. Municipal audit and administration; 1957-62
2. Chief, Department of Loans and Securities, Municipal Bank; 1963-62.
3. Manager, San Pedro Sula Branch, Municipal Bank; 1968-73.
4. Chief of Operations, Municipal Bank; 1974

BANMA OUTSTANDING LOANS, DIRECT OR GUARANTEED, BY TYPE OF BORROWERS, AND RELATIONS

WITH THE PRIVATE SECTOR

1962 - 1972 (000's of Lempiras)

	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971	1972
Total BANMA Loans, direct or guaranteed ^{1/}	688	1,279	5,373	5,682	5,990	6,892	7,217	7,081	7,070	8,064	7,562
Total Municipal Loans	682	1,245	5,336	5,511	5,295	5,309	5,024	4,476	4,044	5,086	5,094
BANMA Direct Municipal Loans	670	925	2,124	2,703	2,869	2,246	1,859	1,964	1,563	1,568	1,353
Municipal Loans as a % of Total Loans	99	97	99	97	88	77	70	63	57	63	67
Loans to Private Sector ^{1/}	6	34	37	171	695	1,583	2,193	2,605	3,026	2,978	2,468
Private Sector Loans as a % of Total Loans	1	3	1	3	12	23	30	37	43	37	33
BANMA Private Sector Liabilities ^{2/} (Deposits and Loan Guarantees)	487	649	3,610	3,189	2,831	3,694	4,325	3,887	4,224	5,750	6,074
Net Transfer from Private Sector	481	615	3,573	3,018	2,136	2,111	2,132	1,282	1,198	2,772	3,606

^{1/} Does not include investment in short-term Central Government bonds or deposits in banks; does include all municipal and private sector lending.

^{2/} Includes autonomous institutions.

SOURCE: Central Bank of Honduras.

BANMA MUNICIPAL BONDS, 1962 TO 1973 - AMOUNT EMITTED, AMOUNT AMORTIZED, AND PERIODS OF DELINQUENCY, COMPARISON OF SITUATION OF 9/21/72 AND ON 3/1/74, (000's of Lempiras)

	<u>Situation on</u> <u>9/21/72</u>	<u>Situation on</u> <u>3/1/74</u>
Amount of Bonds Emitted	8,645	10,865 <u>1/</u>
Amount Amortized	3,308	7,175 <u>2/</u>
Amortized as % of Loans Made	38.2	66.0
Amount Delinquent, Total	803	700 <u>3/</u>
Delinquent as % of Emitted	9.3	6.4
Amount Delinquent, 0-6 mos.	87	40
0-6 Mos. as % of Emitted	1.0	0.3
Amount Delinquent, 7-12 mos.	151	75
7-12 Mos. as % of Emitted	1.7	0.6
Amount Delinquent, 12 + mo.	565	585
12 + Mos as % of Emitted	6.5	5.4

1/ Includes 1973 bond emission of L.1,869,000 for San Pedro Sula airport.

2/ Includes L.3,409,000 of San Pedro Sula airport debt assured by Central Government.

3/ Does not include L.528,175 of delinquency recently refinanced; does include L.260,000 about to be refinanced.

SOURCE: BANMA

STATUS OF COMMERCIAL PORTFOLIO

A. <u>Recoveries to date</u>	1972 (year)	1973 (year)	1974 (1st. 3 months)
Balance - beginning of period	\$1,436	\$1,230	\$ 752
Collections during period	206	323	156
Written off during period	-	155	37
Balance - End of period	\$1,230	\$ 752	\$ 559

B. <u>Recoveries Projected</u>	1974 (last 9 mos)	1975	1976
Balance - beginning of period	\$ 559	\$ 459	\$ 209
Collections anticipated during period	100	250	209
Balance - End of period*	\$ 459	\$ 209	-

* No additional write - offs anticipated

SOURCE: Memos from BACMA dated 1/2/74 and 4/17/74

ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-POLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT (\$)	MUNICIPAL CONTRIBUTION (\$)	TOTAL BANMA INVESTMENT
				A	B	C	D		AID LOAN	OWN FUNDS 1/			TOTAL (\$)
SAN PEDRO SULA REGION:													
1. Puerto Cortés Department of Cortés	X				X			Potable water	74		277,680	41,650	236,030
					X			Sanitary sewerage*		NP	1,091,350	163,700	927,650
				X				Market	74		394,237	60,000	334,237
				X				Slaughterhouse	76		83,600	12,540	71,060
							X	Storm Sewerage and Paving*		NP	1,122,500	168,375	954,125
							X	Land Fill*		NP	400,000	60,000	340,000
2. El Progreso, Dept. of Yoro	X							Municipal Cada-	74		36,000	7,250	28,750
								ster					
					X			Potable water	74		375,000	56,250	318,750
				X	X			Sanitary Sewerage		74	265,000	39,750	225,250
				X				Market	74		300,000	45,000	255,000
			X	Slaughterhouse	75		83,600	12,540	71,060				
				Storm Sewerage and Paving		74	103,500	15,525	87,975				

* Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

1/ NP = Not programmed

UNCLASSIFIED

AID-D/C/P-2026
 Annex XII
 Table 1
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ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-POLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT (\$)	MUNICIPAL CONTRIBUTION (\$)	TOTAL BANMA INVESTMENT
				A	B	C	D		AID LOAN	OWN FUNDS			TOTAL (\$)
										1/			
3. Tela, Department of Atlántida							X	Municipal Cada-					
							X	ster	74		70,640	10,596	60,044
		X						Cementery		76	42,000	6,300	35,700
						X		Potable water*		76	250,000	37,500	212,500
				X				Sanitary Sewerage*		NP	175,000	26,250	148,750
4. Quimistán, Department of Santa Bárbara								Market	75		225,000	33,750	191,250
							X	Storm Sewerage and Paving*			375,000	56,250	318,750
							X	Municipal Cada-		NP			
		X						ster	74		27,325	4,099	23,226
5. Santa Bárbara, Dept. of Santa Bárbara								Potable Water		74	9,700	1,455	8,245
								Sanitary Sewerage		74	48,500	7,275	41,225
						X		Municipal Cada-	75		5,250	787	4,462
	X						ster	75		14,700	2,208	12,512	

* Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

1/ NP = Not programmed

ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-POLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT (\$)	MUNICIPAL CONTRIBUTION (\$)	TOTAL BANMA INVESTMENT
				A	B	C	D		AID LOAN	OWN FUNDS 1/			TOTAL (\$)
6. Choloma, Department of Cortés.			X		X					32,500	4,875	27,625	
						X		75	75	44,000	6,600	37,400	
							X		76	12,600	1,890	10,710	
7. Villanueva, Department of Cortés			X		X			74		19,720	2,958	16,762	
						X			75	91,200	13,680	77,520	
							X		NP	1,012,000	151,800	860,200	
8. San Manuel, Department of Cortés			X						NP	36,000	5,400	30,600	
9. Trinidad, Department of Santa Bárbara									74	71,000	11,000	60,000	
			X		X			75		25,000	3,750	21,250	
						X			75	125,000	18,750	106,250	
						X			NP	12,500	1,875	10,625	

* Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

1/ NP = Not programmed

ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-POLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT (\$)	MUNICIPAL CONTRIBUTION (\$)	TOTAL BANMA INVESTMENT
				A	B	C	D		AID LOAN	OWN FUNDS			TOTAL (\$)
										1/			
10. Colinas, Department of Santa Bárbara			X		X			Sanitary Sewerage Slaughterhouse	74	75	40,000 17,500	6,000 2,625	34,000 14,875
11. Cooperative San Pedro Sula				X				Construction Equipment	74		209,642	31,447	178,200
12. Cooperative El Progreso				X				Construction Equipment	74		86,706	13,006	73,700
13. Cooperative Santa Bárbara				X				Construction Equipment	75		155,294	23,294	132,000
TOTAL SAN PEDRO SULA REGION													
<u>LA CEIBA REGION:</u>													
1. La Ceiba, Department of Atlántida	X				X	X		Potable Water Sanitary Sewerage	75	NP	500,000 375,000	75,000 56,250	425,000 318,750

* Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

1/ NP = Not programmed

ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-FOLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT (\$)	MUNICIPAL CONTRIBUTION (\$)	TOTAL BANMA INVESTMENT
				A	B	C	D		AID LOAN	OWN FUNDS			TOTAL (\$)
										1/			
2. Olanchito, Department of Yoro					X			Transport Terminal Market	76		126,000	18,900	107,100
				X				Storm Sewerage and Paving	76		300,000	45,000	255,000
						X		Municipal Cadaster		76	240,000	36,000	204,000
							X	Cementery*	74	NP	62,800	12,420	70,380
							X				42,000	6,300	35,700
					X		X	Potable Water	76		175,000	26,250	148,750
							X	Sanitary Sewerage		NP	79,500	11,925	67,575
3. Trujillo, Department of Colón								Electric Power	75		15,000	2,250	12,750
						X		Storm Sewerage and Paving*		NP	306,000	45,900	260,100
							X	Municipal Cadaster	74		38,605	5,791	32,814
					X		X	Potable Water		75	5,500	825	4,675
			X	Sanitary Sewerage		75	10,395	1,559	8,836				

* Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

1/ NP = Not programmed

ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-POLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT (\$)	MUNICIPAL CONTRIBUTION (\$)	TOTAL BANMA INVESTMENT
				A	B	C	D		AID LOAN	OWN FUNDS 1/			TOTAL (\$)
4. Yoro, Department of Yoro				X	X			Market School*	75	NP	200,000	30,000	170,000
						X		Storm Sewerage and Paving		76	21,000	3,150	17,850
							X	Municipal Cadaster	74		273,000	40,930	232,050
	X				X			Sanitary Sewerage Municipal Cadaster		76	11,405	1,711	9,694
5. San Esteban, Department of Olancho		X						Sanitary Sewerage Municipal Cadaster	75		40,000	6,000	34,000
6. Guanaja, Department of Islas de la Bahía				X				Market Slaughterhouse		NP	9,450	1,417	8,032
				X						NP	30,000	4,500	25,500
7. Sonaguera, Department of Colón			X		X			Potable Water		75	12,500	1,875	10,625
8. Cooperative Tela La Ceiba					X			Electric Power	75		55,677	8,352	47,325
				X				Construction Equipment	74		27,500	4,125	23,375
											186,353	27,953	158,400

* Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

1/ NP = Not programmed

ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-POLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT (\$)	MUNICIPAL CONTRIBUTION (\$)	TOTAL BANMA INVESTMENT
				A	B	C	D		AID LOAN	OWN FUNDS ^{1/}			TOTAL (\$)
9. Cooperative Olanchito-Trujillo				X				Construction Equipment		NP	155,294	23,294	132,000
TOTAL LA CEIBA REGION.....													2,596,795
CHOLUTECA REGION:													
1. Choluteca, Department of Choluteca	X				X	X		Potable Water		NP	200,000	30,000	170,000
				X	X			Sanitary Sewerage* Market	75	NP	145,000	21,750	123,250
				X				Slaughterhouse	75		225,000	33,750	191,250
					X			School*		NP	83,600	12,540	71,060
						X		Storm Sewerage and Paving			65,000	9,750	55,250
2. San Lorenzo, Department of Valle		X		X				Sanitary Sewerage		75	210,000	31,500	178,500
						X		Storm Sewerage and Paving		75	75,000	11,250	63,750
										76	270,000	40,500	229,500

* Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

^{1/} NP = Not programmed

ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-POLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT (\$)	MUNICIPAL CONTRIBUTION (\$)	TOTAL BANMA INVESTMENT
				A	B	C	D		AID LOAN	OWN FUNDS			TOTAL (\$)
										1/			
3. San Marcos de Colón,; Department of Choluteca.		X		X				75		50,000	7,500	42,500	
4. Cooperative Choluteca				X				75		128,117	19,217	108,900	
5. Cooperative San Lorenzo and Valle				X					NP	155,294	23,294	132,000	
TOTAL REGION OF CHOLUTECA.....												1,257,287	
SANTA ROSA DE COPAN REGION													
1. Santa Rosa de Copán, Department of Copán	X			X	X			74	75	150,000	22,500	127,500	
				X				74		225,000	33,750	191,250	
					X				NP	180,000	27,000	153,000	
						X		74		22,240	3,336	18,904	

Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

NP = Not programmed

ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-POLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT (\$)	MUNICIPAL CONTRIBUTION (\$)	TOTAL BANMA INVESTMENT
				A	B	C	D		AIF LOAN	OWN FUNDS 1/			TOTAL(\$)
2. Gracias, Department of Lempira		X			X			X	Potable Water Municipal Cadas-ter	74	32,500	4,875	27,625
3. Nueva Ocotepeque, Department of Ocotepeque		X						X	Municipal Cadas-ter	75	18,665	2,800	15,865
4. Copán Ruinas, Department of Copán			X		X				Sanitary Sewerage	76	40,000	6,000	34,000
				X	X				Electric Power	74	31,325	4,700	26,625
5. San Jerónimo, Department of Copán			X		X				Market	74	50,000	7,500	42,500
6. Cooperative Santa Rosa de Copán				X					Potable Water	74	15,500	11,500	4,000
				X					Construction Equipment	75			
TOTAL SANTA ROSA DE COPAN REGION.....											154,000	23,100	130,900

* Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

1/ NP = Not programmed

ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-POLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT (\$)	MUNICIPAL CONTRIBUTION (\$)	TOTAL BANMA INVESTMENT
				A	B	C	D		AID LOAN	OWN FUNDS 1/			TOTAL (\$)
COMAYAGUA REGION:													
1. Comayagua, Department of Comayagua	X				X			Potable Water* Sanitary Sewerage* Municipal Cadaster	74	NP NP	150,000 100,000	22,500 15,000	127,500 85,000
					X		X						
2. Siguatepeque, Department of Comayagua		X						Sanitary Sewerage Market Slaughterhouse Storm Sewerage and Paving* Parks* Municipal Cadaster Children's Feeding Center	76 76	75 NP NP	75,000 32,500 44,000	11,250 4,875 6,600	63,750 27,625 37,400
				X	X								
				X									
						X							
							X						
3. Marcala, Department of La Paz	X							Storm Sewerage and Paving	74	NP	146,562	21,987	124,575
						X							
										74	65,100	9,765	55,335

* Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

1/ NP = Not programmed

ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-POLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT (\$)	MUNICIPAL CONTRIBUTION (\$)	TOTAL BANMA INVESTMENT
				A	B	C	D		AID LOAN	OWN FUNDS			TOTAL (\$)
										1/			
4. La Paz, Department of La Paz					X			Storm Sewerage and Paving	75		12,500	1,875	10,625
							X	Municipal Cadaster	74		5,250	787	4,462
			X	X				Agric.Storage Facility	75		15,000	2,250	12,750
					X			Sanitary Sewerage		75	10,000	1,500	8,500
					X			Bridge	75		5,000	750	4,250
5. La Esperanza and Intibucá, Department of Intibucá							X	Municipal Cadaster	74		14,345	2,151	12,193
		X					X	Municipal Cadaster	75		10,500	1,575	8,925
6. Cooperative Comayagua				X				Construction Equipment	74		166,941	25,041	141,900
7. Cooperative La Esperanza-Marcala				X				Construction Equipment		NP	94,470	14,170	80,300
TOTAL COMAYAGUA REGION..												1,455,517	

* Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

1/ NP = Not programmed

ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-POLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT (\$)	MUNICIPAL CONTRIBUTION (\$)	TOTAL BANMA INVESTMENT	
				A	B	C	D		AID LOAN	OWN FUNDS			TOTAL (\$)	
										1/				
JUTICALPA REGION:														
1. Juticalpa, Department of Olancho	X				X			Potable Water	75		105,000			
					X			Sanitary Sewerage		75	115,000	22,500		127,500
				X				Slaughterhouse	75		44,000	17,250		97,750
						X		Storm Sewerage and Paving				6,600		37,400
					X			School*		NP	267,750	40,162		227,587
2. Catacamas, Department of Olancho		X					X	Municipal Cadaster	74	NP	42,000	6,300	35,700	
					X			Sanitary Sewerage		75	27,325	4,098	23,226	
						X		Storm Sewerage and Paving*		NP	37,500	5,625	31,875	
3. Cooperative Juticalpa							X	Municipal Cadaster	74		501,000	75,150	425,850	
				X				Construction Equipment			14,345	2,150	12,195	
TOTAL JUTICALPA REGION.....														
										NP	166,941	25,041	141,900	
											1,160,982			

* Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

1. NP = Not programmed

ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-POLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT (\$)	MUNICIPAL CONTRIBUTION (\$)	TOTAL BANMA INVESTMENT
				A	B	C	D		AID LOAN	OWN FUNDS 1/			TOTAL (\$)
DANLI REGION:													
1. Danli, Department of El Paraíso	X			X	X			Potable Water* Market	75	NP	150,000	22,500	127,500
				X				Slaughterhouse	75		225,000	33,750	191,250
						X		Storm Sewerage and Paving			44,000	6,600	37,400
							X	City Hall Building*		75	525,000	78,750	446,250
							X	Parks*		NP	144,000	21,600	122,400
							X	Municipal Cadaster		NP	65,625	9,844	55,781
2. El Paraíso, Department of el Paraíso	X				X			Potable Water	74		22,240	3,336	18,904
					X			Sanitary Sewerage		75	100,000	15,000	85,000
				X				Slaughterhouse	74	75	65,000	9,750	55,250
						X		Municipal Cadaster	74		44,000	6,600	37,400
										11,405	1,711	9,694	

Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

1/ NP = Not programmed

ILLUSTRATIVE LIST OF PROJECTS FOR WHICH FINANCING MAY BE REQUESTED FROM BANMA

REGION AND MUNICIPALITY	POLE	SUB-POLE	OTHER	PRIORITY CLASS				TYPE OF PROJECT	DATE LOAN APPLICATION EXPECTED AND FINANCING SOURCE		TOTAL COST OF PROJECT	MUNICIPAL CONTRIBUTION	TOTAL BANMA INVESTMENT
				A	B	C	D		AID LOAN	OWN FUNDS			TOTAL
3. Yuscarán - Department of El Paraíso.		X			X		X	Sanitary Sewerage Municipal Cadas-ter		75	67,500	10,125	57,375
4. Cooperative Danlí				X				Construction Equipment	74		4,410	661	3,748
TOTAL DANLI REGION.....									74		134,588	20,188	114,400
TEGUCIGALPA REGION:													
1. Talanga, Department of Francisco Morazán		X		X				Market Municipal Cadas-ter	74		100,000	15,000	85,000
2. Cooperative Tegucigalpa				X				Construction Equipment	75		12,600	1,890	10,710
									75		221,294	33,194	188,100
												1,267,790	

Projects that will be financed by other agencies with own funds or with loans being negotiated; in case these loans are not granted, the projects will be considered for financing by BANMA.

NP = Not programmed

USE OF TECHNICAL ASSISTANCE, TRAINING, AND EQUIPMENT LOAN FUNDS

A. Technical Assistance

It is presently planned to provide loan funded technical assistance to the BANMA and participating municipalities as follows:

1. Capital projects advisor 3 years at \$25 ,000	\$ 75,000
2. Equipment Advisor and Regional Cooperative Supervisor - 2 years at \$30,000 per year	60,000
3. Cadaster Advisor - 1 year at \$40,000 per year	40,000
4. Marketing Advisor - 1 year at 30,000	30,000
5. Short Term Advisors	95,000
6. Project Evaluation and Auditing	<u>100,000</u>
	<u>\$400,000</u>

B. Training

Training will be provided to BANMA employees and Municipal employees and officials as follows:

1. Training courses for municipal employees and officials - travel, per diem costs for participants and fees and expenses for course instructors	\$110,000
2. Short term training for BANMA personnel in U.S. or third countries	25,000
3. Long term training for selected BANMA personnel	<u>15,000</u>
	<u>\$150,000</u>

C. Equipment

Equipment and office improvements are estimated to include the following items:

1. Four jeep type vehicles and spare parts	\$ 20,000
2. Desk, adding machines, typewriters and calculators	8,500
3. Bank accounting machines	7,500
4. Telephone system	4,000
5. Miscellaneous	<u>10,000</u>
	<u>\$ 50,000</u>

SUMMARY OF CREDIT POLICY
HONDURAN MUNICIPAL BANK (BANMA)

CREDIT POLICY:

1. General Orientation:

Once a project is declared eligible for financing in accordance with the financial policy, the Bank will attempt to develop a financing plan that will maximize the income potential for the municipality, within the limits of the credit policy.

2. Based on an appropriate feasibility study, the Bank will determine the repayment period, interest rate, and counterpart requirements so as to provide the municipality with a net return of 10%/year on its investment.
3. Assuming an interest rate of 10% and a counterpart contribution of 15%, the repayment period will be extended to the point of satisfying the return criteria. In no case may this period exceed 15 years for class A projects or 10 years for others.
4. If adjusting the repayment period does not allow the project to meet the return criteria, the interest rate will be lowered, assuming the maximum repayment period, until the project does meet that criteria. In no case may it be lowered to less than 4% for class A projects, 5% for class B, 6% for C and 7% for class D projects. Any interest rate of less than 6% must be justified by showing that a higher rate would result in undue economic hardship for the municipality and/or for the consumers of the service. If this cannot be shown, the Bank may require an increase in service charges as a sub-loan precondition.
5. If lowering the interest rate has still not allowed the project to meet the return criteria, the Bank may require a larger counterpart requirement. Raising the counterpart requirement in increments of 5%, the feasibility will be recalculated to see if the project would meet the return criteria. In no case would the counterpart requirement exceed 30% for class A projects, 40% for class

B, 50% for class C and 60% for class D.

6. If the project still does not meet the return criteria, the Bank may require:
 - a) Liens on property or other acceptable guarantees over and above those normally required; and/or
 - b) Deposit in a special account of part or all of the net income from other services to cover the expected shortfall.
7. The period of grace extended by the Bank will cover the time programmed for execution of the project, but in no case more than 18 months.
8. A one percent commission will be charged on direct loans.
9. The Bank will make no loan which would raise to more than 20% of the total portfolio the loans extended to any one municipality.

SUMMARY OF FINANCIAL POLICY
HONDURAN MUNICIPAL BANK (BANMA)

FINANCIAL POLICY:

1. **Orientation of the Policy:**

BANMA will develop and keep updated an investment program which reflects the role the GOH has assigned to the Bank in promoting the development of Honduras.

2. Investments will be concentrated in regions of high potential agricultural productivity. BANMA will finance projects as specified in the five-year Development Plan. In the absence of specific orientation in the plan, the regional distribution of investments will roughly follow the trend of all government investments, calculated on a regional basis.
3. During the years 1974-78, BANMA will concentrate investments in the polar and subpolar counties except the urban areas of Tegucigalpa and San Pedro Sula. These 27 counties are identified in various documents of the National Planning Council. Based on projections of available capital, the following distribution will be observed:

	N	BANMA Resources	AID Loan Program	TOTAL
Ia. Urban/Industrial poles (Teg. and SPS)	2	30%	--	10%
Ib. Agricultural service poles	6	30%	45%	40%
II. Agricultural service subpoles	21	30%	45%	40%
III. Other municipalities	254	10%	10%	10%
T O T A L	283	100%	100%	100%

4. BANMA will give priority to those projects which improve the income and welfare of the low-income Honduran and whose area of influence extends beyond the county seat serving the rural areas of the county, subregion, and region.
5. Investments will be concentrated on projects most closely related to the development of the agricultural sector. The following classification of projects has been adopted:
- A. Projects that directly improve the efficiency of the production and distribution of agricultural products.

These include: public markets, storage facilities for agricultural products, slaughterhouses, access roads to areas of high agricultural production, road construction and maintenance equipment, irrigation systems.

- B. Projects that indirectly improve the efficiency of the production and distribution of agricultural products. These include: potable water systems, sanitary sewerage, electrical energy, preparation of industrial sites, transport terminals, health centers, rural schools.
- C. Projects having marginal effects on agricultural productivity. These include: street paving, storm sewers, shopping centers.
- D. Other projects. These include: garbage collection equipment, fiscal cadasters, cemeteries, city halls, recreational facilities, tourism projects, technical and professional services.

All of the projects in classes A and B will be eligible for financing under the A.I.D. loan. Likewise fiscal cadasters (class D).

The distribution of these projects in BANMA's overall lending will follow the following orientation:

Class A	40-50%
Class B	30-40%
Class C	10-30%
Class D	0-15%

- 6. The above policies will be treated in all municipal analysis and sub-loan approval documentation.

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DIRECCION CABLEGRAFICA
"BANMA"

BORRADOR

REGLAMENTO DE LA APROBACION DE PRESTAMOS

T I T U L O I

ELEGIBILIDAD DE LAS MUNICIPALIDADES

C A P I T U L O I

REQUISITOS BASICOS

Artículo 1.- Serán elegibles de recibir asistencia financiera del Banco, las Municipalidades que cumplan con los siguientes requisitos básicos:

- _____ Muestren en sus operaciones, una responsabilidad administrativa-financiera, aceptable para el Banco.
- _____ Cuenten con un buen sistema de recaudación de impuestos, que produzcan recaudaciones lo suficientemente altas, de las posibles rentas Municipales.
- _____ Tengan actualizado un plan integral de desarrollo aceptable para el BANMA.
- _____ Esten al día con sus obligaciones ante el BANMA, o que se comprometan ponerse al día al momento de firmar el contrato de préstamo.
- _____ Reúnan otros criterios, que el BANMA decida aplicar a su juicio.

Artículo 2.- El Banco determinará la elegibilidad de cada Municipalidad cliente potencial a través de un análisis Municipal.

C A P I T U L O I I

LOS ANALISIS MUNICIPALES

Artículo 3.- A través del análisis sistemático de la administración de las operaciones y del estado financiero de la Municipalidad se determinará el grado de cumplimiento con los requisitos básicos.

También establecerá lo "máximo" que la Municipalidad podrá amortizar para cancelar sus deudas y por lo tanto hasta que máximo estimado se lo podrá prestar. Asimismo establecerá también el tipo de entrenamiento que necesitará el personal Municipal, para poder realizar sus funciones con precisión y rapidez, así como para organizar y administrar un proyecto de servicios Municipales. Finalmente, establecerá las precondiciones con que la Municipalidad debe cumplir para establecer su elegibilidad.

Artículo 4.- El Departamento de Servicios Técnicos del Banco realizará el primer análisis Municipal dentro de tres meses de recibir la primera solicitud de préstamo de una Municipalidad. El Banco podrá antes de realizar el análisis aprobar y desembolsar sobre el primer préstamo solicitado.

Asimismo el Gerente podrá prolongar el plazo en que el Banco realizará el análisis si la disponibilidad del personal lo hace necesario.

Artículo 5.- Cuando es posible, se realizará el primer análisis Municipal, como parte del programa de elaboración de los planes integrales de desarrollo que lleva a cabo el Ministerio de Obras Públicas.

