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

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations  
For the Review of the  
Development Loan Committee

HONDURAS - Hurricane Rural Reconstruction and Recovery

AID-DLC/P-2063

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

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December 20, 1974

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

Honduras

SUBJECT: Hurricane Rural Reconstruction and Recovery

Attached for your review are recommendations for authorization of a loan to the Government of Honduras ("Borrower") of not to exceed fifteen million United States dollars (\$15,000,000) to assist in financing the United States dollar and local currency costs of a program designed to further the recovery of Honduras from the effects of Hurricane Fi Fi ("Project"). The loan funds will be apportioned among the following activities: Farm Credit and Grain Marketing - \$12,500,000 Section \_\_\_\_\_; Primary School Reconstruction - \$1,500,000, Section \_\_\_\_\_ and: Rural Shelter Reconstruction - \$1,000,000, Section \_\_\_\_\_.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee on Friday, December 27, 1974. Also, please note your concurrence or objection is due at the close of the meeting, therefore, it is requested that you bring your poll sheet along with you.

Development Loan Committee  
Office of Development  
Program Review

Attachments:

Summary and Recommendations  
Project Analysis  
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**HONDURAS: HURRICANE RURAL RECONSTRUCTION AND RECOVERY**

**SUMMARY AND RECOMMENDATIONS**

**THE RURAL RECONSTRUCTION PROGRAM**

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1. Análisis y Proyecciones Macroeconómicas del Desarrollo y la Reconstrucción 1975-1979. National Planning Council. December, 1974.	
2. Capital Assistance Paper AID-DLC/P-2051, Honduras: Agriculture Sector Program. June 1974.	
3. Plan de Emergencia del Sector de Educación. Ministry of Education. November, 1974.	
4. Honduras: Housing Sector Analysis. A.I.D. Office of Housing. August, 1974.	
5. Impact of Hurricane Fifi On the Honduran Economy: A Macroeconomic Analysis. Clark Joel, ROCAP. December, 1974.	

## **SUMMARY AND RECOMMENDATIONS**

### **1. Borrower**

The Borrower will be the Government of Honduras (GOH). Executing agencies will be the National Development Bank (BNF), the Ministry of Education, and the National Housing Authority (INVA).

### **2. Loan**

a) Amount: Not to exceed \$15,000,000

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

### **3. Project Setting and Background**

Hurricane FIFI struck Honduras on September 18, 1974. It seriously damaged an area along the North Coast equal to approximately 12.3% of the country's total land area. Approximately 20% (538,000) of Honduras' population lives in the area, with over 250,000 rural inhabitants severely affected.

The Hurricane was particularly damaging because the area is Honduras' most productive agricultural region and the source of the majority of its exports. It had been chosen by the Government as the area to receive particular development emphasis and investment during the period of execution of the Five-Year Plan 1975-79.

The National Planning Council estimates the physical damage and loss in value added over the next several years will be equal to 37% of the country's Gross Domestic Product (GDP) in 1974. Losses of crops, especially bananas and corn (which was just entering the harvest), were major. Capital damage included schools and houses destroyed, bridges and highway sections washed away, and utility services knocked out.

As a result the economy in 1975 will suffer a drop of 11% in GDP from previous estimates for 1975; Government revenue will

be reduced by over 20% compared to the pre-hurricane estimate for 1975; and Honduras faces a balance-of-payments deficit in 1975 of perhaps 78 million.

In addition, thousands of rural families have lost their crops and their homes, and may be unable to recover to even their previous levels of income and assets -- much less improve their lot -- unless the Government is able to respond to their immediate needs for agricultural production and basic housing credit.

#### 4. Goal and Purpose

The Goal of the Program is the recovery of Honduras from the effects of Hurricane FIFI with particular emphasis on regaining the production level of basic foods and without interfering with the execution of the National Development Plan. This will require investment in food production and marketing and the restoration of essential Government services, including education and housing. Since the bulk of the population of the affected area is rural and poor, and since basic food production is largely in the hands of small farmers, the immediate benefits of this Loan will be felt most directly by that group.

The purpose of the Agriculture Credit Project, over 60% of the Loan, is to provide credit to small and medium farmers for food production. The Grain Marketing Project will augment the BNF's capacity to buy the added production and to control basic food supplies and prices. The Primary School Reconstruction and Rural Shelter Reconstruction projects, which together will absorb less than 20% of the Loan, will restore primary schools serving approximately 50,000 students and will provide basic housing to 2,400 families in the Hurricane zone, again predominantly rural and poor. While the farm credit and grain buying activities will be national in scope, emphasis will be placed on providing credit for farmers in the hurricane affected zone. The education and housing activities will be carried out exclusively in the stricken areas.

#### 5. Project Description

The Loan will be made to the GOH which will in turn provide the equivalent in Lempira grants of \$12.5 million to the BNF, \$1.5 million to the Ministry of Education, and \$1 million to INVA.

The BNF portion of the Loan will be used for lending to farmers for food production loans (\$9.5 million) and grain marketing (\$3 million). These farmers, who in large part are in arrears on their 1974 BNF loans due to Hurricane losses, will be permitted to use their credits to purchase hand tools, seed and fertilizer, barnyard animals, and other food production inputs, and will contract to sell a portion of their crop to the BNF at the support price.

The Ministry of Education will use its portion of the Loan to repair or reconstruct as many as possible of the 256 schools damaged or destroyed by the Hurricane using CARE as project administrator. The Loan will finance the procurement of construction materials, the labor drawn from the communities in which the schools are to be constructed or repaired (some of this may be donated), school furniture and equipment, and CARE's administrative costs. The Department of School Construction and Maintenance will do the design work and construction supervision. CARE will act as a promoter of the community interest in the schools, encouraging them to donate land when needed and labor for construction; will procure certain school equipment and materials; and will certify payments for construction.

INVA will utilize non-profit private institutions to construct approximately 2,400 simple wooden houses. Actual construction shall be carried out by the participating non-profit agencies (FENCOVIL, FACACH, etc.) under INVA coordination and supervision in accordance with previously agreed upon plans and specifications. The houses will cost about \$400, and will be financed with 100% mortgages. In general, post-occupancy project servicing shall be carried out by INVA. Selection of homeowners shall be the joint responsibility of INVA and the participating agencies.

6. Financial Plan

	<u>A.I.D.</u>	<u>GOB</u>
Food Production Credit	\$ 9,500,000	\$ 5,350,000
Grain Marketing	3,000,000	150,000
Primary School Reconstruction	1,500,000	75,000
Rural Shelter Reconstruction	1,000,000	50,000
Total Loan	<u>\$15,000,000</u>	<u>5,625,000</u>

All procurement will be carried out locally and all financing provided in Lempiras, although some portion of the agricultural inputs, school equipment, and construction materials will have been imported. The Honduran Central Bank will maintain throughout the period of the AID-financed program, a \$4 million credit to the BNF for emergency crop credit. This and the GOH administrative costs for the AID-financed program conservatively estimated at 10% for the credit program and 5% for other program expenditures constitutes the GOH contribution to the program, some 27% of total costs. Assurances of the GOH contribution will be provided prior to signing of the loan agreement.

7. Other Sources of Funds

The Export-Import Bank, IBRD and its affiliates, and the IDB have informed A.I.D. that they are not prepared to consider the Sub-Projects contemplated under this Loan.

8. Statutory Criteria

All statutory criteria have been met.

9. Views of the Country Team

The Country Team endorses the proposal as a high-impact effort meeting immediate needs which Honduras cannot handle alone and to which other lenders cannot respond in time.

