

PROJECT EVALUATION SUMMARY

1. Honduras
DS/AGR/ESP
2. 931-1134(02)1502
3. Small Farmer Credit: Profitability and Repayment
4. Project Agreement signed: 3/17/78
Final Obligation: FY 78
Final Input: FY 80
5. \$331,750
6. For USAID--Evaluation #
For DS/AGR/ESP--Evaluation #2
7. Period covered by this evaluation: 10/1/78 to 9/30/79
8. 9/3/79
9. Tripartite Action Pending: Recommendation regarding continuing and new areas of TA to be provided by OSU to BNF and new source of funding, funding mechanism and management for a possible follow-on activity beyond termination date of October 1, 1980.
O.S.U.
B.N.F.
U.S.A.I.D.--Honduras
10. Robert Thurston, USAID-Honduras
Dean Bernius, USAID-Honduras
Karen Wiese, DS/AGR/ESP
11. March 1, 1980
12. Signature
Karen A Wiese
Dean Bernius
Robert V. Thurston

PD-AA D-283 93/1134001502

CLASSIFICATION
PROJECT EVALUATION SUMMARY (PES)

ORIGINAL

Report Symbol U-447

1. PROJECT TITLE Small Farmer Credit: Profitability and Repayment			2. PROJECT NUMBER 931-1134	3. MISSION/AID/W OFFICE DS/AGR/ESP
5. KEY PROJECT IMPLEMENTATION DATES			4. EVALUATION NUMBER (Enter the number maintained by the reporting unit e.g., Country or AID/W Administrative Code, Fiscal Year, Serial No. beginning with No. 1 each FY) 2	
A. First PRO-AG or Equivalent FY 77	B. Final Obligation Expected FY 78	C. Final Input Delivery FY 81	<input type="checkbox"/> REGULAR EVALUATION <input checked="" type="checkbox"/> SPECIAL EVALUATION	
6. ESTIMATED PROJECT FUNDING			7. PERIOD COVERED BY EVALUATION	
A. Total \$ 790			From (month/yr.) 9/30/78	
B. U.S. \$ 790			To (month/yr.) 8/30/79	
			Date of Evaluation Review 9/3/78	

8. ACTION DECISIONS APPROVED BY MISSION OR AID/W OFFICE DIRECTOR

A. List decisions and/or unresolved issues; cite those items needing further study. (NOTE: Mission decisions which anticipate AID/W or regional office action should specify type of document, e.g., airgram, SPAR, PIO, which will present detailed request.)

B. NAME OF OFFICER RESPONSIBLE FOR ACTION
C. DATE ACTION TO BE COMPLETED

1. USAID/H program decision/recommendation regarding continuing and/or new areas/funding mechanism/management for TA to be provided by OSU to BNF beyond project termination date of October 1, 1980.
2. Plan of work for CSU working with Agricultural Bank in Dominican Republic. A problem in completion of POW may be encountered due to stress placed on Ag Bank as result of Hurricane damage in the DR. A decision will need to be made regarding the continuance of the project if this POW cannot be developed by the date indicated.

Robert Thurston
USAID/HONDURAS

1/30/80

Karen Wiese
DS/AGR/ESP

11/15/79

9. INVENTORY OF DOCUMENTS TO BE REVISED PER ABOVE DECISIONS

- | | | |
|--|--|--|
| <input type="checkbox"/> Project Paper | <input type="checkbox"/> Implementation Plan e.g., CPI Network | <input type="checkbox"/> Other (Specify) |
| <input type="checkbox"/> Financial Plan | <input type="checkbox"/> PIO/T | _____ |
| <input type="checkbox"/> Logical Framework | <input type="checkbox"/> PIO/C | <input type="checkbox"/> Other (Specify) |
| <input type="checkbox"/> Project Agreement | <input type="checkbox"/> PIO/P | _____ |