Artículo 6.- El Banco estará actualizando periódicamente los análisis Municipales en lapsos no mayores de 5 años. Sin embargo el BANMA podrá actualizar el análisis Municipal lo mas pronto posible, al ocurrir cualquiera de los siguientes factores:

1. Cuando la Municipalidad cae en morosidad por mas de 3 meses, en la amortización y pago de intereses sobre un préstamo.
2. Cuando a la Municipalidad se le ha prestado hasta lo máximo previamente establecido y quiere realizar proyectos adicionales (siempre que esté al día en el pago de todas sus obligaciones financieras ante el BANMA).
3. A petición de la Municipalidad, cuando lo justifique la aprobación e inclusión de proyectos en el Plan Nacional o Regional de Desarrollo.
4. Cuando los ingresos Municipales aumentan o disminuyen drásticamente (en un 30%), en relación con el año anterior.

C A P I T U L O III

LA RESPONSABILIDAD ADMINISTRATIVA Y FINANCIERA DE LAS MUNICIPALIDADES

Artículo 7.- Con el propósito de evaluar el "Mérito de Crédito" de la Municipalidad, el Banco reserva el

derecho de examinar los libros, documentos, plantas, y métodos, prácticas administrativas o realizar otras investigaciones que fueren necesarios para permitir que él según los criterios que estime convenientes, determine el grado de la responsabilidad administrativa y financiera de la Municipalidad.

Artículo 8.- Como mínimo entrarán como criterios los siguientes factores:

1. La educación, capacitación y experiencia del personal Municipal, tanto de funcionarios como de empleados.
2. La organización administrativa de la Municipalidad y la eficiencia con que realiza sus operaciones.
3. El monto de los ingresos ordinarios y extraordinarios de las Municipalidades, comparado con las posibles rentas.
4. El funcionamiento y estado del sistema contable.
5. El manejo y administración de los servicios públicos que presta al pueblo.
6. La organización y contenido de las actas, ordenanzas y legislación Municipal.
7. La operación y resultados de los proyectos financiados anteriormente por el BANMA, otra institución financiera, o casa comerciales.
8. El número de reuniones de la Corporación Municipal abiertas al público y el número promedio de personas que asisten a las reuniones.

- Artículo 9.- El Banco, después de realizar el análisis Municipal informará por escrito a la Municipalidad que ha sido declarado elegible para recibir préstamo del BANMA o en su caso, que deberá implantar medidas correctivas, si se ha notado deficiencias en el manejo administrativo y financiero de la Municipalidad. La implantación de estas medidas será una condición precedente al desembolso sobre el próximo préstamo a la Municipalidad.
- Artículo 10. La Municipalidad informará al Banco cuando haya implantado las medidas correctivas, para que este último haga las investigaciones necesarias para determinar si la Municipalidad ha cumplido la condición precedente que se establecía.
- Artículo 11. El Gerente del Banco, podrá conceder excepciones temporales a las disposiciones de los Artículos 9 y 10 cuando la Municipalidad demuestre suficientes esfuerzos hacia cumplimiento como para ameritarlo.

C A P I T U L O I V

LA RECAUDACION DE LOS IMPUESTOS MUNICIPALES

- Artículo 12. El Banco Municipal requerirá que la Municipalidad este recaudando anualmente un 80% de las posibles rentas municipales, establecidas en el primer análisis Municipal, para ser elegible de recibir préstamo de la Institución.

Artículo 13. Si por diferentes circunstancias las rentas Municipales no alcanzan ese porcentaje estipulado, el BANMA podrá requerir como condición (es) al desembolso sobre un préstamo; uno o mas de los siguientes:

1. Que la Municipalidad establezca una Oficina de Catastro Municipal en forma eficiente.
2. Que la Municipalidad establezca un sistema adecuado de control de impuestos. El sistema administrativo que adopte la Municipalidad para crear los datos y mantenerlos, tendrá que ser aceptado por el BANMA, siempre que aumente el % de las rentas municipales requerido por la Institución.
3. Que la Municipalidad implemente un sistema moderno de cobranza, mande periódicamente y regularmente avisos de pagos a los contribuyentes, que indicarán los impuestos corrientes actuales y los de años anteriores, si debiera a la Municipalidad.
4. Que reduzca, capacite o emplee personal.
5. Que modifique las finanzas y legislación Municipal.
6. Otro que estime conveniente.

Artículo 14. El BANMA no aumentará el monto máximo de préstamos establecidos en el primer análisis Municipal, hasta que la Municipalidad haya logrado ese porcentaje.

Artículo 15. El Gerente del Banco podrá prorrogar hasta por tres años el cumplimiento del Artículo 12.

C A P I T U L O V

PLAN INTEGRAL DE DESARROLLO

Artículo 16. El Banco Municipal, requerirá que la Municipalidad cuente con un plan integral de desarrollo elaborado o aprobado por el Ministerio de Obras Públicas, para ser elegible para recibir préstamo del BANMA.

Artículo 17. El Plan Integral de Desarrollo deberá tener como mínimo 4 partes, que podrán ser desarrolladas en forma separada o de una sola vez. Esas 4 partes serán:

1. Una carpeta de datos básicos sobre el Municipio. Los datos básicos estarán detallados en un instructivo que será elaborado por la Institución.
2. Un esquema general, en forma de plano, indicando el área urbanizada actualmente y la proyectada durante los próximos 5 años y 10 años respectivamente.

Se señalará en el plan; la ubicación actual y la esperada en el futuro de las principales instalaciones Municipales, gubernamentales y privadas y que podrán incluir: Mercados, Mataderos, Centros Comerciales, Plantas Eléctricas, Alcantarillado, La Presa, Escuelas, Cabildo Municipal, Hospitales y Centros de Salud, Campos de Recreo y Diversiones, Parques Industriales, Carreteras, Telégrafo, Presidio y otros.

3. Un Plan de Inversiones que la Municipalidad pretenda realizar en los próximos 10 años; este plan incluirá solamente las inversiones planeadas por el sector público en el Municipio.
4. Un plan regulador, por el cual se regulará el desarrollo del Sector privado. Esto incluirá por lo menos, la política que se aplicará para el buen uso de la tierra, adaptado por la Corporación Municipal y otros Instrumentos que le fueren necesarios, para poner en práctica esa política, como ser una ordenanza de zonificación.

Artículo 18. Este Plan Integral de Desarrollo que se requerirá de las Municipalidades, tendrá que presentarse dentro de los 3 años después de la fecha del primer análisis Municipal.

Artículo 19. El Gerente del Banco podrá prorrogar el cumplimiento de este requisito hasta por dos años adicionales.

Artículo 20. El BANMA no aumentará el monto máximo de préstamos establecido en el primer análisis Municipal, hasta que la Municipalidad haya presentado el Plan Integral de Desarrollo.

C A P I T U L O V I

EXCEPCIONES

Artículo 21. El Gerente del Banco podrá temporalmente exceptuar de los requerimientos establecidos en los capítulos III, IV y V las Municipalidades en

donde su cumplimiento requerirá recursos administrativos y financieros que no están al alcance de la Municipalidad.

T I T U L O II

APROBACION DE PROYECTOS

C A P I T U L O I

ELABORACION Y PRESENTACION DE SOLICITUDES

- Artículo 22. La responsabilidad de la elaboración y presentación de solicitudes para préstamo queda con las corporaciones municipales, consejos distritales, y Juntas Directivas de las asociaciones intermunicipales. Estos deberán haber cumplido los requisitos establecidos para ser elegible para recibir préstamos conforme Artículo 9 de este reglamento excepto en caso de la primera solicitud o las exenciones especiales que se ha previsto en Artículos 11, 15, 19 y 21.
- Artículo 23. El Departamento de Servicios Técnicos proveerá asistencia técnica a la Municipalidades Distritales y asociaciones para ayudarlos en la preparación de solicitudes completas y precisas y que satisfagan los requerimientos del Banco según los formularios e instructivos que éste proporcionará. No se aceptará solicitud que no está presentada en los formularios del Banco o copia fotostática de ellos. El Banco podrá rechazar cualquier solicitud que no esté completa en todos sus aspectos.

C A P I T U L O I I

REVISION DE LAS SOLICITUDES

- Artículo 24. Al recibir una solicitud, el Departamento de Servicios Técnicos la revisará para ver si está completa. Si faltan muchos datos o si los datos presentados no permiten que se asigne las prioridades a que se refieren los Artículos 26 y 27 y se devolverá la solicitud a la Municipalidad pidiendo que lo sometan cuando esté completado.
- Artículo 25. El Departamento de Servicios Técnicos revisará la carpeta oficial de la Municipalidad. Esta carpeta contendrá como mínimo:
1. El mas reciente análisis administrativo económico de la Municipalidad.
 2. Historia crediticia de la Municipalidad con el BANMA y con otras instituciones. Podrá contener además,
 3. El Plan Integral de Desarrollo si este ha sido elaborado, y su correspondiente programa de inversiones.
 4. El formulario de la encuesta Municipal mas reciente.
 5. La encuesta de proyectos si fue realizado en la Municipalidad.
- Artículo 26. El Departamento de Servicios Técnicos asignará al proyecto una **prioridad** tentativa de entre las siguientes categorías:

- a) Alta prioridad (proyectos en clase A o B de la política financiera, catastro municipal, o estudio de factibilidad para proyectos en clase A o B).
- b) Mediana prioridad (proyectos en clase C de la política financiera).
- c) Baja prioridad (proyectos en clase D de la política financiera excluyendo catastro municipal o estudios de factibilidad para proyectos de alta prioridad).
- d) Proyectos no elegible para financiamiento del Banco (proyectos que otras instituciones deberían financiar, o de municipalidades personas naturales o jurídicas no elegibles de recibir préstamos del Banco).

Artículo 27. El Departamento de Servicios Técnicos asignará tentativamente el año en que se ha programado el proyecto para ejecución. Esto se basará en los siguientes factores:

- a) La disponibilidad proyectada del BANMA.
- b) La prioridad tentativa asignada al proyecto (excepto en el caso de considerar tentativamente que el proyecto no es elegible para financiamiento del Banco).
- c) La capacidad de endeudamiento adicional de la municipalidad.
- d) El progreso de la municipalidad en cumplir con las condiciones precedentes establecidas por el Banco.
- e) El grado de conformidad del proyecto con las disposiciones de la política Financiera.

Artículo 28. El Departamento de Servicios Técnicos revisará los datos presentados en la solicitud de préstamo. Basado en los datos en la carpeta oficial y los presentados en la solicitud, preparará una lista de posibles precondiciones para desembolso del préstamo solicitado.

Estas precondiciones pueden incluir requerimientos sobre el entrenamiento del personal municipal, las tarifas o cobros a los usuarios, cancelación de deudas pendientes y otros asuntos que puedan mejorar la factibilidad de realizar el proyecto.

Artículo 29. Dentro de diez días de la fecha de recepción de la solicitud presentará a la comisión Técnica del Banco lo exigido por los Artículos 26, 27 y 28 y otros resultados de su análisis preliminar de la solicitud.

Artículo 30. La comisión Técnica en base de la presentación hecha por el Departamento de Servicios Técnicos dará una aprobación inicial al proyecto, si es ameritado confirmando o modificando las prioridades y precondiciones tentativamente asignados por aquel Departamento. El Gerente informará a la Junta Directiva de la recepción de la solicitud y las recomendaciones de Comisión Técnica en su próxima reunión.

Artículo 31. La Junta indicará su autorización para proceder con el análisis del proyecto y la preparación del documento de préstamo, o en su caso señalará sus objeciones al préstamo solicitado.

Artículo 32. El Departamento de Servicios Técnicos notificará a la Municipalidad dentro de los 3 días de su

presentación a la Junta Directiva de la acción tomada por esta última. Informará si hay datos adicionales que el Banco necesita para tomar una decisión final y avisará a la Municipalidad de la llegada proyectada de funcionarios del BANMA para investigar mas a fondo los aspectos del proyecto que necesita mayor estudio.

C A P I T U L O I I I

PREPARACION DE DOCUMENTOS DE PRESTAMO

Artículo 33. Será responsabilidad del Departamento Financiero preparar el documento de préstamo, realizando tales investigaciones que fueren necesarios para comprobar la veracidad de los datos presentados por la municipalidad y para analizar a fondo los aspectos administrativos, económicos y técnicos del proyecto.

Artículo 34. El Documento de Préstamo contendrá como mínimo la siguiente información:

1. El Préstatario
2. Destino de los fondos
3. Ejecutor
4. Monto del Préstamo
5. Condiciones del Préstamo incluyendo plazo, intereses, garantía, forma de pago, plan de desembolsos.
6. Plan financiero del proyecto.

7. Descripción del proyecto
8. Base legal de proyecto
9. Justificación del proyecto
10. Condiciones especiales
 - Previas al primer desembolso.
 - Durante la ejecución del proyecto
 - Durante la vida del préstamo
11. Anexos técnicos

Artículo 35. El Departamento Financiero remitirá copias del Documento de Préstamo a la Gerencia para darle trámite al procedimiento de aprobación final. En caso de ser requerido por otras instituciones como la A.I.D. le remitirá una copia del documento.

Artículo 36. Si el proyecto tiene un valor total menor de L.50,000 y un valor financiable menor de L.25,000 el Gerente podrá aprobarlo.

Artículo 37. Si el proyecto tiene un valor total de L.50,000 o mas o un valor financiable de L.25,000 o mas o si forma parte de un proyecto que a través de varias solicitudes llegare a exceder esos montos la Junta Directiva deberá aprobarlo.

Artículo 38. Cuando se presenta una solicitud al Directorio; el Gerente presentará sus recomendaciones en la misma sesión.

Artículo 39. Al ser aprobado por la Junta Directiva el Departamento Financiero remitirá tres copias del Do-

cumento de préstamo a la Municipalidad.