10. Recommendations

The Mission recommends that a Loan be authorized to the Government of Honduras for an amount not to exceed \$15,000,000 subject to the following terms and conditions:

A. Interest and Terms of Repayment

Repayment in dollars within 40 years, at an interest rate of 2 percent per annum during the 10 year grace period and three percent per annum thereafter.

B. Other Conditions

1) Concerning the Grain Marketing Activity

Prior to initial disbursement, Borrower shall submit in form and substance satisfactory to A.I.D., a plan for grain buying operations including pricing policies to be adopted in carrying out the program during calendar year 1975.

2) Concerning the Agricultural Credit Activity

Prior to initial disbursement, Borrower shall submit in form and substance satisfactory to AID:

- a. A time-phased implementation plan giving priority in the use of resources to hurricane affected areas and describing the policies and procedures governing the use of resources (including administrative, technical, and financial) to be allocated to the program.
- b. A standard agricultural credit loan agreement between the BNF and credit recipients that shall include inter alia:
  - i. Provision for the sale of the collateralized grain crop to the BNF at a price sufficient to constitute an incentive to produce grains.
  - ii. Provision for the reduction of delinquent loan balances due to the BNF from previous production credits.

3) Concerning the Education Activity

Prior to initial disbursement Borrower shall submit in form and substance satisfactory to AID:

- a. An agreement with CARE providing for CARE's role in the execution of the Activity.
- b. A time-phased plan for the implementation of the activity.

4) Concerning the Housing Activity

Prior to initial disbursement for other than technical assistance, Borrower shall submit in form and substance satisfactory to AID, a time-phased plan for implementation of the activity, including the policies and procedures to govern sub-lending for Housing.

- 5) Borrower, the Executing Agencies, and A.I.D. shall conduct an evaluation of the loan-financed activities prior to the beginning of the seventh month following execution of the Loan Agreement.

**Capital Assistance Committee:**

<b>Loan Officers:</b>	<b>Charles R. Connelly Robert P. Mathia</b>
<b>Program Officer:</b>	<b>Robert J. Maushammer</b>
<b>Rural Development Officer:</b>	<b>James Bleidner</b>
<b>Housing Consultant:</b>	<b>Fred Kalhammer (ROCAP)</b>
<b>Educational Consultant:</b>	<b>Henry Reynolds</b>
<b>Economic Officer:</b>	<b>Clark Joel (ROCAP)</b>
<b>Controller:</b>	<b>Robert Clark</b>

**Approved: Frank B. Kimball, Mission Director**

**FBK**

**December 13, 1974**

## A: The Reconstruction Program

### 1. Background

When Hurricane Fifi struck Honduras, it ravaged an economy that has never been strong. Its three segments -- a large group of traditional agriculturalists, a small but very productive nucleus of commercial agriculture producers and a commercial/ industrial urban element-- have not shown the dynamic growth that would characterize self-sustained development. In size and growth, it is the smallest and weakest economy in Central America and among the weakest in the Western Hemisphere.

Traditional agriculture employs two-thirds of the labor force but contributes only one-fourth of GNP. As a result, median per capita rural income is about \$50 per year. Commercial agriculture employs about 3 percent of the labor force but accounts for about 10 percent of GNP. Wages are high by Honduran standards and about one-half of the value of exports are products of the commercial agriculture sector. Banana production is by far the most important commercial agriculture activity. Coffee, meat, wood and sugar have been important exports as well.

Hurricane Fifi was a rural disaster. It hit hardest the low income rural groups which had little or no margin to fall back on. In addition to the toll in human suffering, much of agricultural activity and its supporting infrastructure in the rich North Coast area, the economic backbone of the country, received severe damage. The productive capacity of the North Coast will be disrupted for years to come; it will require major investments by both the private sector and local and national governments before it will be able to reach even its previous level of production.

### 2. Damage Estimates

A ROCAP-prepared report<sup>1/</sup> estimated that the gross damage to the economy in terms of physical and value added of production will come to \$330 to \$360 million through 1976. (The

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<sup>1/</sup> Clark Joel, ROCAP Economic Advisor, 'Impact of Hurricane Fifi on the Honduran Economy - A Macroeconomic Analysis, December 12, 1974 (attached as a supplement).

Planning Council, using somewhat different concepts, figures the loss at \$450 million.) Included were infrastructure and housing losses of \$53 million, losses in value added through 1976 of \$200 million and losses in soils, crops and livestock of \$51 million. The drop in value added in 1975 alone represents about 11 percent of the GDP for 1975 as projected before Fifi struck, including a drop of 18 percent in agriculture, 11 percent in industry, 18 percent in transport and communications and 13 percent in commerce.

In real terms, the economy in 1975 will be at about the same level as in 1973 instead of having grown over 12 percent in the interim. All sectors except agriculture will be at or just slightly below 1973 real levels. Agriculture will be 7 percent below 1973 on a total real basis and 13 percent below on a real per capita basis.

The implications of the hurricane on the domestic availability of foodstuffs, on foreign exchange earnings and on government revenue collections are most serious. The survival of thousands of people will depend on imported food at a time when foreign exchange reserves and earnings will be severely strained. The ability of the government to command internal resources to confront the problem likewise will be impaired as fiscal revenues slip. At the same time, the government plans to begin implementation of an ambitious agrarian reform and rural development program, in addition to repairing the damage as quickly as possible.

### 3. Impact on Food Supplies

According to official estimates, the damage to food production for domestic consumption was most important with regard to corn. Corn production was projected to increase by almost 6 percent in 1974 over 1973. The Planning Council now projects a 32 percent decline below the 1973 level as a result of the hurricane. The loss in corn production represents the annual corn consumption of an estimated 1.0 million people<sup>1/</sup>. Unfortunately, the loss came right before harvesting of the

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<sup>1/</sup> The estimated loss was 122,400 tons (Planning Council estimate) divided by an estimated annual per capita consumption of 123 Kg.

first plantings in the agricultural year, when stocks were very low.

There are also serious shortages in rice, though these are largely independent of the hurricane. Rice production had been projected by the National Development Bank to increase by 26 percent in 1974 and make Honduras self-sufficient. Unfortunately, that target will not be met, and Honduras' 1974 rice production may be even lower than in 1973. It is estimated that Honduras will have to import 68,000 metric tons of corn in the next year at a cost of \$12 million and 10,250 metric tons of rice at a cost of about \$5 million. The GOH has requested a PL-480, Title 1 loan to help meet this need.

The availability of other foods also decreased as a result of the disaster. It is estimated that about 15 percent of bananas and plantains for domestic consumption were lost. Oranges were virtually wiped out, while beef, poultry, milk and eggs were affected somewhat. Production of most of these items, however, will be restored in 1975. However, since population will continue to grow at about 3 percent a year, the country's food position will deteriorate. Honduras, already classified as a chronic food deficit country by the FAO, will face an even darker future.

In response to this situation, the Ministry of Natural Resources has formulated an emergency plan for the production of basic grains to be put into effect immediately. The plan sets the following targets for the increase in output of basic grains: for corn, 1.9 million quintales (86,364 metric tons); for beans, 113,000 quintales (5,136 metric tons); and for rice 254,000 quintales (11,545 metric tons).

#### 4. Impact on the Balance of Payments

The main impact will be on the ability of the country to import the consumer goods, raw materials and capital equipment that it will need. The problem stems fundamentally from the interaction of substantially lower exports of the country's major single earner of foreign exchange -- i.e. bananas -- and sharply increased import requirements related to the country's

reconstruction and development programs. The uncovered deficit in the balance of payments indicates the key resource gap that is not subject to ready control by GOH authorities and which should be addressed by external assistance.