10. ALTERNATIVE DECISIONS ON FUTURE OF PROJECT

- A. Continue Project Without Change
- B. Change Project Design and/or Change Implementation Plan
- C. Discontinue Project

11. PROJECT OFFICER AND HOST COUNTRY OR OTHER RANKING PARTICIPANTS AS APPROPRIATE (Names and Titles)

Clearances:

DS/AGR/ESP: Karen Wiese *Karen Wiese 9/13/79*
 DS/AGR: Mary Mozynski *Mary Mozynski 9/18/79*
 DS/AGR: JRWilson *JRWilson 9/19/79*
 DS/AGR/ESP: JCDay *JCDay 9/13/79*

12. Mission/AID/W Office Director Approval

Signature *Tony Babb*
 Typed Name **Tony Babb, DAA/DS/FN**
 Date **11/3/79**

Project Evaluation Summary

The Small Farmer Credit: Profitability and Repayment (SFC) project was approved and funded September 30, 1977. It was originally designed as a DSB/AGR/ESP research activity (approved by RAC) for the purpose of determining microeconomic data collection and analysis methodologies for application by LDC rural financial institutions lending to small farmers. The objective of the development and application of such cost-effective methods was to assist the LDC institutions reduce their defaulted small farmer credit portfolio and to enhance credit administration. AID entered into a cooperative agreement with two (2) cooperating U.S. universities-- Colorado State University [CSU/ 931-1134 (01)] under the direction of Dr. Ronald Tinnermeier, and Oklahoma State University [OSU/ 931-1134 (02)] under the direction of Dr. Daniel Badger. Through the cooperation of these two universities working on similar problems in diverse geo/cultural/economic country conditions the project was to have benefitted from the "leap frog" effect--the rapid advancement and testing of research methods by field application with the benefit of cooperation among the research teams. OSU quickly found mutual agreement with the USAID/Honduras and the Banco Nacional de Fomento of Honduras (BNF) to pursue the project objectives on location in the technical division of the BNF. A project agreement between USAID/H and the BNF and a Memorandum of Understanding between the BNF and OSU was signed and the principal investigator, Dr. Loren Parks, was assigned to Honduras July, 1978. A record of project achievements to date are included in the attached PES. This component of the SFC project is on schedule and is generating useful cost-effective methods for application within the BNF.

However, a very discouraging set of elements has prevented CSU from beginning in-country work. Originally CSU was to work in the Philippines. However, after the cooperative agreement and project agreement had been drawn the USAID/P decided not to allow the implementation of the SFC project because the intended cooperating Philippine institution had not met conditions precedent to an AID sector loan. Having "wasted" a lot of time and money in preparing for project implementation in the Philippines and under increasing uncertainty the decision was made to "pull out" of that country and to locate elsewhere. Nicaragua was chosen due to a strong expression of interest on the part of USAID/N and INVIERNO (rural finance and development institute). However, again after drawing the project agreement and Memorandum of Understanding the Nicaraguan revolution began and the project implementation plans were terminated. At this same time the Rural Development Officer in the Dominican Republic had heard about the project and called AID/W project manager to determine the ability of the SFC project to consider implementation in the DR. After several meetings with the USAID/DR staff and the various institutions, the Agricultural Bank was selected for project implementation. Again the appropriate documents were drawn and signed in June, 1979. The cooperative agreement with CSU was extended without additional funding for an additional year by amendment. The principal investigator, Thomas Dickey, was placed in country and preliminary work was started on July 15, 1979. Again, the unfortunate devastation of the Dominican Republic (August 1979) by Hurricane David places the continuance of the CSU component in serious jeopardy.

The OSU component will terminate 9/30/80. The CSU component is scheduled to terminate 9/30/81. The OSU component, although successfully moving toward completion of the achievement of project objectives, does not appear to have the requisite time left to be able to translate the country experiences in Honduras with the BNF

into practical guidelines for the application of these methodologies to other countries and other rural financial institutions on a global basis. Given the inevitable delay in project work toward achievement of project objectives due to the hurricane, there is serious question as to ~~the~~ CSU ability to complete their plan of work in two years.