Artículo 40. La municipalidad devolverá el documento aprobado totalmente o solicitándole las reformas que estime necesarias. Si las reformas son menores serán aprobados por el Gerente. Cualquier reforma que trata de aumentar el monto del préstamo o cambiar en mas del 15% o L.5,000 el que sea mayor, u otras partes del Plan Financiero tendrá que ser aprobado por la Junta Directiva.

Modificación del monto de un préstamo originalmente aprobado por el Gerente tendrá que ser aprobado por la Junta Directiva.

T I T U L O I I I

EJECUCION DEL PROYECTO

C A P I T U L O I

PREPARACION DEL CONTRATO

Artículo 41. Después de recibir la aprobación del documento de préstamo por la municipalidad y en su caso por la A.I.D., el Departamento Financiero preparará el contrato de préstamo. Para este propósito se usará los contratos tipos aprobados por la Junta Directiva.

Artículo 42. El funcionario de contratos y otra persona responsable de la preparación del contrato lo preparará de conformidad con lo estipulado en el documento de préstamo y otros reglamentos del BANMA que tiene pertenencia.

- Artículo 43. Al ser preparado el contrato se lo pasará al Gerente quien llamará a los interesados para proceder a la firma.
- Artículo 44. Se ejecutará el proyecto conforme los requerimientos establecidos a el contrato según los procedimientos que ha establecido el BANMA en los reglamentos que regulan las licitaciones públicas y la supervisión de los proyectos y de acuerdo a los convenios interinstitucionales que puedan tener relevancia.

BALANCE SHEET
BANCO MUNICIPAL AUTONOMO
December 31, 1971

Assets			
Cash - Note A			525,772
Reimbursements receivable - banks			164,852
Loan Receivable - Note B			
Commercial	L 2,791,915		
Municipal	620,791	L 3,412,706	
Less Allowance for Uncollectible loan - Note B		<u>650,000</u>	
		2,762,706	
Employee loans		68,315	2,831,021
Investments in bonds - Note C			
Municipalities	L 1,030,177		
Less provision for uncollectible bonds	<u>500,000</u>	530,177	
Commercial bonds - Note D		<u>445,000</u>	975,177
Advances on Construction - La Mesa Airport - Note E			1,718,271
Overdrafts - Note F			139,213
Interest and Commissions receivable - Note G			197,146
Miscellaneous accounts receivable - Note H			74,484
Fixed Assets - Note I			
Less Allowance for depreciation		L 286,112	
		<u>138,709</u>	147,403
Deferred Charges - Note J			<u>36,127</u>
Total			<u>L6,809,466</u>

The Notes to Financial Statements are an integral part of and should be read in conjunction with this balance sheet

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 ANNEX IV
 Exhibit 1
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STATEMENT OF INCOME
 BANCO MUNICIPAL AUTONOMO
 Year Ended December 31, 1971

	Municipal	Commercial	Total
Revenues:			
Interest earned on loans	1,670	283,578	285,248
Interest earned on investments in bonds	83,410	25,400	108,810
Commissions earned	70,181	20,553	90,734
Miscellaneous revenues			11,163
Total revenue	<u>155,261</u>	<u>329,531</u>	<u>495,955</u>
Provision for Uncollectible loans			<u>110,000</u>
Income before deducting Operating Expenses			385,955
Expenses:			
Interest paid			121,103
Personnel Compensation			298,264
Directors' fees			35,900
Legal expenses			325
Building Rental and maintenance			29,635
Providing for depreciation provisions			26,624
Operating Expenses			71,332
Total Expenses			<u>583,183</u>
Net loss for the period			<u>(197,228)</u>

STATEMENT OF CHANGES IN
ACCUMULATED DEFICIT

BANCO AUTONOMO MUNICIPAL

December 31, 1971

Unadjusted balance - January 1, 1971		270,517
Adjustments increasing deficit:		
Uncollectible overdrafts - 1969 and prior	2,676	
Uncollectible advances to employees - 1969 and prior	371	
Unrecorded depreciation - applicable to prior years	13,779	
Uncollectible travel advances - 1969 and prior	4,896	
Uncollectible small accounts receivable from municipalities - 1969 and prior	1,907	
Uncollectible small commercial accounts receivable - 1969 and prior	648	
Allowance for doubtful accounts - portion applicable to prior years	540,000	
Prior year accrual of severance pay	78,980	
Uncleared advances in repairs to building	1,955	
Allowance for possible losses on municipal bonds	<u>500,000</u>	<u>1,145,212</u>
		1,415,729
Adjustment decreasing deficit - unapplied cost applicable to prior years		<u>300</u>
Adjusted balance - January 1, 1971		1,415,429
Net loss year ended December 31, 1971		<u>197,228</u>
		L 1,612,657

NOTES TO FINANCIAL STATEMENTS

A. Cash presented in the balance sheet is made up of the following items:

Cash on hand:	
Lempiras	131,782
Foreign Currency	<u>37,350</u>
	169,132
Bank accounts -	
Central Bank of Honduras	323,459
Domestic Banks	29,581
Foreign Banks	<u>3,600*</u>
	356,640
Total Cash	<u>525,772</u>

* The records of account of the bank reflect a balance of 112,914, which we have reduced by 109,314 and transferred to the account, "Advances on Construction - La Mesa Airport". The rather large adjustment is due to a difference between the records of the bank and the latest bank statement received from the Chase Manhattan Bank of New York, with whom the account is maintained. The differences are as follows:

Records of BANMA	109,516
Bank Statement from Chase Manhattan Bank (12-31-71)	<u>202</u>
Unaccounted for difference	<u>109,314</u>

We were unable to locate cancelled checks in order to reconcile this account. The latest reconciliation prepared by BANMA was on September, 1968. In the absence of supporting documentation, the unaccounted difference may represent a cash shortage.

We were told by BANMA officials that the unaccounted difference of 109,314 represents fire fighting equipment purchased for the La Mesa Airport. Based on this oral information, we have charged the Airport construction account with the amount in question. It should be observed, however, that should this amount not be applicable to airport purchases, either the current year or accumulated deficit should be increased, thus accounting for the cash shortage.

B. Loans receivable in the amount of L3,412,706 have not been reviewed by bank management with a view toward eliminating from the records (writing off) uncollectible loans. At our request, the bank prepared a schedule of loans receivable, classified by current and past due.

Our analysis disclosed loans receivable to be seriously in arrears, with an average of forty percent (40%) of loan installments past due. As a result of this delinquency rate and in the absence of reliable estimates by bank officials, we established an allowance for doubtful accounts in the amount of 650,000 of which 110,000 was charged against current years operations as an expense and the balance, 540,000, was added to the accumulated deficit. It is important that cognizance be taken that the allowance for doubtful accounts of 650,000 is a rough estimate which might be increased or decreased by bank officials. It is our judgment, however, that the allowance represents a minimum and that any adjustments would probably be upward.

C. In accordance with its charter, the Bank sells and guarantees bonds on behalf of municipalities. Bonds which are not sold are purchased by the bank. As of December 31, 1971, the bank had investments in bonds, carried at acquisition cost of L1,030,177.

It appears that there is no market value for these bonds, inasmuch as only the Central Bank of Honduras and the National Port Authority have been willing to purchase these securities. Therefore, in accordance with its charter the bank sells and guarantees repayment of bonds, on behalf of municipalities. In return for its guarantee, formal agreements are entered into between the bank and municipalities requesting bond issues, whereby municipal revenues or comparable security is pledged to the bank to support its guarantee. Further, these agreements call for municipalities to honor specific amortization installment schedules.

Acting under its charter, the bank has marketed a total of 7,728,900 of municipal bonds, of which more than 5 million is still outstanding. The bank has sold, principally to the Central Bank of Honduras and the National Port Authority, bonds which have outstanding principal amounts of 4.0 million.

Although municipalities have legal obligations to honor their commitments and despite the fact that municipal revenues are pledged to cover bank guarantees, substantial amortization payments are delinquent. At present, the status of bond amortization is as follows:

	<u>Held by BANMA</u>	<u>Held by Others but Guaranteed by BANMA</u>
Installments not due	740,037	3,848,210
Delinquent installments - overdue 3 mos. to five years	<u>290,140</u>	<u>307,490</u>
Total	<u><u>1,030,177</u></u>	<u><u>4,155,700</u></u>

- 3 -

Fully 59 percent of all bond issues have some installments past due, and 33 percent of all issues outstanding have installments past due for periods of six months or more. As a result of the rather high delinquency rate on the part of municipalities, special note should be made of the contingent liability of the bank in the amount of 4,155,700.

In the event substantial defaults occur, the bank's contingent liability could become legal obligations. A schedule of amortization payments through 1974 is presented in Annex G.

In recognition of the present delinquency rate of bonds by the bank (33% of 1,030,177 overdue), we have established an allowance for default in the amount of 500,000, of which the full amount was added to the accumulated deficit and no part was charged against current operations.

D. The bank has invested in the following bonds:

Central Bank of Honduras, Interest rate of 4 per cent	L145,000
Financiera Hondurena, Interest rate of 7 per cent	<u>300,000</u>
	<u>L445,000</u>

E. The bank has entered into a contract with the municipality of San Pedro Sula to issue bonds to finance the La Mesa airport. To date, more than L2,500,000 have been sold under this arrangement. In return for its guarantee, San Pedro Sula has pledged its revenues, including revenues generated from administration of the airport.

Under the contract described immediately above, the bank is authorized to act as Administrator of the La Mesa Airport. Under this arrangement, the bank receives all revenues and disburses all funds from a segregated trust account. As of December 31, 1971, the trust account held a positive balance of 51,878.

The bank has additionally advanced 1,718,271 for airport construction and commodity procurement expenditures. Upon completion of procurement and construction, the bank will attempt to sell bonds to cover funds expended. In the event no buyers for the bonds are found, the bank would have no recourse but to accept the bonds in exchange for funds advanced for airport construction and commodity purchases.

F. Reclassifications were made from various accounts to reflect overdrafts receivable. The bank holds collateral in the form of mortgages on L104,000; the remainder may prove difficult to collect.

G. The bank follows the practice of recording interest and commissions receivable and recognizing such amounts as income for all accounts, current and past due. To the extent that interest and commissions receivable have been recorded for uncollectible accounts, income and assets are thereby overstated. We did not attempt to quantify uncollectible interest and commissions receivable.

H. Included in miscellaneous accounts receivable are amounts receivable from present and former bank employees for (1) cash shortages of 12,278 and (2) salary advances of 1,032; and an account called "Oficina Principal" in the amount of 7,952. This latter account may well represent an unaccounted for item which is worthless, for an entity cannot recognize as an asset funds receivable from itself.

I. Subsidiary records are maintained for fixed assets - furniture, office machines, safes, etc. - which added together account for the total recorded as fixed assets. However, the bank has not taken a physical inventory of its assets to ascertain the reliability of its records. We attempted to verify the accuracy of fixed asset subsidiary records and were unable to locate 16 items amounting to approximately L13,000 which are listed in the subsidiary records. We also found certain assets which are not supported by inventory records. Inventory records do not contain sufficient detail to identify with certainty the existing physical assets.

The bank follows the practice of recording as fixed assets such items as staplers, perforators, plastic covers, rubber stamps and similar items costing less than L30 each. No inventory of these items has been taken by the bank.

The fixed asset account includes an elevator (17,529) and building improvements (7,544). However, the bank has no lease agreement covering the building it occupies. Should the lessor of the building demand that it be returned, the bank would suffer loss of the undepreciated value of these items of L8,800.

J. Deferred charges include miscellaneous office supplies, such as stamps, stationary, check and savings books which have not been inventoried.

K. Included in checking accounts are the following:

National Lottery	172,891
Civic Committee for National Defense	131,377
Central District Treasury	62,485
Directorate for Technical Assistance	<u>88,446</u>
	<u>455,199</u>

L. The bank was unable to prepare a listing of certified and cashiers checks for our review.

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M. Included in this account are funds deposited by the National Port Authority in the amount of 1,231,000. The bank pays interest at the rate of 7 percent per annum and requires that funds remains on deposit a minimum of one month.

N. The bank serves as depository for subsidies allocated by the national government to municipalities. Conditions for releasing these funds by the bank are somewhat unclear, but presumably municipalities must satisfy the national government that the activities to the subsidized are in process of execution. We were unable to determine the exact nature of subsidies held by the bank.

As of December 31, 1971, the bank had retained subsidies in the amount of 464,077, of which 370,217 was received prior to 1971. See Annex H for a complete presentation of subsidies held by the bank.

O. The bank has issued 10 year bonds which are held by the following organizations:

Central Bank of Honduras 5% interest	L700,000
National Port Authority 7% interest	296,400
Others - 7% interest	<u>1,000</u>
Total	<u>1,997,400</u>

P. There exists an unreconciled difference in the home office/branch accounts between the central office and San Pedro Sula in the amount of 48,100. At the time our examination was completed, the difference had not been reconciled by the bank. The figure is recorded as a liability, but could represent a reduction in assets, reduction in expenses or an increase in income.

Q. Under the municipal banking law of the nation, municipalities are required to deposit five percent (5%) of their annual revenues with the bank in return for capital stock.

As of the date of our examination, municipalities were seriously in arrears in honoring their commitments to purchase capital stock of the bank. Records of the bank indicate that a total of L1,760,420 was due from municipalities as of 1970. Thus, there exists contingent assets and capital of an amount in excess of 1,760,420. As a practical matter, however, the receivable will probably never be realized.