The Planning Council's projections of exports, imports and the balance of payments were presented and analyzed in detail in Clark Joel's macroeconomic report (attached as a supplement). The major conclusions reached are as follows:

a. The Planning Council's export projections for 1975-76 were adopted as the basis of our analysis. These project a decline of 47 percent in banana exports in 1975 in comparison with the 1973 level. Total 1975 exports are projected to increase by only 1.5 percent over the 1973 level.

b. The deficit on current account in the balance of payments is projected to increase from  $\text{L} 71$  million in 1973 to  $\text{L} 236$  million in 1974,  $\text{L} 330$  million in 1975 and  $\text{L} 315$  million in 1976.

c. The requirement for extraordinary external assistance is projected at  $\text{L} 155$  million ( $\$78$  million) in 1975 and  $\text{L} 200$  million ( $\$100$  million) in 1976.

Honduras was facing a serious balance of payments problem even before the hurricane as a result of (a) the failure of banana prices to keep pace with Honduras' import prices; (b) decline in banana sales as a result of the conflict over the banana export tax; (c) sharp increases in the price of oil and other imports. ROCAP estimated the pre-hurricane balance of payments deficit in 1974 at almost  $\$50$  million. Thus, the hurricane has aggravated an already precarious situation. Honduras will have to make a major effort both to expand and diversify its foreign exchange earnings.

It should not be assumed that the hurricane damage will be completely repaired in 1975. The intentions of the banana companies are not clear at this stage. While the lands in the Sula and Aguan Valleys (hardest hit by the hurricane) are

ideally suited for banana growing, the banana companies would also consider the following factors: (a) banana exports from Ecuador to the U.S. apparently have been able to fill the gap left by Honduras; (b) the absence of an export tax in Ecuador and the cost competitiveness of Ecuadorian bananas; (c) the failure of banana prices to rise in the U.S. market in recent months in line with increases of other food products; (d) the extent of the damage to banana plantations combined with the high cost of rehabilitation; and (e) the high cost of money in today's money markets. Thus, there is a strong possibility that Honduras' lower banana export earnings will persist beyond 1975.

It is also clear that Honduras needs long-term loans on concessionary terms to meet its resource gap. The Honduran development plan concentrates on agricultural and forestry development, agrarian reform, education and infrastructure projects which certainly cannot be expected to pay for themselves over a five to seven year period. The financing of Honduras' external assistance requirements on commercial terms would significantly increase its debt service charges and further worsen prospects for an already serious balance of payments deficit. We should also avoid pressure on the GOH to divert its resources from its long-term development program to reconstruction activities.

##### 5. Fiscal Impact

The hurricane is expected to have a substantial impact on central government revenue collections. Major reductions are expected in the collection of corporate income and banana export taxes, with lesser reductions in personal income and indirect business tax collections. The Ministry of Finance estimates the loss in total revenue collections at  $\text{¢} 48$  million in 1975. As a result, the government projects a sharp drop in current savings between 1974 and 1975. The central government's budgetary deficit is projected to increase by 111 percent in 1975 (up from  $\text{¢} 79$  million in 1974 to  $\text{¢} 167$  million in 1975), while the portion of the projected deficit without financing (i.e. the sum of internal and external gaps) is projected at  $\text{¢} 79$  million in 1975 and  $\text{¢} 76$  in 1976.

The government intends to undertake reconstruction activities while going forward with its normal public investment

program. In fact, it has scheduled an acceleration in the implementation of its development plan as it feels that the development of the agricultural sector and of its agrarian reform program cannot be delayed. Total capital expenditures of the public sector are projected to increase by 51 percent between 1974 and 1975<sup>1/</sup>. They are projected to reach ₡ 375 million in 1975 and ₡ 330 million in 1976. The unfinanced external gap alone, consisting of loans presently being negotiated and those still without financing, amounts to ₡ 130 million in 1975 and to ₡ 119 million in 1976<sup>2/</sup>. This plan strikes us as over-ambitious and will most likely have to be stretched out over a longer period. We agree, however, with the government's intention to undertake reconstruction activities without interrupting on-going projects or delaying implementation of its rural sector development program. Improvement of the government's ability to formulate and implement projects is crucial, and the government is currently undertaking a program to expand its capability in this area (discussed below).

## 6. Impact on Credit Requirements

It is anticipated that the banking system will be called upon to expand credit to help finance inventory replacement, the replanting of crops, repair of damaged facilities, and the financing of accounts receivable of businesses. On the other hand, the authorities must guard against over-expansion of bank credit and money supply at a time of strong inflationary pressures and serious deterioration in the country's balance of payments position.

The Central Bank has not yet developed a monetary program for 1975. However, it is known that it plans to avoid any increase in credit expansion to the public sector, while accommodating the priority requirements of the private sector -- particularly in the area of basic grains, replanting of bananas by independent producers who suffered losses in the hurricane, and replenishment of working capital of businesses affected by the disaster. It is hoped that the Honduran

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<sup>1/</sup> Source: Planning Council, "Análisis y Proyecciones Macroeconómicas del Desarrollo y la Reconstrucción, 1975-79" Dec. 1974, Table 8.

<sup>2/</sup> Ibid, Page 44.

authorities will avail themselves of technical assistance from the IMF in devising a monetary-fiscal program that will be consistent with the basic reconstruction and development priorities, while minimizing its adverse impact on prices and non-essential imports.

## 7. Self-Help Measures

The major self-help measures that the government has taken, or is considering, include the following:

a. A substantial expansion of public sector investment expenditures for both reconstruction and development, while permitting only minimal increases in the government's current expenditures.

b. Enactment of a program of tax reform yielding about  $\text{L} 30$  million consisting of increases in real property tax rates, excise taxes on beer, cigarettes, liquor, soft drinks and mineral products, and higher tax rates on incomes and profit remittances of foreign-owned businesses.

c. Improvement in project preparation and in the government's implementing capacity, including the establishment of special units within various government agencies with responsibility for the implementation and control of projects; the setting up of a Project Promotion Unit within the Technical Secretariat of the Planning Council charges with the responsibility of overall coordination of project preparation and with the evaluation of investment projects and programs; and the institution of intensive training courses to improve the skills of government personnel in the formulation and evaluation of projects.

d. Place major emphasis on the agricultural development and agrarian reform programs.

e. Give special priority to the promotion of basic grain production, including the granting of special lines of credit.

f. Impose a special tariff surcharge on non-essential consumer goods. Increases in tariffs on vehicles were already adopted.

g. Credit measures include the adoption of higher interest

rates on bank deposits and bank loans<sup>1/</sup>, the diversion of credit from commercial to productive activities<sup>1/</sup>, and the programming of a moderate amount of credit expansion to the private sector while permitting no significant credit expansion to the public sector.

1/ Already done.

**B. The Reconstruction Effort**

**1. Summary of Immediate Problems**

**a. Agriculture**

A preliminary analysis (October 1974) of the finances of the BNF, which covers the Oct.-Dec. period of 1974, indicates that \$15.6 million of the Bank's portfolio is likely to be adversely affected in some degree by Hurricane FIFI. To assist in understanding this analysis, the following classifications of the terms to be used apply: problem credits are those loans where payments of interest and/or amortization of principal are not likely to be made according to schedule; losses are those loans which probably will not be recovered in whole or in part; and deficit refers to a lack of cash with which to make new loans.