Thus, circumstances have forced AID/W and the cooperating universities to make decisions regarding unresolved issues. First, the question of synthesis and dissemination of research methodologies generated under the OSU work in Honduras. Second, to determine the best possible use of CSU talent and resources, given the uncertainties facing the project in the Dominican Republic. It may make more sense to withdraw from the DR, and assign Colorado State University to the OSU project component in Honduras with the specific purpose of resolving the first issue.

The USAID/Honduras SFC project monitor, Robert Thurston, must take appropriate action regarding any follow-on work between OSU and the BNF as this project component extension quite clearly falls as most appropriately funded by the USAID/H program.

This project evaluation will serve three purposes:

- 1) The regular annual evaluation performed by USAID Honduras
- 2) The regular annual evaluation performed by DS/AGR/ESP
- 3) The special evaluation agreed to be performed by AID at the end of thirty months for the purposes of determining progress of the project to date and possible extended funding. Oklahoma State University has requested that this special evaluation be performed at the end of month twenty-four (24) rather than month thirty (30) due to the lack of further funding ability within DS/AGR/ESP. Reference: Project Agreement between AID and BNF #522-AID-W 002: pg. 9 of 12. The subject agreement states: "A comprehensive evaluation will be made by the end of thirty (30) months. The process will be as described in III-B, 1(d) above. If the results have been achieved, a follow-on plan of work may be developed by the BNF, AID and the U.S. Cooperating Universities, subject to the availability of funds, for the continued advisory effort in credit analyses and improvement actions."

13. RELEVANT COMMENTS ON SFC PROJECT DESIGN AND LOGFRAME

The Small Farmer Credit (SFC) project has maintained the goal of increasing small farm incomes and production, with the ultimate beneficiaries being the small farm families of rural Honduras. The project goal and intended beneficiaries are hence stated in the long term perspective.

In the more immediate sense, the SFC project has stated three objectives in the original (4-12-78) work plan, and later in the revised (11-6-78) work plan. These were:

- 1) Improve farm management;
- 2) Train BNF employees and technicians;
- 3) Improve BNF credit administration.

Given these objectives, it is herein asserted that the immediate beneficiary of the SFC/OSU project will be the Banco Nacional de Fomento.

In a more recent report (9-1-79) OSU has slightly modified the stated objectives of the project to be:

- 1) Improve farm management;
- 2) Improve BNF loan evaluation and administration;
- 3) Improve BNF credit policies

It must be pointed out that the above set of objectives reported to the USAID/H and the BNF on the above mentioned date, are not the contractually agreed upon objectives. The OSU project team will be held responsible for those mentioned as stated in the formal work plan, unless formally amended by the AID/W project manager and contract officer.

The Oklahoma State University outputs directed toward the achievement of the project objectives are:

- OBJ. #1: a) establishment of farm records system;
- OBJ. #2: a) development of methodology for farm financial data collection and processing;
b) development of uniform procedures for farm financial analysis;
c) conducting training programs for BNF personnel;
- OBJ. #3: a) case studies (selected by sampling) and use of questionnaires to analyze BNF defaulted small farmer portfolio.
b) analysis of farm product prices for storage policy implications and associated loan collection policies within BNF.

14. SFC PROJECT PROGRESS 10/1/78 to 9/30/79

NOTE ON DATA REQUIREMENTS OF SFC PROJECT:

Certain farm level data needs were found non-attainable within the BNF information and record system (or within any other source for the Honduran agricultural sector). Due to these data constraints, deemed critical to the progress of the project toward accomplishment of project objectives, the OSU team was forced to devote an inordinate amount of available resources to data collection activities. The allocation of resources was considered by OSU and the AID/W project manager to be a misuse of professional PhD staff time. For this reason, an assistant to Dr. Parks, Kurt Rockeman, was assigned in Honduras. Rockeman, working closely with BNF counterparts--Renario Barahona and Rolandro Medranos--has been primarily responsible for the data collection activities involved in the preparation of the farm accounting (cash flow) records and farm enterprise budgets.