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No permanent record, or other type of record, of stock holders is maintained. We requested a listing of stockholders which the bank was unable to provide. The bank did prepare a summary listing by department as follows:

Atlantita	L 86,755
Colon	31,348
Camayagua	69,555
Copan	93,115
Cartes	490,369
Choluteca	53,325
El Paraiso	78,095
Francisco Morazan	217,679
Gracias a Dias	1,740
Intibuca	2,025
Islas de Bahia	9,210
La Paz	24,785
Lempira	35,681
Santa Barbara	86,172
Olancho	75,744
Ocatepeque	6,995
Valle	46,780
Yiro	<u>110,895</u>
Total Departments	L1,520,268
National Treasury	<u>2,000,000</u>
Total	L3,520,268
Unaccounted for	<u>8,788</u>
Total	<u><u>L3,529,056</u></u>

Payments of 730,529 have been received for which capital stock has not been issued.

BANCO MUNICIPAL AUTONOMO
 BALANCE SHEET - AS OF DECEMBER 31, 1973
 (In Lempiras)

ASSETS

Cash and Cash Items

Cash and cash items	172,762	
Central Bank deposits	408,560	
Correspondent bank deposits	<u>74,418</u>	655,740

Investments

Honduran Government bonds	690,000	
Municipal bonds	737,600	
Financiera Hondureña Bank bonds	<u>512,700</u>	1,940,300

Loan Portfolio

Commercial Loans	1,504,934	
Municipal Loans and discounts	288,335	
Loan to Financiera Hondureña Bank	<u>600,000</u>	
	2,393,269	
Less Reserve for Doubtful Loans	<u>(150,565)</u>	2,242,704

Receivables

Interest Receivable		
Loans	64,002	
Investments	<u>259,880</u>	323,882
Commissions Receivable	63,939	
Other Receivables	<u>163,826</u>	551,647

Municipal Obligations assumed by Bank as guarantor		388,475
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<u>Due from the Government of Honduras</u> (Note 1)		1,844,000
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<u>Foreclosed Assets in Liquidation</u>		30,443
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Fixed Assets

Leasehold Improvements	23,237	
Furniture and fixtures	<u>169,551</u>	
	192,788	
Less Depreciation Reserve	<u>(93,935)</u>	98,853

Deferred Charges		36,853
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Total Assets		<u><u>7,789,015</u></u>
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BANCO MUNICIPAL AUTONOMO
BALANCE SHEET- AS OF DECEMBER 31,1973

LIABILITIES AND CAPITAL

CURRENT LIABILITIES

Accounts Payable	558,438	
Interest Payable	179,367	
Customer Accounts:		
Demand Deposits	871,655	
Savings Deposits	<u>291,955</u>	<u>1,163,610</u>
		1,901,415

TIME DEPOSITS 1,278,791

GENERAL BONDS PAYABLE (Note 2) 997,400

DEFERRED CREDITS

Unearned Interest	28,288	
Unapplied Cash	<u>142,390</u>	
		170,678

MUNICIPAL SUBSIDIES (Note 3) 403,000

CAPITAL (Note 4)

Paid-in Capital:		
Subscribed Capital	7,414,359	
Less Subscriptions Receivable	<u>(3,697,020)</u>	<u>3,717,339</u>

Accumulated Losses	(767,557)	
Profit for year	<u>87,949</u>	<u>(679,608)</u>
		<u>3,037,731</u>

Total Liabilities and
Capital 7,789,015

BANCO MUNICIPAL AUTONOMO
STATEMENT OF OPERATIONS
FOR THE YEAR ENDED DECEMBER 31, 1973

INCOME

Interest on Loans and Investments	534,078	
Commissions	137,530	
Exchange Income	3,177	
Other	<u>5,954</u>	
Total Income		680,739

EXPENSES

Salaries and Benefits	316,682	
Interest Payments	159,394	
Legal Fees	2,050	
Rent and Utilities	28,914	
Miscellaneous Operating Costs	58,328	
Depreciation and Amortization	26,406	
Other	<u>1,016</u>	
Total Expenses		<u>592,790</u>
1973 Net Income		<u><u>87,949</u></u>

BANCO MUNICIPAL AUTONOMO
NOTES TO THE FINANCIAL STATEMENTS FOR
THE YEAR ENDED DEC. 31, 1973

1. Represents the BANMA direct investment in the San Pedro Sula airport facility. The GOH has agreed to reimburse the Bank for the investment; payment to be amortized annually over a ten year period without interest.
2. 5% bonds issued for general working capital secured by the general assets of the Bank, due and payable serially beginning in 1974 through 1982.
3. Represents subsidies granted to municipalities by the GOH for specific projects. Funds have been pending receipt of order by GOH Treasury to disburse. BANMA has received verbal advice that projects have been cancelled and that GOH will authorize transfer of funds to BANMA as additional paid-in capital.
4. BANMA is contingently liable as guarantor for municipal bond issues totalling Lps. 4,156,554.00 at December 31, 1973. The BANMA has provided no reserves to reflect these contingent liabilities because the operations have not generated reserves to cover such an eventuality. The policy of the Bank has been to assume the liability as guarantor, and pursue collection from the Municipality.

BANCO MUNICIPAL AUTONOMO
 BALANCE SHEET - AS OF FEBRUARY 28, 1974
 (In Lempiras)

A S S E T S

Cash and Cash Items

Cash on hand	111,954	
Central Bank deposits	293,922	
Correspondent bank deposits	46,846	
Cash in transit	<u>105,117</u>	
		557,839

Investments

Central Bank bonds	500,000	
Municipal bonds	204,700	
Financiera Hondureña Bank bonds	<u>512,700</u>	
		1,217,400

Loan Portfolio

Commercial Loans	1,291,368	
Municipal Loans and Discounts	254,539	
Loan to Financiera Hondureña Bank	700,000	
Loan to Banco de Honduras	<u>1,000,000</u>	
	<u>3,245,907</u>	
Less reserve for doubtful loans	(151,399)	
		3,094,508

Receivables

Interest Receivable		
Loans	75,501	
Investments	<u>299,334</u>	
Commissions Receivable	374,835	
Other Receivables	57,614	
Municipal Obligations Assumed by Bank as guarantor	124,643	
	<u>771,575</u>	1,328,667
<u>Due from the Government of Honduras (Note 1)</u>		1,844,000
<u>Foreclosed Assets in Liquidation</u>		30,442

Fixed Assets

Leasehold Improvements	22,027	
Furniture and fixtures	170,590	
Less Depreciation Reserve	<u>(106,701)</u>	
Deferred Charges		85,916
		<u>45,177</u>
		<u>8,203,949</u>

BANCO MUNICIPAL AUTONOMO
BALANCE SHEET - AS OF FEBRUARY 28, 1974

LIABILITIES AND CAPITAL

CURRENT LIABILITIES

Accounts Payable	715,645	
Interest Payable	202,610	
Customer Accounts:		
Demand Deposits	1,174,730	
Savings Deposits	<u>241,504</u>	
		2,334,489

TIME DEPOSITS

1,261,123

GENERAL BONDS PAYABLE (Note 2)

997,400

DEFERRED CREDITS

Unearned Interest	10,207	
Unapplied Cash	<u>108,820</u>	
		119,027

MUNICIPAL SUBSIDIES (Note 3)

403,000

CAPITAL (Note 4)

Paid-in Capital:		
Subscribed Capital	7,414,359	
Less Subscriptions Re- ceivable	<u>(3,688,261)</u>	
	3,726,098	
Accumulated Losses (645,050)		
Profit for period	<u>7,862</u>	<u>(637,188)</u>
		<u>3,088,910</u>
		<u>8,203,949</u>

BANCO MUNICIPAL AUTONOMO
STATEMENT OF OPERATIONS
FOR THE PERIOD ENDED FEBRUARY 28, 1974
(In Lempiras)

INCOME

Interest on Loans and Investments	84,555	
Commissions	33,510	
Exchange Income	378	
Other	1,504	
	<hr/>	
Total Income		119,947

EXPENSES

Salaries and Benefits	65,836	
Interest Payments	24,738	
Legal Fees	300	
Rent and Utilities	4,235	
Miscellaneous Operating Costs	13,395	
Depreciation and Amortization	3,581	
Other	-0-	
	<hr/>	
Total Expenses		<u>112,085</u>
1974 Net Income through 2/28/74		<u><u>7,862</u></u>

BANCO MUNICIPAL AUTONOMO
NOTES TO THE FINANCIAL STATEMENTS FOR
FOR THE PERIOD ENDED FEBRUARY 28, 1974

1. Represents the BANMA direct investment in the San Pedro Sula airport facility. The GOH has agreed to reimburse the Bank for the investment; payment to be amortized annually over a ten year period without interest.
2. 5% bonds issued for general working capital secured by the general assets of the Bank, due and payable serially beginning in 1974 through 1982.
3. Represents subsidies granted to municipalities by the GOH for specific projects. Funds have been held pending receipt of order by GOH Treasury to disburse. BANMA has received verbal advice that projects have been cancelled and that GOH will authorize transfer of funds to BANMA as additional paid-in capital.
4. BANMA is contingently liable as guarantor for municipal bond issues totalling Lps. 4,285,533 at February 28, 1974. The BANMA has provided no reserves to reflect these contingent liabilities because the operations have not generated reserves to cover such an eventuality. The policy of the Bank has been to assume the liability as guarantor and pursue collection from the Municipality.

BANCO MUNICIPAL AUTONOMO
STATEMENT OF ACTUAL/PROJECTED INCOME AND EXPENSE (1972-1983)
(IN LEMPIRAS)

INCOME	Actual	Actual	PROJECTED									
	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Interest-Commercial Loan Portfolio)			143,543	116,043	55,543	22,543	-	-	-	-	-	-
Interest-AID Loan Program)			19,062	178,614	470,374	731,583	803,438	717,710	-	-	-	-
Interest-General Loan Program)			20,000	79,764	197,260	368,796	522,230	635,354	639,425	560,880	475,811	382,915
Interest on AID Loan Project)									758,617	903,631	1,075,595	1,276,406
Reflows)	667,810	534,078	-	440	4,873	23,549	65,494	130,270	-	-	-	-
Interest-Municipal Discounts)			45,000	45,000	48,750	48,750	48,750	48,750	202,473	263,986	318,031	368,386
Interest-Short Term Investments)			282,030	291,042	203,417	81,959	20,000	20,000	48,750	48,750	48,750	48,750
Commissions-AID Loan Program)			5,300	36,900	37,200	30,600	-	-	20,000	20,000	20,000	20,000
Commissions-General Loan Program)			5,000	10,000	20,000	25,000	-	-	-	-	-	-
Commissions-Municipal Bond Portfolio)	139,449	137,530	41,207	35,150	29,837	27,183	20,000	22,000	-	-	-	-
Commissions-Guarantees Granted)			25,500	-	-	-	24,848	21,179	27,500	32,500	40,000	42,500
Commissions-Miscellaneous)			1,000	1,000	1,000	1,000	-	-	19,167	11,855	6,230	3,018
Other Income	10,442	9,131	-	-	-	-	1,000	1,000	-	-	-	-
TOTAL INCOME	<u>817,701</u>	<u>680,739</u>	<u>587,642</u>	<u>793,952</u>	<u>1,068,254</u>	<u>1,360,963</u>	<u>1,505,760</u>	<u>1,596,263</u>	<u>1,716,932</u>	<u>1,842,602</u>	<u>1,985,417</u>	<u>2,142,975</u>
EXPENSES												
Interest on Savings Accounts)			10,474	10,997	11,548	12,717	13,353	14,020	14,720	15,456	16,229	17,041
Interest on Time Deposits)	163,508	159,394	5,000	-	-	-	-	-	-	-	-	-
Interest on General Bonds)			240,270	235,270	220,640	189,960	-	-	-	-	-	-
Administrative Expense	469,403	406,990	600,000	650,000	700,000	770,000	159,280	128,600	97,920	67,170	41,490	15,810
Depreciation and Amortization	23,683	26,406	13,000	13,000	23,000	20,000	790,000	810,000	830,000	830,000	830,000	830,000
Amortization of Training and TA Costs (10%)	-0-	-0-	17,800	48,000	76,000	110,000	20,000	10,000	10,000	10,000	10,000	10,000
TOTAL EXPENSES	<u>656,594</u>	<u>592,790</u>	<u>886,544</u>	<u>957,267</u>	<u>1,031,188</u>	<u>1,102,677</u>	<u>1,100,000</u>	<u>1,100,000</u>	<u>1,100,000</u>	<u>1,100,000</u>	<u>1,100,000</u>	<u>1,100,000</u>
NET PROFIT (LOSS)	<u>161,107</u>	<u>87,949</u>	<u>(298,902)</u>	<u>(163,314)</u>	<u>37,066</u>	<u>258,286</u>	<u>413,127</u>	<u>523,643</u>	<u>654,292</u>	<u>809,976</u>	<u>977,698</u>	<u>1,160,124</u>

ASSUMPTIONS AND ESTIMATES USED IN PREPARATION OF THE
PROJECTED STATEMENTS OF INCOME AND EXPENSE

1. Interest income projections are based on the projected level of lending operations established for the AID loan funded project and other lending program.
2. Other sources of income were projected based on historical data coupled with the revised nature of lending and scope of future operations.
3. Administrative Expense projections were made on a very conservative basis in order to reflect projected operating statements at the lower end of the spectrum for evaluation of the viability of the project in most conservative terms.