**Size of the portfolio affected by the Hurricane:**

The total portfolio of the Bank on August 31, 1974 amounted to \$53.6 million. The estimated amount of problem credits is \$15.6 million or 29.1% of the total portfolio as shown below:

	\$ (000)	%
<u>Agriculture</u>		
Banana	157.2	
Cotton	250.0	
Rice	1,113.5	
Sugar Cane	791.2	
Beans	63.4	
Corn	1,109.3	
Tobacco	2.9	
Other Crops	1,383.1	
Total - Agriculture	4,870.6	31.1
<u>Livestock</u>	6,724.9	43.3
<u>Agro-Industry</u>	1,112.0	7.0
<u>Others</u>	2,909.3	18.6
Total - Problem Credits	\$15,616.8	100.0

The bulk of the problem credits are to be found in livestock (\$6.7 million) and agriculture (\$4.9 million) which cover almost 75% of the adversely affected loan portfolio. The crops which secured the bulk of this credit were almost totally destroyed. The table below shows the relation between problem credits and total portfolio by sub-sectors:

	<u>Estimate of Problem Credits (millions \$)</u>	<u>Total Portfolio (Million \$)</u>	<u>%</u>
Agriculture	4.9	21.0	23.3
Livestock	6.7	21.7	30.9
Agro-Industry	1.1	6.3	17.5
Others	2.9	4.6	63.0
	<u>15.6</u>	<u>53.6</u>	

Analysis of the portfolio on August 31, 1974, before Hurricane FIFI, showed \$10.8 million in delinquent loans, approximately 20% of the total loan portfolio of \$53.6 million. Applying this proportion to the portfolio affected by the disaster, some \$3.1 million of the above problem credits presented difficulties even before the hurricane. The other \$12.5 million in loans for activities in the affected area now can be expected to present repayment problems. The Bank estimates that perhaps \$2 million of this will be collected as scheduled, half the balance will be collectible over two years, and the remaining \$5 million will prove to be uncollectible or will come in over so long a term that it cannot be counted on in programming the Bank's lending over the next few years.

Taking into account the effects of the Hurricane, plus a deterioration in the markets for coffee and beef, and the decrease in effective demand because of the sudden increase in unemployment, expected and actual repayments for September and "before" and "after" projections for the last quarter of the year are as follows:

REPAYMENTS

(Thousands of dollars)

	<u>September</u>	<u>October</u>	<u>November</u>	<u>December</u>	<u>Total</u>
Projections before Hurricane FIFI	2,070.4	2,117.5	1,730.0	1,808.5	7,726.4
Projections after Hurricane FIFI	904.6 (1)	600.0	700.0	950.0	3,154.6
Difference	1,165.8	1,517.5	1,030.0	858.5	4,571.8

(1) Actual

The numbers indicate that of the more than \$7.7 million expected repayments during the last 4 months of 1974, only less than \$3.2 million will actually flow back to the Bank, a difference of \$4.6 million, or 56% below pre-FIFI expectations.

The Bank's original credit program for 1974 was \$40 million:

NATIONAL DEVELOPMENT BANK - CREDIT PROGRAM - JAN, 1974

(by Activities - thousands of dollars)

	Preliminary-Actual 1973	Programmed 1974
<u>AGRICULTURE</u>		
Cotton	5,648.5	3,720.0
Rice	568.6	1,060.2
Coffee	3,902.5	5,561.4
Sugar	668.9	1,153.2
Beans	521.7	427.8
Fruits	148.9	148.8
Vegetables	435.6	74.4
Corn	2,528.9	2,808.6
Potato	148.3	427.8
Tobacco	627.9	1,748.4
Sesame	97.6	55.8
Tubers	28.8	18.6
Sorghum	37.1	37.2
Others	917.6	1,357.8
Sub Total	16,280.9	18,600.0
<u>Livestock</u>		
Beef	5,528.1	5,926.8
Dairy	4,161.2	7,022.4
Other livestock	103.8	250.8
Sub-total	9,793.1	13,200.0
<u>Refinances</u>	2,632.8	902.7
<u>Other Loans</u>	6,411.4	7,297.3
TOTAL	35,118.2	40,000.0

Even before the disaster, this goal had to be reduced to \$33.6 million because of insufficient resources. The \$4.6 million hurricane-related cash flow reduction decreased the Bank's capacity to grant new loans during 1974 to \$29 million. Since new loans had already passed \$30 million by the end of September, the Bank was caught in a position wherein it could grant new credits only to the extent that extraordinary resources were made available by the Central Bank.

The A.I.D. Agriculture Sector Loan (025) contemplates the provision of \$10 million to the BNF (including \$4 million of GOH funds) for lending to asentamientos, cooperatives, and other associations of small farmers over the next four years (\$3,467,400 in 1975). These funds will replace part of the loss the BNF has incurred in lending to these groups, but will not be available for lending to individual small farmers, nor will their use necessarily give priority to the zone affected by FIFI. Under the present circumstances, a higher volume of lending to these clients is most unlikely. The BNF, instead of being able to expand its outreach to the rural poor, would only be able to maintain its lending at the level of operations and income which prevailed in 1973. Barring special relief as is proposed herein, the reduction in the Bank's lending operations will be felt most by the smallest and weakest customers, the target group of A.I.D. assistance and of the GOH's agrarian policy. Furthermore, the Agricultural Development Plan, designed to stimulate the production and internal supply of foods, principally basic grains, cannot achieve its goals for regional self-sufficiency before 1980 unless production credit can expand to allow increases in the area being worked with improved agricultural practices.

#### Food Production/Consumption

An agricultural marketing study (CIDA Project #448/00201), financed by the Canadian International Development Agency, shows the following current per capita consumption levels for agricultural products in Honduras:

Per Capita Consumption Levels for Agricultural Products in Honduras

<u>Product Group</u>	<u>Consumption</u> (Kilograms per year)
Basic grains, including wheat for bread	107
Meats, including Fish and Poultry	13
Dairy Products	74
Vegetables	19
Fruits	192
Edible oils and fats	22
Sugar, including <u>panela</u>	5
Eggs	6
Coffee	4

The authors of the study point out that growth of domestic demand for agricultural produce is a function of population and income growth. They project a growth of effective demand at about 3.4% per year. The following are the study's estimate of the increased levels of production to be achieved in the three principal food grains if Honduran production is to keep up with projected increases in domestic demand:

BASIC GRAINS: HONDURAS

	<u>Corn Production</u>	<u>Beans Production</u>	<u>Rice Production</u>
1973	331,800	44,500	16,400
1978	469,300	56,200	30,000

Adapted from CIDA Agricultural Marketing Study (448/00201), Sept. 1974.

The Agricultural Sector Assessment presented the following estimated food deficits in 1970 and 1975, given a minimum recommended diet: Since the average Honduran spends slightly over 40% of his annual income on food, a general food price increase would have a strong inflationary impact as well as damaging the low-income consumer's ability to attain any minimal nutritional standard. Consequently, food production increases are imperative.

ESTIMATED FOOD NECESSITIES IN HONDURAS, 1970

FOODSTUFF	Recommended Diet Grains	Annual Production Required Metric Tons	Apparent Supply or Annual Production Metric Tons	Availability	Deficit Metric Tons
Milk	300	213,852	142,431	67	70,571
Eggs	24	17,108	10,900	64	6,158
Meats	90	64,155	16,200	25	48,116
Beans	75	53,463	27,100	51	26,196
Vegetables	130	92,669	11,100	12	81,549
Fruits	120	85,540	63,000	74	22,240
Banana - Platano	150	106,926	415,300	385	307,947*
Roots and Tubers	60	42,770	24,400	57	18,391
Corn	228	162,527	303,800	187	141,399*
Wheat**	97	69,145	1,400	2	67,752
Rice	60	42,770	24,000	56	18,819
Sugar and Raw Sugar	60	42,770	59,900	140	17,108*
Fats	20	14,256	9,700	68	4,562

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\*Excess

\*\*Grain in terms of imported flour

Source: Evaluación Nutricional de la Población de Centro América y Panamá  
Honduras INCAP V-29 - 1969.