The data required are: 1) variable production inputs and associated market prices; 2) assets and fixed costs (depreciation); 3) product disappearance (family consumption and post-harvest loss); 4) family cash expenditure; 5) product prices received by the farmer.

As indicated, the data collection activities are now very multi-faceted, considered essential to achievement of the SFC project objectives, and will continue (and in some areas be enhanced) for the life of the project. BNF is in total agreement with the data collection activities as

seen by their increasing cooperation and assignment of scarce bank resources to the project.

SFC MAJOR ACTIVITIES--COMMENTS

A. Farm Accounting Book

A final Spanish version of the farm ac^ccounting book will provide the farmer and the BNF with a method of measurement of the farm resource base and of farm family consumption. This measure of cash flow will serve as a basis for BNF loan evaluation. This book, entitled, Libro de Contabilidad Para Empresas Agropecuarias, has been field tested with 15 farm families. It is not intended to be administered to each farm client in the BNF loan portfolio. Rather, it is intended to be administered to a sample of approximately 10 farm families in each agricultural zone in Honduras, hence recognizing great regional diversity. There is increasing political pressure being brought to bear on the BNF to modify the methodology to allow for incorporation of land reform groups. The SFC-OSU project staff has agreed to modify the format and methods, however actual extension to the field of this activity to all concerns and in all zones will be the responsibility of the BNF technical division. Alphonso Bonilla has stated (9-1-79) that the BNF will pursue extension of this data collection activity under the recognition of its importance to the BNF operations at cost to BNF (estimated at \$8,000 = L 16,000 + perito valuadore time for oversight) in the coming year. OSU has suggested to BNF that only rural women be hired as accountants for this effort, in recognition of under and unemployment of women in rural areas.

It is of importance to note that the BNF has historically employed no uniform method of evaluation of small farmer loans. Such standardization of methodology and procedure, based on accurate information is considered critical to the reduction of the BNF defaulted portfolio.

B. Farm Enterprise Budgets

Finalized Spanish versions of crop budgets have been prepared for the majority of agricultural crops under three different technology levels for the Honduran agricultural sector. These budgets are being consolidated into a standard desk reference for perito valuadores entitled, Plan de Inversion. In the coming year livestock budgets will be finalized and incorporated into this reference. It is estimated that 250 budgets en toto will be available to the perito ^{loan} ^{assess} valuadore for loan preparation purposes. Currently, 120 enterprises budgets are completed and typed, and 40 more await final typing.

Again, the lack of consistent methodology employed by BNF field agents has created problems in the bank's records and information system. Further, OSU has found that historically BNF peritos will authorize a loan amount from 20% above that which is needed and taken by

the farmer. This creates significant inefficiency in BNF loan resource allocation—effectively tying up loan funds which will not be available to others in need and will not be earning interest during the loan period. This practice restricts the size of the BNF client portfolio, reduces the numbers of small farmers who can receive loans badly needed, and is extremely costly to BNF.

Further, in the cases where a consistent method was followed by the conscientious perito valuadore, that method has lead to gross under or over estimation of loan size. This is due to the fact that there has been only one master budget available to the perito valuadore to use. This method obviously ignores the vast regional variation in resource base climate, and crops produced—as well as variation in management capacity of the individual farmer, technology levels employed in each farm situation, and differences in prices paid for inputs.

A further element of reality being introduced by the OSU project is the collection and use in loan preparation and evaluation of current input prices.

The OSU project insists that the budget is the basic building block for careful loan preparation. Further, the methods currently employed by the BNF do not account for essential variation—which has been estimated to be approximately 50% around the mean among the different regions in Honduras.