BANCO MUNICIPAL AUTONOMO
STATEMENT OF CASH FLOW PROJECTIONS (1974-1983)
(IN LEMPIRAS)

	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983
Cash Available at Beginning of Year	655,741	419,258	539,092	595,096	465,461	535,989	653,083	676,608	786,424	723,516
Sources of Cash:										
1) Reduction in Investments	723,000	750,000	1,700,000	1,686,400	-	-	-	-	-	-
2) Reduction in Commercial Loan Portfolio	400,000	500,000	600,000	4,935	-	-	-	-	-	-
Commissions Receivable at 12/31/73	63,939	-	-	-	-	-	-	-	-	-
Interest Receivable at 12/31/73	323,882	-	-	-	-	-	-	-	-	-
Other Receivables at 12/31/73	163,826	-	-	-	-	-	-	-	-	-
3) Increase in Paid-In Capital	215,500	215,500	215,500	215,500	215,500	215,500	215,500	215,500	215,500	215,500
4) Increase in Demand Deposits	389,865	135,865	35,865	35,865	6,152	73,801	77,491	81,365	85,434	89,700
5) Increase in Savings Deposits	14,598	15,328	16,094	16,899	17,744	18,631	19,562	20,541	21,568	22,600
6) Repayments- AID Loan Program	11,123	101,971	370,321	708,845	971,294	996,101	910,820	961,167	1,046,236	1,139,100
Repayments - General Lending Program	-	14,484	59,732	206,853	521,158	829,852	1,064,693	1,348,373	1,573,379	1,613,000
AID Loan Fund Disbursements										
Sub-Lending	330,000	2,290,000	2,320,000	2,060,000	-	-	-	-	-	-
Technical Assistance	128,000	212,000	180,000	280,000	-	-	-	-	-	-
Training	50,000	90,000	100,000	60,000	-	-	-	-	-	-
Equipment	-	92,000	8,000	-	-	-	-	-	-	-
GOH Capital Contribution-Project	200,000	1,000,000	1,000,000	800,000	-	-	-	-	-	-
GOH Capital Contribution-Continuing	-	-	-	200,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
5) Repayments- AID Loan Program-Reflow Loans	-	-	426	4,782	23,553	67,566	140,167	230,894	325,277	427,300
7) (Net Income for Period)	-	-	37,066	258,286	413,127	523,643	654,292	809,976	977,698	1,160,100
(Depreciation and Non-Cash Items)	30,800	61,000	99,000	130,000	130,000	120,000	120,000	120,000	120,000	120,000
TOTAL SOURCES	3,700,274	5,897,406	7,281,096	7,263,461	3,763,989	4,381,083	4,855,608	5,464,424	6,151,516	6,511,100
Accounts Payable at 12/31/73	562,449	-	50,000	-	-	-	-	-	-	-
Increase in Municipal Discounts	11,665	-	-	-	-	-	-	-	-	-
3) Amortization of General Bond Principal	100,000	100,000	528,000	528,000	528,000	528,000	529,000	428,000	428,000	424,000
AID Funded TA Disbursements	128,000	212,000	180,000	280,000	-	-	-	-	-	-
Training	50,000	90,000	100,000	60,000	-	-	-	-	-	-
Equipment	-	92,000	8,000	-	-	-	-	-	-	-
Loans to Local Banks	1,100,000	-	-	-	-	-	-	-	-	-
Sub-Loans Disbursed-AID Loan Prog.	530,000	3,690,000	3,720,000	3,060,000	-	-	-	-	-	-
Sub-Loans Disbursed-General Loan Prog.	500,000	1,000,000	2,000,000	2,500,000	2,000,000	2,200,000	2,750,000	3,250,000	4,000,000	4,250,000
Sub-Loans Disbursed-Reinvestments under AID Loan Program	-	-	-	-	-	-	-	-	-	-
7) Net Loss for Period	298,902	163,314	100,000	370,000	700,000	1,000,000	900,000	1,000,000	1,000,000	1,000,000
Total Applications	3,281,016	5,358,314	6,686,000	6,798,000	3,228,000	3,728,000	4,179,000	4,678,000	5,428,000	5,674,000
Cash Available End of Period	419,258	539,092	595,096	465,461	535,989	653,083	676,608	786,424	723,516	837,800

**ASSUMPTIONS AND ESTIMATES USED IN PREPARATION ON THE CASH
FLOW PROJECTIONS**

1. It is estimated that the level of investment will be reduced annually through 1977 in order to provide funds to meet the demand for loans outside the AID loan project.
2. BANMA officials estimate the current commercial loan portfolio will be fully liquidated in 1977.
3. It has been estimated that stock subscriptions will be collected from municipalities over a 20 year period.
4. Projected demand deposits were based on the assumption that all commercial accounts would be closed out by 1978 and that Municipal demand deposits would increase by Lps. 600,000 through 1977 because of the anticipated installation of a correspondent banking system, and thereafter grow at the rate of 5% per annum.
5. Savings deposits growth has been projected at a level of 5% per annum.
6. It has been assumed that first generation reflows of AID loan project funds will be re-invested in loans of a similar nature and for the same terms as the original loans. Second generation repayments are included in the general lending program at terms of 8% for ten years with one year grace period.
7. Net income projections were prepared as a separate schedule and reflect non-cash costs such as depreciation, amortization and charges to reserve accounts. These amounts have been added back for cash flow purposes since they do not utilize cash resources.
8. The amortization of General Bonds is based on a finalized amortization schedule established by the BANMA and approved by the Central Bank.

OTHER

- a. For presentation and projection purposes accrual items such as receivables and payables have been eliminated during the first projection year (1974) and the other projected years are on a cash basis for collections and payments. This assumption should not materially affect the projections.
- b. Cash balances shown as available at end of period do not constitute cash surpluses but reflect a projected cash position at a point in time that will be available if all of the assumptions and estimates included in the projections prove valid. The cash position should be considered as the level of working capital necessary to sustain banking operations and maintain a level of liquidity required by law and by sound banking practices.
- c. It has been assumed that no further paid-in capital contributions will be made by municipalities, i.e., that the law requiring share subscriptions to the BANMA will be rescinded.

BANCO MUNICIPAL AUTONOMO
PROJECTED BALANCE SHEETS (1974-1983)
Lempiras (000's)

	Actual 12/31/72	Actual 12/31/73	Estimated 12/31/74	Projected 12/31/75	Projected 12/31/76	Projected 12/31/77
Cash and Cash Items	771	656	419	539	595	465
Investments						
Honduran Government Bonds	245	690	500	500	500	500
Municipal Bonds	771	738	512	1,174	1,174	-
Banco Financiera Hondureña Bonds	512	512	1,924	512	512	-
Loans to Local Banks	-0-	600	1,700	1,700	-0-	-
Loan Portfolio	1,528	2,540	4,636	3,886	2,186	500
Commercial Loans	2,800	1,505	1,105	605	5	-
Municipal Discounts	-	288	300	300	350	350
Municipal Loans	-	-	1,019	603	10,993	-
Less Reserve for Doubtful Loans	(145)	-	-	(150)	(150)	(150)
Receivables	2,655	1,643	2,274	6,358	11,198	16,202
Interest Receivable - Loans	73	64	-	-	-	-
Interest & Commissions Receivable-Investments	53	324	-	-	-	-
Municipal Obligations Assumed as Guarantor	384	388	388	388	388	388
Other Receivables	700	164	-	-	-	-
Due From the Government of Honduras	1,210	940	388	388	388	388
Foreclosed Assets in Liquidation	1,844	1,844	1,844	1,844	1,844	1,844
Fixed Assets	7	30	30	30	30	30
Leasehold Improvements	25	23	22	32	32	32
Furniture and Fixtures	263	170	171	253	261	261
Less Reserve for Depreciation	288	193	193	285	293	293
Technical Assistance and Training Costs	(148)	(94)	(107)	(120)	(143)	(163)
Deferred Charges	45	37	86	165	150	130
Total Assets	8,200	7,789	9,874	13,661	17,046	20,444
Current Liabilities						
Demand Deposits	984	872	1,262	1,398	1,434	1,470
Savings Deposits	447	292	307	322	338	355
Interest Payable	75	179	-0-	-0-	-0-	-
Accounts Payable	*841	558	-0-	-0-	-0-	-
Time Deposits	2,347	1,901	1,569	1,720	1,772	1,825
General Bonds Payable	1,353	1,279	48	48	48	48
Municipal Subsidies on Deposit	997	997	4,021	3,921	3,393	2,865
Deferred Credits	*	403	403	403	403	403
Unearned Interest	42	28	28	28	28	28
Unapplied Cash	221	143	143	143	143	143
Capital	263	171	171	171	171	171
Municipal Assessments	4,728	5,388	5,388	5,388	5,388	5,388
Less Municipal Assessments Receivable	(3,124)	(3,697)	(3,462)	(3,266)	(3,051)	(2,835)
Government Contribution	1,604	1,691	1,908	2,122	2,337	2,553
Donated Capital	2,000	2,000	2,708	6,397	10,000	13,400
Accumulated Earnings (Losses)	26	26	26	26	26	26
	3,630	3,717	4,640	8,540	12,363	15,979
	(390)	(679)	(978)	(1,142)	(1,104)	(847)
Total Liabilities and Capital	8,200	7,789	9,874	13,661	17,046	20,444

* The exact amount of Municipal Subsidies on Deposit as of 12/31/72 is unknown, but is included in Accounts Payable.

Projected 12/31/78	Projected 12/31/79	Projected 12/31/80	Projected 12/31/81	Projected 12/31/82	Projected 12/31/83
536	653	677	786	724	838
500	500	500	500	500	500
-	-	-	-	-	-
-	-	-	-	-	-
500	500	500	500	500	500
350	350	350	350	350	350
17,186	18,493	20,027	21,737	23,792	25,862
(150)	(150)	(150)	(150)	(150)	(150)
17,386	18,693	20,227	21,937	23,992	26,062
-	-	-	-	-	-
-	-	-	-	-	-
388	388	388	388	388	388
388	388	388	388	388	388
1,844	1,844	1,844	1,844	1,844	1,844
30	30	30	30	30	30
32	32	32	32	32	32
261	261	261	261	261	261
293	293	293	293	293	293
(183)	(193)	(203)	(213)	(223)	(233)
110	100	90	80	70	60
738	628	518	408	298	188
37	37	37	37	37	37
21,569	22,873	24,311	26,010	27,883	29,947
1,476	1,550	1,627	1,709	1,794	1,884
373	391	411	431	453	476
-	-	-	-	-	-
1,849	1,941	2,038	2,140	2,247	2,360
48	48	48	48	48	48
2,337	1,809	1,280	552	424	-0-
403	403	403	403	403	403
28	28	28	28	28	28
143	143	143	143	143	143
171	171	171	171	171	171
5,388	5,388	5,388	5,388	5,388	5,388
(2,620)	(2,404)	(2,189)	(1,973)	(1,758)	(1,542)
2,768	2,984	3,199	3,415	3,630	3,846
14,400	15,400	16,400	17,400	18,400	19,400
26	26	26	26	26	26
17,194	18,410	19,625	20,841	22,056	23,272
(433)	91	745	1,555	2,534	3,693
16,761	18,501	20,371	22,396	24,590	26,965
21,569	22,873	24,311	26,010	27,883	29,947

LETTER RECEIVED FROM FINANCE MINISTER DATED
DECEMBER 14, 1973

Dear Mr. Marasciulo:

Confirming the conclusions reached in our meeting of December 6 in relation to preliminary negotiations for an AID loan destined for the capitalization of the Autonomous Municipal Bank (BANMA), I wish to inform you:

1. The Government wishes to negotiate a loan with AID for \$4 million with a 40-year repayment period and a 10-year grace period; interest of 2% during the grace period and 3% during the remaining time. These funds will be contributed to BANMA and the Government will assume the repayment of principal and interest.
2. The Government will:
 - a) Provide the Municipal Bank with resources to increase its capital of not less than \$1.5 million during the loan disbursement period, which would be three years, extendable by common agreement of AID and the Government. In addition, the Municipal Bank will provide \$500,000 from its capital, which is currently available. The Government counterpart would be made in contributions proportional to loan disbursements (pari passu);
 - b) Provide the Municipal Bank, in addition to that indicated in sub-paragraph (a), with a sum of \$3.5 million during the seven years following the loan disbursement period;
 - c) Establish that the policy of the Central Bank of Honduras, in relation to loans to the municipalities, will be to leave that activity to the Municipal Bank, to the degree that the latter is able to adequately attend to such financing. The Central Bank President has been consulted on this matter and is in agreement with this position;

d) Prohibit the Municipal Bank from making commercial loans. In this respect, the Bank's Board of Directors has approved a resolution to suspend these credits and offer to sell the remaining commercial portfolio.

e) The Government in addition is disposed to free the Municipal Bank of the administration of the San Pedro Sula International Airport and to assume the balance of the confirmed obligations for which the Municipal Bank contracted in order to finance the construction and expansion of the airport. The Decree-Law to accomplish the transfer is now in its final steps, waiting to be approved by the appropriate legislative body.

I wish to note that the Municipal Bank is undergoing an internal reorganization for which it has received valuable AID assistance which is helping the Bank to adequately prepare itself to manage the funds of the above referenced loan.

Sincerely,

Manuel Acosta Bonilla
Minister of Finance and
Public Credit

TEXT OF BANMA LETTER TO USAID/HONDURAS APRIL 18, 1974

(Translation)

Mr. James O'Rorke
Chief, Institutional
Development Division

Dear Mr. O'Rorke:

I wish to advise you that BANMA will include in its credit policy for the Municipalities in the Loan program being developed with A.I.D. and the Government of Honduras, among other points, the requirement that the investment of the municipality be at least 10% of the cost of each sub-project, which may be provided in cash, goods, labor, etc.

Enclosed with this letter is a summary of collections from the commercial portfolio through March 31, 1974, and a projection of collections through the rest of this year.