ESTIMATED FOOD NECESSITIES IN HONDURAS, 1975

FOODSTUFF	Recommended Diet Grains	Annual Production Required Metric Tons	Apparent Supply or Annual Production Metric Tons	Availability	Deficit Metric Tons
Milk	300	247,844	155,388	63	91,702
Eggs	24	19,827	14,000	71	5,750
Meats	90	74,353	17,800	24	56,508
Beans	75	61,961	32,900	53	29,120
Vegetables	130	107,399	12,400	11	95,585
Fruits	120	99,137	75,400	76	23,733
Banana - Platano	150	123,922	415,300	335	291,217*
Roots and Tubers	60	49,568	27,100	55	22,306
Corn	228	188,361	345,300	183	156,340*
Wheat**	97	80,136	1,600	2	78,533
Rice	60	49,568	26,100	53	23,297
Sugar and Raw Sugar	60	49,568	73,200	148	23,793*
Fats	20	16,523	12,400	75	4,130

\* Excess

\*\* Grain in terms of imported flour

Source: Evaluación Nutricional de la Población de Centro América y Panamá  
Honduras INCAP V-29 - 1969.

b. Education

Before Fifi the Honduran educational system lacked sufficient building space and supplies and equipment to serve all of the school age children on the North Coast. Following the Hurricane a total of 256 schools with 1280 classrooms were either completely destroyed or damaged to some extent, with accompanying major losses of classroom and office equipment, furniture, textbooks and other educational supplies (see Annex II, Exhibit A). In addition, the storm took its toll of teachers and administrative personnel either killed or injured. The student population affected is approximately 50,000, roughly 12% of the national total.

Most of the damage was caused by the flooding which followed the storm itself. The majority of the buildings destroyed or damaged were one and two-room adobe and wood structures. Repairs required for damaged schools range from replacing broken windows and repairing roofs to reconstructing collapsed rooms and walls whose bases were weakened by floodwaters.

Much of the work involved in replacing the physical structures can be done by communities whose children attend the schools. Construction materials, supplies, and educational materials will be procured outside the communities. What is lacking is the overall management capacity and organizational force to put all these schools back into operation in the shortest possible space of time.

The Ministry of Education's already limited financial and administrative capacity, largely dependent on CARE for the organization and management of primary school construction in recent years, cannot meet this new demand. The Ministry estimates the cost of repair and reconstruction of the buildings and replacement furniture, equipment and supplies, and a small amount of in-service teacher training at \$1,500,000, and intends to draw on CARE in the implementation of this Project.

c. Housing

The effects of Hurricane Fifi on the Honduras Shelter Sector were severe. For the most part, floods generated by the heavy rains accompanying the storm were the principal cause of damage. Estimates of damage to housing vary depending on the data source. The Consejo Superior de Planificación Económica estimates a total of 70,000 homes destroyed or damaged. Most of these are listed as rural huts of cane and thatch. According to Consejo figures about 15,500 of the total destroyed were of a more permanent type construction largely in urban areas. Of the 15,500, about 3,000 units were listed as completely destroyed and 12,500 were listed as damaged. The Consejo estimate for the "permanent type" housing damage was broken down as follows:

<u>Place</u>	<u>Destroyed</u>	<u>Damaged</u>
Distríto Central	2	25
Santa Rita de Yoro	200	500
San Pedro Sula	500	4000
Puerto Cortés	400	500
Choloma	500	500
Omoa	150	300
Progreso	500	3000
San Manuel Cortés	50	150
Villanueva	100	400
Potreriillos	50	500
Tela	-	80
La Masica	20	50
Tocoa	100	1200
Sonaguera	-	300
Sabá	-	150
La Ceiba	150	500
Utila	5	50
Santos Guardiola	10	20
Roatán	10	25
Guanaja	100	100

Based on an AID-sponsored survey of the area, the Consejo's preliminary estimate would seem high. The rural damage is especially difficult to determine because many small huts have been completely washed away along the rivers and over large flooded areas in the Sula and Aguan Valley.

Based on our survey the number of urban homes destroyed was between 2500 and 3000. There were several instances of severe damage in confined areas of the affected towns, but not

to the extent announced in published reports. The number of rural homes destroyed is much more difficult to estimate without access to pre-Fifi photo maps. There was little wind damage to those homes still standing, but large areas were completely flooded with no houses remaining even though the areas appeared to have been previously populated. The total of rural houses destroyed could range from 20,000 to 30,000 and perhaps higher.

The dollar value of the damage to shelter is very difficult to estimate at present. If we use an average value of \$2,000 for urban units destroyed, \$100 for rural units damaged or destroyed and \$1,500 for urban units damaged we could estimate a total damage of \$11,000,000.

Urban destroyed

3,000 at \$2,000 = \$6,000,000

Urban Damaged

5,000 at \$600 = \$3,000,000

Sub-total = \$9,000,000

Rural destroyed and damaged

20,000 at \$100 = \$2,000,000

Total \$11,000,000

INVA has tentative plans to construct 1,300 urban and 1,900 rural houses with presently available financing. This is about the limit of INVA's capacity to build for its own account during 1975. Several private groups including CARE, FEHCOVIL, FUNHDESA, and the labor unions have started small housing projects in response to the emergency; however, their capacity to carry out projects is limited by lack of financial resources.

The need for better shelter for low income families in Honduras was great even before Hurricane FIFI. As a result of the Hurricane thousands of productive farmers have been forced from rural areas to the cities. A rural shelter project is required quickly to encourage these farmers to return to their farms before they choose to stay in the urban areas.

## 2. Government of Honduras Plan

The Government is revising its unpublished five year plan to meet the additional requirements created by the Hurricane. The National Planning Council (CSPE) has conducted a survey of the damage, and has presented an economic analysis of the long range effects of the Hurricane and a list of projects that it expects to be implemented over the next five years.

This analysis and list were reviewed at the International Donors meeting held in Tegucigalpa December 6 and 7. Public sector financing needs for both reconstruction and development came to \$1,155 million, consisting of \$765 in external financing and \$390 million in internal financing, **divided into the following four** classes of loans: amounts to be expended in projects currently being executed, negotiated loans that are pending signature, loans in which an interest has been expressed by external donors but which have not reached the negotiation stage, and loans being prepared for presentation for financing. These are given below (in millions of dollars):

	<u>External</u>	<u>Internal</u>	<u>Total</u>
In execution	156.7	126.1	282.8
With financing	26.5	32.1	58.6
Under Negotiation	<b>107.7</b>	27.6	<b>135.4</b>
Without Financing	474.0	204.1	678.0
TOTAL	764.9	389.9	1154.7

Loans being prepared for presentation for financing are distributed as follows:

	<u>External</u>	<u>Internal</u>	<u>Total</u>
Transport	106.6	21.1	127.8
Communications	7.6	-	7.6
Agriculture	116.8	44.2	160.9
Forestry	9.1	8.0	17.1
Fishing	2.9	1.6	4.5
Housing	10.5	-	10.5

Health	1.1	10.1	11.2
Education	0.3	2.2	2.6
Industry	53.0	17.0	70.0
Energy	158.0	98.6	256.6
Urban Development	3.1	1.2	4.3
Tourism	5.0	-	5.0
TOTAL	474.0	204.1	678.0

These external credits and their domestic counterpart funds sum to a large figure relative to previous levels of public investment -- double to triple the previous annual rates. The annual local counterpart alone equals past annual total public sector investment.