This component (output) of the SFC project has been designed in several phases, as follows:

- Variable cost data collection (crop and livestock)
- Preparation of fixed costs (depreciation)
- Education and training of peritos and BNF technical division analysts in the budgeting procedures and methods.

Variable costs for livestock production, fixed costs and training are not yet complete (see Sect F, pg. 8) but are now in progress and as of this evaluation these elements are expected to be completed by project termination.

There is an extensive training phase of this component which will commence September 15, 1979 and continue throughout the remainder of the project life. It is planned that a carefully selected 14 peritos valuadores will begin rigorous training sessions in enterprise budget preparation. These 14 will then serve as trainers for the remainder of the BNF perito valuadore staff (106), under the close supervision of the SFC staff.

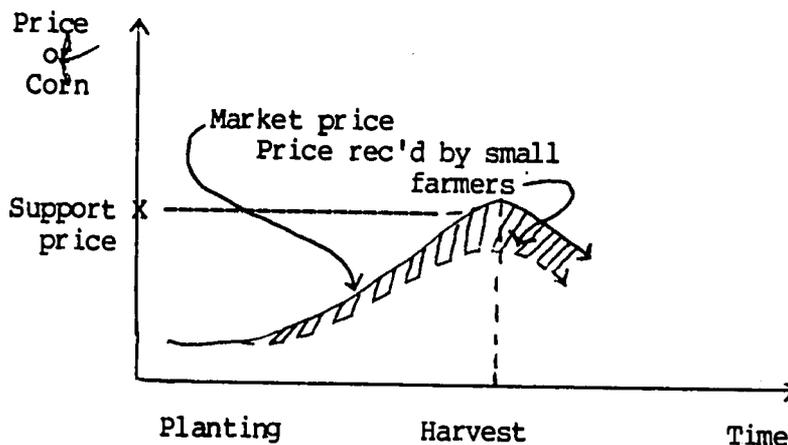
The enterprise budgets generated by this project were used by the GOH in setting the 1979 National Grain Support Price. There are many other

areas of work in policy analysis which may now be considered due to the existence of these enterprise budgets and data collection methods. The OSU project staff and OSU on campus team will be constructing methods for linear programming for this purpose during the coming year. ✓

C. Input and Product Price Collection

1) Product Price

The typical situation in the farm product price cycle is represented by an increasing trend in the commodity price from planting time, over the length of the growing season, reaching a quick peak at harvest and then receding steadily. This trend is represented graphically below. Product



prices received by the small farmer at the farm gate are known to be less than the market price. However, since commodity price data is systematically collected at the market centers and not at the farm gate there is no reasonable idea of how much these two prices differ. There are many reasons why a price differential exists: 1) Many small farmers sell their product to roaming agents with trucks at a reduced price; 2) there is a serious shortage of government storage facilities and correspondingly only a small percentage of the Honduran farmers receive the support price; and 3) BNF loan repayment policy forces the farmer (client) to sell his product by August 30, irrespective of the market price at that time, to repay the loan. This reduces the farmer's speculative options.

The BNF has historically used the National Support Price as the measure in evaluation of the individual farmer potential to repay a specific loan amount. In recognition of the price differential the SFC/OSU project has initiated and instituted an activity which requires the perito valuadore to collect farm gate prices from a large enough sample of farmers in each zone for realistic product price estimation for loan evaluation purposes.

2) Input Prices

Input prices are being collected and incorporated into the standard-

ized desk reference which will be made available to each perito valuadore entitled, Planes de Inversion to assist in budgeting, loan preparation and evaluation. These prices vary considerably according to source and availability by region, therefore are considered necessary in keeping relatively accurate cost of production schedules.