/s/

Armando Blanco Paniagua
President

CN 0189

MARCH 8, 1974 1521Z UNCLASSIFIED

ACTION: AID

INFO: AMB/DCM
CHRON

P 072319Z MAR 74
FM SECSTATE WASHDC
TO AMEMBASSY TEGUCIGALPA PRIORITY 1179
BT
UNCLAS STATE 046597

ACTION COPY
Action Taken _____
Date _____
By _____

ACTION: PCD
INFO: D
DD
ID
CHRON
READER

AIDAC

E.O. 11652: N/A

SUBJ: IRR: MUNICIPAL DEVELOPMENT (BANMA)

**OFFICIAL
FILE COPY**

1. SUBJECT IRR WAS REVIEWED BY THE DAEC ON FEBRUARY 28. THE IRR WAS APPROVED SUBJECT TO THE FOLLOWING CONSIDERATIONS WHICH SHOULD BE INCORPORATED IN THE LOAN PAPER.

A. LOAN PURPOSE: IT WAS AGREED THAT THE LOAN WOULD SUPPORT THE GOH REGIONAL DEVELOPMENT STRATEGY OUTLINED IN THE RECENTLY RELEASED NATIONAL DEVELOPMENT PLAN. SPECIFICALLY, THE PURPOSE OF THE LOAN PROGRAM SHOULD BE (A) TO IMPROVE THE CAPABILITY OF THE COUNTY GOVERNMENTS OF THE 27 POLAR AND SUB-POLAR COUNTIES TO FUNCTION EFFECTIVELY AS AGRICULTURAL SERVICE CENTERS; AND (B) TO COMPLETE THE REFORM PROGRAM OF BANMA SO AS TO ENABLE IT TO EFFECTIVELY ASSIST COUNTY GOVERNMENTS. DEMANDS FROM LOCAL GOVERNMENTS OUTSIDE THE 27 POLAR COUNTIES COULD BE MET FROM BANMA'S OWN FUNDS (CURRENTLY APPROXIMATELY \$1.8 MILLION). THE REGIONAL POLAR/SUB-POLAR STRATEGY IN THE NATIONAL PLAN SHOULD BE TREATED EXTENSIVELY IN THE LOAN PAPER. THE BASIS FOR CHOOSING THE 27 COUNTIES SHOULD BE EXCLUDED, E.G., THE IMPORTANCE OF THE COUNTIES TO THE DEVELOPMENT OF AGRICULTURE IN THE REGION, CONCENTRATION OF POPULATION, ETC.

B. TARGET GROUP: IN GENERAL, THE DAEC RECOGNIZED THE BALANCE THAT MUST BE STRUCK BETWEEN FINANCIAL AND INSTITUTIONAL VIABILITY OF, WHAT IS FOR ALL PRACTICAL PURPOSES, A FLEDGLING INSTITUTION AND ATTEMPTING TO IMMEDIATELY SERVE THE LOWEST INCOME GROUPS. THE LOAN PAPER SHOULD RELATE THE POLAR CONCEPT AND GOH'S REGIONAL STRATEGY TO THE LOW-INCOME PRODUCER (AT A MINIMUM THE PROPORTION OF LOW-INCOME PRODUCERS TO TOTAL POPULATION IN THE AREAS EFFECTED). SECONDLY, THE LOAN PROGRAM SHOULD BE RELATED TO OTHER GOH (AND IFI) PROGRAMS TO REACH THE COMPETING IN ORDER TO DEMONSTRATE HOW THE BANMA PROGRAM COMPLEMENTS THESE (PERHAPS MORE DIRECT) EFFORTS. THIRDLY, IN ADDITION TO ELIMINATING THE TWO PRINCIPAL URBAN AREAS AND PLACING RESTRICTIONS ON SUB-PROJECT ELIGIBILITY, THE MISSION SHOULD WORK WITH BANMA TO DEVELOP A MECHANISM (I.E., INTEREST FREE LOAN, GRANT/LOAN COMBINATION), CONSISTENT WITH THE INSTITUTIONAL PURPOSE OF THE LOAN, TO REACH THE LARGE NUMBER OF SMALLER MUNICIPALITIES WHICH CAN NOT PARTICIPATE IN A CONVENTIONAL LENDING PROGRAM. IN THIS CONNECTION, THE DAEC FELT THAT SUB-LOAN REPAYMENTS SHOULD BE SUBJECT TO THE SAME CRITERIA AS ORIGINAL LOAN FUNDS (E.G., TEGUCIGALPA AND SAN PEDRO SULA INELIGIBLE, ETC.).

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FOR A REASONABLE PERIOD OF TIME AFTER FINAL DISBURSEMENT.

C. COUNTY GOVERNMENTS: SINCE AN ULTIMATE PURPOSE IS TO IMPROVE THE CAPACITY OF LOCAL GOVERNMENT, THE LOAN PAPER SHOULD DISCUSS THE COUNTY GOVERNMENT AS AN INSTITUTION ALONG WITH THE ANTICIPATED EFFECT OF THE PROJECT ON THAT CAPACITY, I.E., RESPONSIBILITIES, ORGANIZATION, FINANCIAL RESOURCES, PRINCIPAL PROBLEMS, ETC. INCLUDE THE HISTORICAL PATTERN OF MUNICIPAL FINANCING, CAPACITY TO CARRY OUT PROJECTS, ETC.

D. INSTITUTIONAL ANALYSIS: THE CAPACITY OF BANMA TO ASSIST THE COUNTIES SHOULD BE DETAILED. THE SPECIFIC MUNICIPAL PROBLEM AREAS WHICH THE BANK WILL ADDRESS SHOULD BE IDENTIFIED, E.G., PROJECT DEVELOPMENT, TAX ADMINISTRATION, ROAD MAINTENANCE, ETC. AN ANALYSIS OF THE STAFF (INCLUDING STAFF REMAINING FROM BANMA'S PREVIOUS COMMERCIAL AND AIRPORT OPERATIONS) SHOULD BE CONDUCTED IN TERMS OF THE ASSISTANCE BANMA WILL BE PROVIDING UNDER THE LOAN PROGRAM. USUALLY, BANMA'S ROLE AND THAT OF OTHER GOV AGENCIES, SUCH AS PUBLIC WORKS, SHOULD BE DISCUSSED.

E. SUB-LENDING PROGRAM: THE ILLUSTRATIVE LIST OF SUB-PROJECTS TO BE FINANCED UNDER THE LOAN SHOULD BE CLEARLY RELATED NOT ONLY TO IMPROVING THE CAPACITY OF THE 27 LOCAL GOVERNMENTS BUT ALSO TO THE AGRICULTURAL SERVICE CENTER CONCEPT. THE DEGREE TO WHICH THE CAP CAN DEMONSTRATE THAT SUCH SUB-PROJECTS AS MARKETS AND SLAUGHTERHOUSES FIT INTO A SOUND AGRICULTURAL DEVELOPMENT PLAN IN ORDER TO AVOID DUPLICATION AND POOR LOCATION AND THAT THEY ACTUALLY WILL MEASURABLY BENEFIT THE SMALL PRODUCER IS ALSO IMPORTANT.

F. FINANCIAL ANALYSIS: THE YEAR FINANCIAL PROJECTIONS CONSISTING OF CASH FLOW, INCOME STATEMENT AND BALANCE SHEET SHOULD BE DEVELOPED FOR THE LOAN PAPER, ASSUMING THAT NO AID FOLLOW-ON FINANCING WILL BE AVAILABLE. SPECIFIC ASSUMPTIONS UNDERLYING THE PROJECTIONS SHOULD BE EXPLICITLY STATED IN CONJUNCTION WITH THE TABLES.

G. EVALUATION: THE CAP SHOULD PROVIDE FOR A PERMANENT ANNUAL REVIEW SYSTEM. INCLUDED WOULD BE A PERIODIC OUTSIDE EVALUATION OF THE PROGRAM TO BE FUNDED UNDER THE LOAN. BASIC LINE DATA TO BE GATHERED AT INITIATION OF PROJECT SHOULD BE DEVELOPED TO FACILITATE REVIEWS AND EVALUATION.

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LOAN AUTHORIZATION

Provided from: Alliance for Progress Funds
HONDURAS: Municipal Development Bank (BANMA)

Pursuant to the authority vested in the Deputy US 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 ("Loan") pursuant to Part I, Chapter 2 Title VI, Alliance for Progress to the Government of Honduras ("Borrower") of not to exceed four million one hundred thousand United States dollars (\$4,100,000) to assist in financing the United States dollar and local currency costs of its Municipal Development Program to be administered by the Banco Municipal Autónomo ("Administrator"). No less than \$3,500,000 shall be utilized to finance the construction and expansion of municipal infrastructure and services; up to \$550,000 may be utilized to finance technical assistance, training, and evaluation services; up to \$50,000 may be utilized for equipment. The loan should be subject to the following terms and conditions:

1. Interest and Terms of Repayment

Borrower shall repay the Loan to A.T.D. in United States dollars within forty (40) years from the date of the first disbursement under the Loan, including a grace period not to exceed ten (10) years. Borrower shall pay to A.T.D. in United States dollars on the disbursed balance of the Loan interest at the rate of two percent (2%) per annum during the grace period and three percent (3%) per annum thereafter.

2. Other Terms and Conditions

(a) Except for marine insurance and ocean shipping, goods and services financed under the Loan shall have their source and origin in CACM member countries and countries included in A.T.D. Geographic Code 941. Marine insurance financed under the Loan shall have its source and origin in CACM member countries or any country included in A.T.D. Geographic Code 941, provided, however, that such insurance may be financed under the Loan only if it is obtained on a competitive basis and any claims thereunder are payable in convertible currencies. Ocean shipping financed under the Loan shall be procured in any country included in A.T.D. Geographic Code 941.

(b) United States dollars utilized under the Loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.T.D.

(c) The Borrower shall donate the proceeds of the Loan to increase

the capital of the Administrator.

- (d) Prior to first disbursement, the Administrator shall submit evidence satisfactory to A.I.D. that it has:
- (1) Provided a contribution to the Project of not less than \$500,000.
 - (2) Hired qualified, professional personnel for the position of Chief of Technical Services Department and Chief of the Financial Department.
 - (3) Submitted a mutually acceptable plan for utilizing technical assistance funds, including evaluation and audit and made arrangements for contracting such technical assistance in accordance with the plan.
- (e) Prior to first disbursement, the Borrower shall provide a financial plan acceptable to A.I.D. for providing \$1,500,000 to the capital of BANMA on a pari passu basis with AID loan disbursements.
- (f) Prior to initial disbursement for other than technical assistance and training, the Administrator shall:
- (1) Submit for AID approval all regulations and procedures governing subloans to be financed under the Project. These shall include, but not be limited to Financial Policy, Loan Approval Regulations, and Procurement Regulations.
 - (2) Submit for AID approval a standard subloan contract and annexes, including reporting requirements and accounting procedures.
 - (3) Provide evidence that the correspondent bank plan is in operation, at least on a pilot basis.
- (g) The Administrator shall covenant with AID that:
- (i) All subloans financed under the Project shall be approved and executed in accordance with the procedures approved above.

- (ii) Submit for A.I.D. approval all subloans under the Project over \$50,000. This limitation will be examined in the course of the joint project reviews.
- (iii) Subloans for paving, city hall constructing, garbage collection, cemeteries, or parks shall not be eligible for financing under the Project.
- (iv) Subloans for projects located in the urban areas of Tegucigalpa and San Pedro Sula shall not be eligible for financing under the Project.
- (v) Principal payments from subloans financed under the Project shall be subject to the criteria in (iii) and (iv) for a period of 3 years after final disbursement of the loan.
- (h) The Borrower shall use its best efforts to bring about an increase in the municipal tax base and ensure that municipal revenues are not reduced through legislative action over the life of the Project.
- (i) The Borrower, BANMA and AID shall undertake joint project review before \$1.0 million of loan funds are committed and a second review before \$3.0 million are committed under the loan. The second review shall be based on an evaluation prepared by an independent consultant acceptable to Borrower, BANMA and AID.

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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.

FAA, 1973 - Foreign Assistance Act of 1973.

App. - Foreign Assistance and Related Programs Appropriation Act, 1974

MMA - Merchant Marine Act of 1936, as amended.

BASIC AUTHORITY

1. FAA § 103; § 104; § 105;
§ 106; § 107. *Is loan being made*

a. for agriculture, rural development or nutrition;

b. for population planning or health;

c. for education, public administration; or human resources development;

d. to solve economic and social development problems in fields such as transportation, power, industry, urban development, and export development;

(1) The loan is designed to promote municipal development outside of the major urban-industrial population centers of Tegucigalpa and San Pedro Sula.

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e. in support of the general economy of the recipient country or for development programs conducted by private or international organizations.

COUNTRY PERFORMANCE

Progress Towards Country Goals

2. 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) The Government of Honduras has placed a strong emphasis on increasing food production, and providing enlarged facilities for its storage and distribution. An on-going comprehensive analysis of the agricultural sector was initiated during CY 1972. All the international agencies involved in Honduran economic development are contributing through various programs to the goals of increased food production and improved food distribution.

(2) Honduras is striving to create a favorable climate for foreign and domestic private enterprise. The GOH has an export promotion department in the Ministry of Economy. This department provides assistance to domestic firms entering international market and foreign companies wishing to invest in Honduras. Firms can obtain loans from several sources including the Government-owned National Development Bank and the Central American Bank for Economic Integration.