### 3. Assistance Efforts to Date

#### a. Other Donors

Immediately following the Hurricane, emergency relief assistance was provided by many voluntary agencies, international agencies and individual countries including CARE, CARITAS, Germany, England, Mexico, OAS, Panama, Cuba, and the other Central American countries. The assistance came in the form of medical supplies, food stuffs, clothing, and medical teams. According to preliminary Central Bank data, the estimated value of the assistance in kind is \$21 million; private cash donations are estimated by the Mission to have been about \$5 million.

Various international lending agencies have indicated interest in assisting Honduras with the reconstruction effort. At the donor's meeting, expressions of interest were offered for \$250 million for projects now in execution (those with financing and those under negotiation), and for \$350 million for projects without financing.

However, at this time the Mission knows of no firm offers and has no reliable estimates of amounts programmed by the other lending agencies for assistance of the kind contemplated in this Program. CABEI, IDB, and IBRD are exploring ways of shifting existing loan portfolios or speeding up new loans to respond to priority needs.

#### b. U. S. Assistance

U.S. assistance began with release of the Ambassador's Special Emergency Fund of \$25,000 and was followed with almost \$1.6 million of A.I.D. Foreign Disaster Relief funds, which were used to provide blankets, sand bags, food, medicine, transportation of privately donated items and emergency helicopter operations (with required back-up support).

A Capital Assistance Grant of \$5,000,000 was signed November 4, to provide additional relief. The Grant is divided into five areas: agriculture production, housing reconstruction, municipal reconstruction, national infrastructure, and rehabilitation of the health delivery system.

The financial breakdown is as follows:

Agriculture	\$1,591,000
Housing	579,000
Municipal reconstruction	655,000
Infrastructure recon- struction	1,255,000
Health delivery system	920,000
<hr/>	
Total	\$5,000,000

The agriculture production and housing portions of the Grant are administered by CARE. Under the agriculture production portion small hand tools and seed are being distributed to small farmers and, where necessary, equipment rented to clean and plow fields. The intention is to provide farmers with sufficient tools and seed to permit them to grow enough food during the second growing season (postrera) of January-February to feed themselves and their families until the next major planting season (May-June). Where needed, Food for Work commodities will supplement the stock of food available to beneficiaries. Under the housing portion construction materials are being distributed to families for housing construction and repair.

The municipal reconstruction portion is administered by the Autonomous Municipal Bank (BANMA). BANMA is distributing these funds on a grant-basis to several municipalities. The sub-grants will be used for the construction of such local infrastructure work as water and sewerage systems and access roads.

The infrastructure portion is administered by the Ministry of Public Works. This portion of the Grant will fund: (a) construction of roads and bridges washed out by the Hurricane; (b) design and construction supervision; (c) equipment procurement; (d) construction materials; and (e) limited technical assistance to a watershed control reconnaissance project.

The health portion is being implemented by the Ministry of Health. This portion is divided into four activities: (a) procurement and distribution of medicines and medical supplies; (b) malaria control; (c) repair of health posts and centers; and (d) a health education program.

The implementation and disbursement status and projection covering this Grant is as follows:

**FINANCIAL PROJECTIONS: Project 114 (Entire \$5 Million Obligated Nov. 4)**

<u>Activity</u>	<u>Agency</u>	(\$ '000)		<u>Advance</u>	
		<u>Commitments</u>		<u>Date</u>	<u>Amount</u>
		<u>Date</u>	<u>Amount</u>	<u>Date</u>	<u>Amount</u>
Housing	CARE	Nov. 9	579	NA	(FRLC)
Agriculture	CARE	Nov. 9	1591	NA	(FRLC)
Municipal	BANMA	Nov. 13	655	Nov. 20	200
Health	Min. Health	Nov. 21	920	Nov. 26	100
Infrastructure	Min. Commun.	Nov. 21	1255	Dec. 5	400

Contracts let and/or Orders placed, by period \*

Accrued Disbursements Occurring in Quarter Ending \*\*\*

	<u>Nov. 74</u>	<u>Dec. 74</u>	<u>Jan-Mar. 75</u>	<u>April June</u>	<u>TOTAL</u>	<u>Dec. 74</u>	<u>Mar. 74</u>	<u>June 75</u>
Housing)								
Agric. )	980	700	490	-	2170	1100	920	150
Municipal	0	200	455	-	655	75	430	150
Health	227 Min. 345 AID	190 -	158 -	- -	575) 920 345)	- Min. 35 AID	500 310	75 -
Infra.	80 Min. 23 AID	300 380	400 -	72 -	852 403	50 Min. 23 AID	300 380	502 -
	1655**	1770	1503	72	5000	1283	2840	877

NOTE: All data in thousands of dollars

\* By ultimate contractor

\*\* Estimated actual total

\*\*\* Services or Commodities received

4. A.I.D.'s Continuing Role in the Reconstruction Effort

The need for emergency relief is diminishing and the Government's attention is turning to reconstruction and recovery efforts. A.I.D. has been asked to provide assistance in three priority areas - agriculture production, education and housing. Implementation of the four Projects selected will strengthen the Government's now diminished ability to provide service to rural inhabitants in the affected area, and will increase the national production of basic food-stuffs. All three areas have primarily a rural focus, which agrees with A.I.D. policy and direction.

5. GOH Self-Help Efforts

The GOH has indicated that it will undertake major self-help policy measures on a wide range of macroeconomic points. These include: (a) restricting current expenditures at minimal levels consistent with administrative efficiency; (b) tax reform to raise revenues received from income taxes, real estate taxes, consumption and production taxes on beer, cigarettes, liquor and soft drinks, and mineral production (two alternatives under study would yield \$16 million and \$24 million per year); (c) general import controls to restrain imports of consumer goods and thereby allow increased imports of capital goods by decreasing unofficial external supplier credits; (d) production stimuli through special lines of Central Bank and National Development Bank credit and through fiscal incentives; and (e) a generalized program to counter non-imported inflation. These will go a long way towards meeting the consequences (outlined in Section I-A) of the disaster amenable to GOH action.

In addition, substantial financial resources have been committed by the Central Government and various of the decentralized agencies. The IBRD expects that Honduras will have spent over \$10 million in 1974 on immediate relief and reconstruction from Treasury funds and another \$35 million in 1975. The Central Bank has made two credit lines available to the BNF for emergency food production programs -- \$2.5 million for corn and beans (already utilized) and \$1.5 million for rice to be utilized in the May-June plantings.

C. PROGRAM JUSTIFICATION

According to the Foreign Assistance Act of 1973, A.I.D.'s Congressional mandate is to turn increasingly greater resources to attack the problems of food production and the welfare of the rural poor and to do so through programs that directly benefit this target population. As demonstrated in Section A (Hurricane FIFI - Economic Consequences), the most critical need facing Honduras at present is to provide an adequate supply of foodstuffs to its population, through domestic production where possible and imports where necessary. Most seriously affected are the small farmers and agricultural laborers whose means of subsistence have been obliterated by FIFI and her aftermath. They generally have stocks of food or other assets inadequate to support their families until new crops are harvested. Even worse, most do not have the resources now to put new crops into the ground. The provision of the means to recoup food production is the most direct type of assistance possible to help A.I.D.'s target beneficiary in Honduras.

However critical to their survival, assistance in food production is not the only determinant of their well-being in the future. Essential government services and housing are also important: health and educational services, specifically directed to the rural sector, are the highest priority non-agriculture government services.

Health services were disrupted, but are being dealt with under the \$5 million Emergency Grant.