D. Computerized Client Information-Files

Historically the BNF has suffered seriously in the area of information flow. It is a systemic problem, which begins with erroneous or inaccurate information given by the farmer and is carried and compounded throughout the BNF loan preparation, evaluation and approval cycle. The OSU project staff has suggested reforms with respect to computerization of client records. Once the information is recorded, entered and verified this problem of inaccuracy of information and repetition of procedure each time the client approaches the bank for a loan will be eliminated. This measure will substantially reduce the transactions cost to the BNF and reduce the time necessarily spent by the farmer in applying for a loan.

This computerized system of client files will also give the BNF access to basic operational information it has not had in the past. For example, the BNF will be able to better determine the number of clients, the number of loans and by type, the percent defaulted and repaid. This and other information will certainly enhance the BNF managerial capacity.

OSU-SFC project staff is cooperating with a larger \$800,000 TA effort (Cooper and Lybrand; and R.W. Beck & Associates) financed under USAID-Honduras loan 030 project designed to assist the BNF in setting priorities for the pending institutional reorganization within the BNF.

E. Group Loan Experiment

Currently the OSU-SFC project has been asked by BNF to assess the feasibility of making loans to groups of individual farmers. The idea is basically to form a group of individuals who would not be loanable due to their high risk classification by the BNF if alone and make a common loan to the group. This procedure would effectively reduce the risk to the bank by spreading the responsibility among the group. It would also enable certain segments of the smallest Honduran farmers (AIDS target group) to receive an equal chance to improve their production potential. The OSU project has instituted two (2) such group loans on an experimental basis in an area of 3 northwest mountainous provinces having 55 such associations formed under a \$25 million UNDP (IFAD) project (PRODERO).

F. Project Activities Planned for Year 3 (Final FY)

- 1) Preparation and Incorporation of Livestock Enterprise Budgets in Planes de Inversion

- 2) Training of BNF Perito Valuadores (120) and technical division staff of procedures in farm enterprise budgets and improved loan evaluation methods.
- 3) Case studies of Defaulted Small Farmer Portfolio for remedial analysis purposes.
- 4) Linear programming for BNF Policy Analysis
 - whole farm enterprise analysis
 - loan repayment/product sales policies
 - other problems as identified by BNF administration and OSU team.

G. Progress/Status of Colorado State in Dominican Republic

- 1) Agricultural Bank selected as cooperating host country institution. This bank provides @ 60% of all agricultural credit in the Dominican (including informal sources and other credit institutions). The USAID/DR has strongly supported this choice.
- 2) Memorandum of Understanding has been signed by all 3 cooperators (OSU, CSU, Ag Bank).
- 3) Principal Investigator has been selected -- Dr. Thomas Dickey now on assignment in country. Assistant also selected (CSU thesis research) -- J.D. Longwell--also in country.
- 4) The Plan of Work is now being designed and will be finished by November 1, 1979. CSU expects to use Dr. Loren Parks to consult and assist in work plan design.
- 5) Secretariat of Agriculture and IICA is organizing a system of farm record keeping--purpose of which is to generate micro level data for ag sector planning and policy analysis. CSU will be assisting in this effort and expects to use Dr. Parks and OSU experience and materials from Honduras.
- 6) The tremendous agricultural and human loss created by Hurricane David (8/79) may jeopardize project progress over the coming year.

15. ASSESSMENT OF CHANGES IN PROJECT SETTING

The Small Farmer Credit project (931-1134-02) is a centrally funded project originating, funded and managed by Development Support Bureau, Office of Agriculture, Division of Economics and Sector Planning. In fulfilling the institutional mandate of the central bureau of AID, this credit project was conceived as a cooperative inter-regional agreement between Oklahoma State University, (whose in country work would be focused in Honduras) and Colorado State University (whose in country work would be focused in the Philippines).

The project was to have benefitted from the "slingshot effect" by employing two cooperating universities working with rural financial institutions mandated to lend to small farmers in two varied cultural/economic/agricultural settings. It was envisioned that the Universities (and hence AID) would learn from each others' mistakes and successes in developing microeconomic based methodologies which rural financial institutions could employ to enhance their small farmer loan portfolio administration and reduce the size of their defaulted portfolio.