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- (3) Increasing the public's role in the developmental process.
- (3) Honduras is actively encouraging the participation of its citizens in the development process. The export promotion department, previously mentioned, assists private businessmen to develop the country's industrial base. The GOH is working with AID and other international donors in various grant and loan programs, designed to strengthen private institutions, including coops. In addition the GOH is currently developing programs which will draw the rural populace which accounts for 70% of the country's total population, into the nation's economic mainstream.
- (4) (a) Allocating available budgetary resources to development.
- (4-a) Honduras has been allocating approximately 25% of its budget in the recent past for investment purposes.
- (b) Diverting such resources for unnecessary military expenditure (See also Item No. 20) and intervention in affairs of other free and independent nations.) (See also Item No. 11)
- (4-b) Military spending increased somewhat because of the 1969 hostilities with El Salvador. This increase does not appear to be disproportionate to Honduran defense needs. The material obtained has been used only for defense purposes and not to intervene in the affairs of other free and independent nations.
- (5) 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.
- (5) At the present time the GOH is studying ways to improve its land tenure pattern. It recently experimented with one method of land reform. As a result of a proposed national cadaster the GOH is also considering revision of the property tax law. Honduras does not restrict freedom of expression and of the press and recognizes the importance of individual freedom, initiative, and private enterprise.
- (6) Adhering to the principles of the Act of Bogota and Charter of Punta del Este.
- (6) Honduras has been adhering to the principles of the Act of Bogota and the Charter of Punta del Este.

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(7) Attempting to repatriate capital invested in other countries by its own citizens.

(7) The GOH is promoting capital repatriation by following a policy of direct assistance to local entrepreneurs through the export development department mentioned previously, and non-intervention in private enterprise.

(8) Otherwise responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

(8) During the present inflationary period the government has sought ways to cushion the blow of rising prices particularly for the lower income groups. It has emphasized the development of the rural sector where both the majority and the poorest segment of the population are found.

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

B. All of the above factors were taken into account.

Treatment of U.S. Citizens by Recipient Country

3. 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?

3. AID knows of no such indebtedness to any U.S. citizen.

4. FAA § 620(e)(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?

4. There is no evidence of any such action.

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5. FAA § 620(o); Fishermen's Protective Act. § 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,*

5. Honduras has not seized or imposed any penalties or sanctions against U.S. fishing vessels because of their activities in international waters during recent years.

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

N/A

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

N/A

Relations with U.S. Government and Other Nations

6. 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?*

6. Honduras neither furnishes assistance to Cuba nor permits ships or aircrafts under its flag to carry cargo to or from Cuba.

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7. FAA § 620(b). *If assistance is to a government, has the Secretary of State determined that it is not controlled by the international Communist movement?*
7. The Secretary of State has determined that Honduras is not controlled by the international Communist movement.
8. FAA § 620(d). *If assistance is for any productive enterprise which will compete in the United States with United States enterprise, is there an agreement by the recipient country to prevent export to the United States of more than 20% of the enterprise's annual production during the life of the loan?*
8. This loan is not intended to provide assistance to a productive enterprise.
9. FAA § 620(f). *Is recipient country a Communist country?*
9. Honduras is not a communist country.
10. FAA § 620(i). *Is recipient country in any way involved in (a) subversion of, or military aggression against, the United States or any country receiving U.S. assistance, or (b) the planning of such subversion or aggression?*
10. AID has no evidence of any subversion or aggression or of plans for any such action against any country.
11. 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?*
11. During periods of tension and public commotion caused by factors such as the change in government in Chile the GOH has failed at times to take adequate measures to prevent damage to the U.S. Chancery, USIS installations, and U.S. Military Advisory Groups offices. However, the Chancery has been given a 24 hour guard, and the Government has promised prompt assistance to the other installations and offices should trouble develop in the future.

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12. 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?*
12. The OPIC Investment Guaranty Program is in operation in the country.
13. FAA § 620(n). *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?*
13. AID has no evidence of Honduran involvement in such matters.
14. 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?*
14. Honduras is not in default on any such loan.
15. FAA § 620(t). *Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?*
15. Honduras has maintained diplomatic relations with the U.S.
16. FAA § 620(u). *What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget?*
16. Honduras is not in arrears to the extent described in Article 19 of the U.N. Charter.

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17. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?

17. The GOH has taken adequate steps to control illegal narcotics traffic. A special Narcotics Investigation Branch was established within the Police (CES) in 1970. Honduras is not at this time a channel for international traffic in heroin or cocaine, and most cases have been in the area of internal use, sale or growing of marijuana or the use or sale of amphetamines or barbituates. The Honduran Police have previously cooperated with EMD. Legislation was recently passed which updates a previous law by providing criminal penalties for newer forms of drug abuse.

18. FAA, 1973 § 29. If (a) military base is located in recipient country, and was constructed or is being maintained or operated with funds furnished by U.S., and (b) U.S. personnel carry out military operations from such base, has the President determined that the government of recipient country has authorized regular access to U.S. correspondents to such base?

18. No U.S. military base is located in Honduras.

Military Expenditures

19. FAA § 620(b). 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 is to be coordinated with the Bureau for Program and Policy Coordination, Regional Coordinators and Military Assistance Staff (PPC/RC).)

(19) According to official released figures, 7.9% of the GOH budget is allocated to military spending during 1974. Only 0.4% of foreign exchange resources are being used for military equipment. The Mission believes the major portion of this fund is used for standard arms and ammunition, personnel costs, maintenance, etc. There is no reason to believe the GOH has any sophisticated weapons systems.

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CONDITIONS OF THE LOAN

General Soundness

20. FAA § 201(d). *Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and relending terms of the loan.* (20) The proposed loan is legal under Honduran and U.S. law and the proposed terms are reasonable for Honduras.
21. 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? (21) The activity has been found economically and technically sound. The Borrower has submitted a loan application to AID dated December 14, 1973 which contains assurance that the funds will be used in a sound manner.
22. FAA § 251(b). *Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.* (22) It is reasonably certain that the GOH will be able to repay the loan. See Section IV.A.3 of the CAP.
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 project is not available from other free-world sources, including private sources within the United States.

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24. 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 United States of the assistance?

(24) The required plans have been completed and a reasonably firm estimate of the cost to the U.S. of the activity to be financed has been obtained.

25. 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 purpose of loan?

(25) Since the GOH will repay the loan, ratification by the Chiefs of State and the Council of Ministers will be necessary prior to initiation of disbursements. AID loans made to the Government and its agencies in the past have been ratified on a timely basis.

26. 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?

(26) The Mission Director has signed the certification included in Annex V of this CAP.

Loan's Relationship to Achievement of Country and Regional Goals

27. FAA § 207; § 251(a); § 113. 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:

(27) This loan is designed to strengthen BANMA and up-grade 27 polar and subpolar counties to operate more effectively as agricultural service centers. As service is improved agricultural production and distribution should increase. Technical Assistance provided by BANMA will improve the county governments' administration. The project will not have a direct effect on improving the availability of trained manpower in the country or meeting the country's health needs other than nutrition.

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(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; or
(f) integrating women into the recipient country's national economy.

28. FAA § 209. *Is project susceptible of execution as part of regional project? If so why is project not so executed?* (28) Due to the emphasis of the project on particular areas of the country each with its own peculiar needs the project is not suitable for execution as part of a regional project.
29. FAA § 251(b)(3). *Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realisable long-range objectives.* (29) This project is consistent with the Government's development plan and the USAID's chosen emphasis on rural development.
30. 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.* (30) This project will contribute to the achievement of self-sufficiency and continuing growth of the BANMA because it emphasizes improvement in (1) administrative practices of the Bank and the municipalities; (2) financial position of the Bank and municipalities and (3) services provided in rural localities.
31. 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.* (31) By enhancing ag production through improved marketing distribution Honduras will gain a stronger bargaining position in the CACM and thus encourage it to carry on negotiations with the other members.

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32. FAA § 251(g); § 111. *Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.* (32) The loan will not directly promote the cooperative movement. However, many of the same improvements which facilitate the distribution of goods will facilitate the movement of people thus enhancing the formation and operation of cooperatives.
33. 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.* (33) 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 Section I.D.6 of the CAP).
34. 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.* (34) The municipalities improved ability to provide more and better service as a result of a strengthened DANMA will assist the rural population gain a greater participation in the economic development of the country.
35. 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.* (35) This loan recognizes the need of the rural population for improved marketing centers. The DANMA relying heavily on its own staff will develop seminars and other T.A. programs to teach local government officials improved administrative practices.

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36. 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.

(36) This project will indirectly increase the flow of international trade by facilitating distribution in the local markets and between the country's local and regional markets. As local market accessibility becomes greater competition will increase and with the provision of services such as electricity and water ag. related industry will be encouraged to locate close to its supply.

37. FAA § 619. If assistance is for newly independent country; is it furnished through multilateral organizations or plans to the maximum extent appropriate?

(37) Honduras is not a newly independent country.

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

38. 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.

(38) This project will have no foreseeable adverse effects on the U.S. economy.

39. 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.

(39) The entire amount of the loan will be made available to an intermediate credit institution for relending to municipalities and financing related technical assistance.

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40. 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).
- (40) U.S. exports could be used in the various construction projects. In addition as local markets become more accessible opportunities for selling U.S. products will increase.
41. 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?
- (41) Design and engineering services over \$25,000 will be procured on a competitive basis for which U.S. firms will be eligible. It is expected that most jobs will draw international interest.
42. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.
- (42) U.S. small business will be permitted to participate in the furnishing of goods and services financed by the loan.
43. FAA § 620(h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?
- (43) This loan will not promote or assist foreign aid projects of Communist-Bloc countries.
44. 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
- (44) Technical assistance to be financed under the loan will be furnished to the fullest extent practicable by private organizations or individuals.

whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Loan's Compliance with Specific Requirements

45. FAA § 110(a); § 208(e). Has the recipient country provided assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the Loan is to be made? (45) The recipient country has so provided. (See Section IV A.1. and Exhibits 1 and 2 of Annex V).
46. FAA § 112. Will loan be used to finance police training or related program in recipient country? No
47. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions? No
48. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter? Yes
49. FAA § 604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President? (49) No commodities will be procured in bulk.
50. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price? (50) No bulk commodity procurement is contemplated under this loan.

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40. 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).
- (40) U.S. exports could be used in the various construction projects. In addition as local markets become more accessible opportunities for selling U.S. products will increase.
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- (41) Design and engineering services over \$25,000 will be procured on a competitive basis for which U.S. firms will be eligible. It is expected that most jobs will draw international interest.
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whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

Loan's Compliance with Specific Requirements

45. FAA § 110(a); § 208(e). Has the recipient country provided assurances that it will provide at least 25% of the costs of the program, project, or activity with respect to which the Loan is to be made? (45) The recipient country has so provided. (See Section IV A.1. and Exhibits 1 and 2 of Annex V).
46. FAA § 112. Will loan be used to finance police training or related program in recipient country? No
47. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions? No
48. FAA § 201(d). Is interest rate of loan at least 2% per annum during grace period and at least 3% per annum thereafter? Yes
49. FAA § 604(a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President? (49) No commodities will be procured in bulk.
50. FAA § 604(b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price? (50) No bulk commodity procurement is contemplated under this loan.

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51. FAA § 604(d). If the cooperating country discriminates against U.S. marine insurance companies, will loan agreement require that marine insurance be placed in the United States on commodities financed by the loan?
- (51) The loan agreement will provide for compliance with this provision.
52. FAA § 604(e). If offshore 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?
- (52) No such procurement is contemplated.
53. FAA § 604(f). If loan finances a commodity import program, will arrangements be made for supplier certification to A.I.D. and A.I.D. approval of commodity as eligible and suitable?
- (53) The loan does not finance a commodity import program.
54. 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.
- (54) In procurement for its own account BANMA will follow AID approved procedures, which include an investigation of U.S. Government Excess Property stocks.
55. 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?
- (55) This project is not a water or water-related land resources construction project.

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56. 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?* (56) Prior to initial disbursement for other than technical assistance and training BANMA must submit for AID approval all regulations and procedures concerning sub-loans including procurement regulations. USAID will not approve these regulations unless they ensure that contracts will be awarded on a competitive basis.
57. 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 United States are utilized to meet the cost of contractual and other services.* (57) No U.S. owned foreign currency is available for use in the loan. Honduras is contributing local currency to the project. (See Section IV. A. 1 of the CAP)
58. App. § 113. *Will any of loan funds be used to acquire currency of recipient country from non-U.S. Treasury sources when excess currency of that country is on deposit in U.S. Treasury?* No
59. FAA § 612(d). *Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?* (59) The United States does not own excess foreign currency suitable or available for utilization in this project.
60. FAA § 620(g). *What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?* (60) The Loan Agreement will provide for specific use of the loan funds and thereby preclude allocation of the funds for such purposes.

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61. FAA § 620(k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million? (61) This project will not involve construction of a productive enterprise.
62. FAA § 636(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? (62) No loan funds will be used for this purpose.
63. App. § 103. Will any loan funds be used to pay pensions, etc., for military personnel? (63) Loan funds will not be used for this purpose.
64. App. § 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms? (64) AID will approve all technical assistance contracts and contractors and will approve BANMA's basic contract form for sub-loans.
65. App. § 107. Will any loan funds be used to pay UN assessments? (65) No loan funds will be used to pay U.N. assessments.
66. App. § 109. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. Regulation 7). (66) This provision will be complied with.

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67. App. § 110. Will any of loan funds be used to carry out provisions of FAA §§ 209(d) and 251(h)?

(67) No loan funds will be made available to the IDB or other multilateral financial institution.

68. App. § 114. Describe how the Committees on Appropriations of the Senate and House have been or will be notified concerning the activity, program, project, country, or other operation to be financed by the Loan.

(68) This loan was included in the FY 74 presentation to the Congress. (Latin America, page 57).

69. App. § 801. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by the Congress?

(69) No loan funds will be used for propaganda purposes.

70. MMA § 901.b; FAA § 640C.

(a) 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.

(70) The Loan Agreement will provide for compliance with this provision.

(b) Will grant be made to loan recipient to pay all or any portion of such differential as may exist between U.S. and foreign-flag vessel rates?

No