Education is directly related to the well-being of the target population to the degree that the education provided is relevant to their life styles. For rural schoolchildren, most of whom are destined to live as farmers, primary education offers the only literacy training they will receive. In addition, a greater agriculture content in the curriculum than at present will serve to increase the usefulness of this education to the target man. Restoration of pre-existing primary school facilities is an essential step in this phase of Honduran reconstruction of its agricultural base.

## SECTION II THE PROGRAM

### A. GOAL AND PURPOSES

The Goal of the Program is the recovery of Honduras from the effects of Hurricane FIFI without interfering with the execution of the National Development Plan. This recovery will have taken place when the asset base and earning power of the North Coast have been restored; when agricultural production and exports from the area have recovered to pre-FIFI volumes; and when essential Government services, including especially agricultural credit and assistance, education, and housing for the rural poor majority, have resumed.

The Agriculture Production and Grain Marketing Projects, will focus on one crop cycle, and inasmuch as basic food production is largely in the hands of small and medium size farmers. The benefit of this Loan will be directly felt by this group. In the interest of maximizing the balance of payments support effect of this financing, thereby dealing with one of the most fundamental economic effects of the Hurricane damage, Loan funds will be employed to finance wholly local-currency Projects, directed at key economic and social targets, which can be completed during 1975.

The Purposes of the Program flow from each Project.

The Agriculture Production Credit Project is intended to enable the BNF, currently facing a liquidity squeeze because of loan arrearages and defaults due mainly to crop destruction caused by the Hurricane, to pursue a vigorous credit program in support of GOH agricultural production goals in the face of serious food shortages.

The Grain Marketing Project will augment the BNF's capability to buy increased volumes of basic grains at a price attractive to producers, thereby stimulating further private production increases while enhancing the BNF's ability to control domestic food supplies and prices.

The farm credit and grain buying activities will be national in scope. A considerable production effort is necessary to feed the country and build up depleted stocks. It would be impossible to elicit the entire production required from the North Coast area. Indeed, even were it possible, it would be inappropriate to try since it is important that the country's zones of production become more diversified given the North Coast's vulnerability to periodic ravaging storms, among which FIFI was one of the most destructive. Nevertheless, priority will be given to the hurricane-affected area in the credit program to address the problems of its farmers and to assist directly in the economic recovery of the area.

The Primary School Reconstruction Project is intended to restore the primary education system along the North Coast, which serves approximately 50,000 students, over half of whom are rural, with a curriculum increasingly oriented towards agricultural production.

The Rural Shelter Reconstruction Project is intended to replace lost housing and to lead the Government housing agency (INVA) into very low-cost rural housing, involving at the same time private agencies which are already experimenting in this range, and to establish a system of financing small value mortgages on a continuing basis. This activity will be also confined to the hurricane affected area.

1. Agricultural Production Credit

a. Food: Supply and Demand

Over the past several years the ability of the agricultural sector to feed a growing population has been affected by disasters, both man-made and natural. As shown in Table I, the index of per capita output has been sensitive to changing weather conditions and relations with neighboring countries.

TABLE I

HONDURAS

Per Capita Food Production  
(1961-65 = 100)

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	(Preliminary)
Food Production	119	113	111	119	117	

The brief war of 1969 adversely affected the production of food. Recovery was evident through the 1971 period when drought seriously affected the production of basic foodstuffs. Production for 1972 was off and the decline continued through 1973. Recovery from the drought was underway and production for 1974 promised to return to earlier levels when Hurricane Fifi devastated the productive areas of the north coast.

Losses from flood and wind damage were high and in many areas complete. Ninety per cent losses resulted in an area that has traditionally accounted for forty percent of agricultural production. The area is the major producer of bananas (for export) and platano, a major item in the diet of Honduras. Livestock losses (animals) drastically reduced the capital stock of small and large farmer alike and reduced the supply of meat and milk reaching the market.

In physical terms the loss of food production meant that there would be less food available for internal consumption. The shortage would also drive prices higher in an environment already experiencing the effects of worldwide food shortages and rising costs.

b. Production Goals

When the extent of the disaster became known the GOH moved quickly into a counter-offensive to replace the losses of basic foodstuffs. Teams were sent to unaffected areas to stimulate additional plantings of corn, rice, and beans in the second growing period. The Development Bank (BNF) increased credits in these areas to finance the additional production. Non-agricultural programs of the bank were cut back and additional funds were sought for immediate lending to basic grain producers in outlying areas. In the highlands the harvest from the second crop is just beginning and will continue through January, while planting of the second crop is underway in the Hurricane zone.

It is not expected that this emergency effort will be sufficient. There were insufficient time and resources to replace the enormous losses experienced on the North Coast. Realizing this and the need for further extraordinary efforts to replace the lost production, the GOH has adopted an Operating Plan for 1975. It calls for increased production in all parts of the country with special emphasis on bringing the affected areas back into production.

The Government plan relies heavily on the initiative of private producers in all areas of Honduras to respond to the looming food shortage. In addition to these private efforts, the Government is planning an orchestrated effort to assist farmers in the affected areas to bring their land back into production and stimulate additional production from areas outside of the hurricane zone. Table II gives the production goals for this program.

TABLE II

GOH Production Goals for 1975

<u>Crop</u>	<u>Area</u> (Hectares)	<u>Expected Production</u> (Metric Tons)
Corn	35,500	106,500
Beans	9,100	10,900
Rice	7,500	17,800
Sorghum	3,000	7,700
Sesame	1,400	1,900
Platano	6,952	158,505
Fruits	2,700	35,500
Honey		200
New Pasture	13,944	
Renovated Pasture	34,860	
Milk Production		24,637,865 liters
Calf crop		70,500
Pork		13,320 Kilos

The requirements for implementing this program are discussed below. Special emphasis is given to credit and the ability of the National Development Bank to extend credits for the program.

c. Resources Requirements

1. Credit. Credit needs for the program are given in Table III. These estimates are only for the program directly affected by the Government and are in addition to credit "normally" extended by the banking system to the agricultural sector.

TABLE III

CREDIT REQUIREMENTS

<u>CROP</u>	<u>AREA (Hectares)</u>	<u>CREDIT NEEDED (Per Hectare (\$))</u>	<u>TOTAL CREDIT REQUIRED (\$)</u>
Corn	35,500	153	5,431,500
Beans	9,100	135	1,228,500
Rice	7,500	216	1,620,000
Sorghum	3,000	280	840,000
Sesame	1,400	160	224,000
Platano	6,952	344	2,391,488
Fruits	<u>2,700</u>	200	<u>540,000</u>
Sub-Total	66,152		12,275,488
Bee Culture			100,000
Cattle, Swine, Other Barnyard Animals			4,500,000
TOTAL			16,875,488

Within these overall requirements the Loan will finance substantially all of the targets for the four most important foods: corn, beans, rice, and platano. However, the ultimate use of Loan funds will be determined by the actual demand for credit within the above list of eligible crops.

The effect of Hurricane Fifi on the BNF's overall portfolio has been described in Section I-B.

The Bank's original credit program for 1974 was \$40 million. (See following Table):

NATIONAL DEVELOPMENT BANK - CREDIT PROGRAM - JAN. 1974

(by Activities - Thousands of Dollars)

	1973	Programmed 1974
<u>AGRICULTURE</u>	16,280.9	18,600.0
<u>LIVESTOCK</u>	2,632.8	13,200.0
<u>REFINANCES</u>	2,632.8	902.7
<u>OTHER LOANS</u>	6,411.4	7,297.3
TOTAL	35,118.2	40,000.0

Even before the disaster, this goal had to be reduced to \$33.6 million because of insufficient resources. Subtraction of \$4.6 million of hurricane-related cash deficit reduced the Bank's capacity to grant new loans during 1974 to \$29 million. Since new loans had already passed \$30 million by the end of September, the Bank was placed in a position wherein it could grant new credits during the remainder of 1974 only when extraordinary resources were made available by the Central Bank.