Unfortunately, due to country circumstances in the Philippines, and later in Nicaragua, beyond the control of USAID and the Universities, Colorado State has been unable to locate in country until July, 1979. CSU is now operating in the Agricultural Bank in the Dominican Republic. Due to this set back which is judged to be a substantial flaw in the project design, Oklahoma State has been working under a handicap. However, while starting slowly Oklahoma State has accomplished all of the objectives of the project through the second year of the work plan. The success of the SFC/OSU project is judged to be largely due to the rapid pace set for the team by the in country technician (Pl) Dr. Loren Parks. Dr. Parks and his staff have also gained tremendous rapport with and the confidence of the BNF administration. This confidence in the SFC/OSU project effort stems primarily from the obvious direct utility to the BNF in their efforts to strengthen the administration of credit to the small farmer and land reform groups. The BNF confidence can be seen in the total cooperation of the BNF administration with the OSU project staff, the assignment of relatively scarce human and capital resources to this project, the adoption of suggested reforms and institutionalization of OSU developed cost effective methodologies in data collection and on the job training.

Issues

- 1) As of this evaluation, it is evident that the SFC/OSU project has been successful in assisting the BNF to move toward their goal of institutional financial viability. The OSU project staff has done this by applying existing knowledge and technologies within OSU to a new situation and set of problems within the BNF and Honduran agriculture. Further, the OSU project staff has successfully generated new knowledge, means and methods of improving the BNF small farm and group loan administration and evaluation procedures. It is this latter capability that the BNF administration will need to concern themselves with in the near future. More specifically, BNF and the USAID/H should begin to consider the current human and capital resources extant within the bank which can be assigned to the SFC project unit to continue the momentum of the project in the generation of new research methods and the application to the BNF system for problem solving purposes. The critical condition precedent to this internal assessment of resources is the development of a sound set of objectives for this technical unit over

next few years. These objectives should highlight the micro level data generation and analysis needs of the BNF and should complement the technical capabilities and talents of those human resources which the BNF assigns to the unit. A further consideration should be the technical division which is mandated to pursue activities connected with objectives achievement. These questions should be addressed before the termination of Dr. Parks in country assignment (July, 1980) thus insuring the BNF's ability to draw on his technical perspective.

- (2) The SFC/OSU project is a research project which is intended to determine appropriate methods for data generation and analysis. The primary focus of this project is methodology development. Hence, the micro level data being generated are in "sample quantities" which are not in statistically valid or useful quantities. It is not simply an "academic" concern that the BNF recognize the fact that sample size (data sets) must be large enough and of sufficient quality to be truly representative of the farm population in Honduran agriculture. If the sample size and associated characteristics are not randomly generated across all agricultural zones and of sufficient size there exists a tremendous danger of under and over estimation. At this point in time, these data should not be used for policy analysis purposes by the BNF in recognition of this critical data constraint. Any analysis which results in recommendation of policy reform to the BNF based on the use of these "sample" data could be quite hazardous to the BNF operations and to the Honduran farming community.

The BNF should consider what types of data are required to address certain problems or policy issues and then marshal the resources necessary to collect the data with the statistically valid and cost effective methods generated under this project.

- (3) AID's field experience in the area of small farmer credit in developing countries has shown that the rural financial institution and the host country government institutions at large do not have access to adequate information on the intricate interrelated macro economic aspects of the agricultural sector. This is usually due to the shortage of adequate micro level information. The Honduran government does not, at this time, have in place the "machinery" for understanding and analyzing macroeconomic policies. Consequently, many of the problems which the BNF (and its small farmer clients) has are related to the deficiency — the inability to see the whole picture.

Further, AID has concluded that macroeconomic credit policies pose as serious a problem to rural financial markets and institutions in LDCs as the lack of microeconomic information.

At this time, there are significant efforts and movements to put in place the appropriate "machinery" which will allow the Honduran government, and the BNF in particular, to handle macroeconomic analysis. The USAID/H has currently been given the authority to direct the expenditure of 50 million dollars under its Ag Sector II Loan, for the purpose of providing Honduras with the appropriate technical assistance needed to accomplish this objective.

It is suggested that technical assistance to the BNF move into areas where the US has comparative advantage — policy analysis techniques— hence appropriately addressing this macroeconomic based problems that effect the BNF operations.

For example:

- 1) national support price/storage policies
- 2) small farmer loan repayment and speculation
- 3) revolving accounts
- 4) loan default/repayment
- 5) investment credit

- (4) The BNF is experiencing high turnover in the ranks of loan officers and credit analysts. This turnover jeopardizes the ability of the BNF to efficiently institute the recommended reforms - permanent institutionalization requires trained and committed BNF field agents who will faithfully carry out the recommended reforms and use the new techniques and methods developed by the OSU/SFC project. Serious thought should be given to the question of BNF salary incentives for its field agents.
- (5) The OSU project has consistently stated as one of three (3) project objectives that of improving farm management on the part of the small farmer in Honduras. This objective was to be met through the development of a farm record (cash flow accounting) system. Realistically speaking this objective, as stated, will not be met during life of the project. This evaluation team would recommend that this stated objective be dropped from those of the SFC project. However, the farm records keeping system which has been developed and instituted on a sample basis will provide useful micro level data which can be used by the bank to improve its small farmer loan preparation and evaluation methods. In consideration of the functional utility to the BNF, and to the achievement of the objective #2 (ref. pg. 3 of this evaluation), it is recommended that this activity be continued and considered as a valid and useful output of the project.
- (6) The OSU component of the Small Farmer Credit project is considered by the BNF, USAID/H, OSU and AID/W to be successfully proceeding along the plan of work. Given the completion of the planned work for this coming (3rd final) year the OSU project outputs will have

significantly contributed toward the achievement of objectives #2 and #3 (ref. pg. 3)

In consideration of the lack of available funding (AID/W) under this cooperative agreement for the purpose of an extension of this activity for years 4-5, and in acknowledgement of the responsibility of AID to review this project for this purpose (ref. Project Agreement - USAID/H and BNF) there exists an issue of what work of this nature remains to be done within the bank, what is the appropriate contractual mechanism to provide this technical assistance and what role, if any, should Oklahoma State University play in the provision of these services.

It should be clearly recognized by all parties involved that this project has not benefitted, to the extent originally envisioned, from cooperation of two universities operating in diverse geographical and cultural countries. This is not the fault of the universities involved, but due to factors exogenous to the project which have mitigated against locating the second university. However, primarily due to this fact the OSU component of the project has become direct technical assistance to the USAID/H program and to the Banco Nacional de Fomento of Honduras. Therefore, there can be no further consideration of funding of this particular agreement from AID/W.

Another critical ¹¹element of consideration is the existence of two technical assistance teams in the BNF (in addition to this project) financed under a USAID/H loan 030 whose primary function is operations and systems analysis of the BNF from a financial/institutional perspective. These teams will be making recommendations to USAID/H and the BNF for rather specific technical assistance interventions which will be financed under the larger USAID/H Ag Sector II Loan program.

Therefore, it is only after all the recommendations are in and the BNF, together with the USAID/H, construct a clear set of priorities for US assistance that a determination of need, source, mechanism etc can be made by the USAID/H.

- (7) Given the uncertainties of future contractual relationship with the USAID/H and the need for specific TA interventions to be provided by OSU to BNF in the future, it is now recommended that the SFC/OSU project staff take on no additional activities. Concentration on providing the outputs specified in the 3rd year plan of work is now needed.