The A.I.D. Agriculture Sector Loan (025) contemplates the provision of \$10 million to the BNF (including \$4 million of GOH funds) for lending to asentamientos, cooperatives, and other associations of small farmers over the next four years (\$3,467,400 in 1975). These funds will replace part of the loss the BNF has incurred in lending to these groups, but will not be available for lending to individual small farmers.

Under the present circumstances, a higher volume of lending to these clients is most unlikely. The BNF, instead of being able to expand its outreach to the rural poor, would be forced to reduce its lending to the level of operations and income which prevailed in 1973. Barring special relief as is proposed herein,

the reduction in lending which the Bank must undertake will be felt most by the smallest, weakest customers, the target group of A.I.D. assistance. Furthermore, the Agricultural Development Plan, designed to stimulate the production and internal supply of foods, principally basic grains cannot achieve its goals for regional self-sufficiency before 1980 unless production credit can be expanded.

This project proposes to assign \$9.5 million for production credits. Priority will be given to the production of basic foodstuffs which can be realized within 1975.

2. Land. The area required to achieve the above goals is 66,152 hectares. This represents only an 11% increase over total cultivation for 1970-71, and much of the land brought under cultivation through the program will be lands presently idle because of the hurricane. Shortage of suitable land will not be a problem.

3. Machinery. Machinery from the private and public sector will be available for the program. It is not expected that all of the land included in the program will be cultivated using machinery, but as the vast majority of food production is done in Honduras without machinery this is not viewed as a serious constraint.

4. Fertilizer and other agricultural chemicals. The total fertilizer requirement for the program is an estimated 11,278 metric tons. The Development Bank took advantage of the AID special programs for fertilizer purchases and ordered 2,500 metric tons of urea for delivery in January, 1975. This represents over twenty per cent of the total requirements of this program. The remainder will have to come from private importers and distributors.

Other agricultural chemicals will also come from private sector sources.

5. Improved Seed. The program calls for the use of improved seed for all cultivation. This is an un-

realistic goal given past experience and present stocks. There appears to be sufficient rice seed for the program and the Government, in anticipation of planting requirements for 1975, is contracting the production of other improved seeds. However, it is expected that the best traditional seed will continue to be selected from available stocks and used for the program.

d. Policy considerations

1. Credit - The National Development Bank will grant credits for production of basic grains and other essential food crops which are included in the Plan of Operations under the following conditions:

- a. Credits will be granted as quickly as possible to any farmer who meets the small/medium producer criteria and who can sustain or increase his normal planting area.
- b. The fact that a producer is delinquent in loan repayments will not disqualify him for new credits except in those cases where a client who was able to pay did not do so in bad faith.
- c. Whenever possible, credits will be granted in the production areas through an active outreach program of the National Development Bank. To expedite this process, the BNF will establish credit teams, adequately provided with transportation, lending authority and financial resources. Personnel in these teams will include Ministry of Natural Resources personnel to provide technical backstopping to the BNF credit agents.
- d. Credit may be used to pay for labor, fertilizer, other production inputs, barnyard animals, and for some farm investments. To the extent practicable provision will be made for in-country supplies of improved seed, fertilizer, and other inputs.
- e. While it is expected that most of the credit will be used for individual small and medium size farmers, groups of farmers will also be eligible.
- f. The harvest to be produced will be the principal guarantee for these loans, but with the provision that the farmer will sell his crop to the BNF. The purpose of this provision is to assure the farmer that he will receive at least the minimum support price, that debts will be cancelled, and

that the BNF will be able to purchase sufficient grain to perform its function of price stabilization in basic grains.

- f. As the primary focus of the loan is production of foodstuffs for internal consumption, the limitations placed on borrowers are more liberal than those of the Sector Loan. Emphasis will still be given to small farmers who are the principal producers of basic grain in Honduras. To meet the recovery objectives, however, medium size farmers will participate in the program and the limiting criterion will be farm size, a maximum of fifty hectares. Loans to groups of farmers will be made according to membership if eighty per cent of the membership qualify as eligible producers.

2. Marketing - The BNF will establish grain purchasing agents in a manner similar to the credit teams to expedite the purchase of the harvest.

3. Technical Assistance - Will be provided by personnel of the Ministry of Natural Resources and the National Agrarian Institute. Complete information about the Ministry of Natural Resources can be found on pages 149 to 154 of the Agriculture Sector Loan CAP (Supplement 2). The reorganization plan referred to therein goes into effect on January 1, 1975. It has been operating on a transition basis in two regions during the last quarter of 1974. This decentralization of services into the production regions should make the Ministry outreach more effective. Also, the additional resources being provided to the Ministry through the Agriculture Sector Loan and grant programs and the help being provided by the Inter-American Development Bank to the research programs of the Ministry should enable the Ministry to provide technical assistance services as planned.

e. Institutional Analysis

The BNF was established in 1950 with the basic objective of contributing to economic and social development by channeling resources into agricultural and industrial activities. Its major functions are to:

- a) Grant short, medium and long term loans to agriculture and industry.
- b) Regulate prices of basic grains by buying, storing and selling (including exclusive exporting).
- c) Import, export, buy and sell agricultural inputs.
- d) Promote and establish businesses related to agricultural development.
- e) Carry out production development programs.
- f) Carry out all normal banking operations.

The BNF is the major credit source for agricultural activities. In 1972, it accounted for 54.3 per cent of total loans outstanding to the agricultural sector including 72.9 per cent of total loans outstanding for basic grains.

In the case of new loans to the sector, the BNF accounted for 28.8 per cent in 1972, including 64.9 per cent in the case of basic grains.

The Bank carries out credit operations through 22 branches and agencies in addition to its central offices in Tegucigalpa. It also has 17 sales agencies located at strategic points throughout the country for the sale of agricultural inputs. Buying and storage centers for basic grains are located at 16 points throughout the country, and terminal storage facilities are located in Tegucigalpa and San Pedro Sula.

In 1973, the Credit and Operations Department and the Development Department of the Bank had a total staff of 745, of which 238 are executive, professional and technical staff, 158 are administrative, and 349 are service staff.

The Accounting Division maintains separate records for the Credit and Operations Department and the Development Department. Staffing appears adequate for expansion of BNF credit operations, especially in view of anticipated improved coordination with other institutions, and the implementation of the National Development Plan strategy of providing credit through group organizations and technical assistance through DESAGRO. As the Bank expands its loan portfolio to groups and reduces relative emphasis on individual small farmer loans, personnel requirements per loan will drop considerably. In 1973, the BNF made approximately 14,000 loans, of which nearly 12,000 were for less than 2,500 Lempiras (\$1,250). Its administration costs on the small loans were an estimated 27% of the amount of the loans, while in the case of 155 cooperative loans and 150 asentamiento loans, the administration costs were estimated at 0.26% and 4%, respectively.

The comparative consolidated balance sheets and consolidated statements of income and expenditures of the BNF for the years 1971, 1972, and 1973 are presented as Annex II, Exhibits A and B. The consolidated balance sheet

for the period ended October 31, 1974 is presented in Annex II, Exhibit D. . The financial statements through 1973 have been audited by the Honduras Superintendent of Banks.

By applying standard ratios to the financial statement balances it would appear that the BNF is in a healthy financial position. However by adjusting the financial statements to reflect a more conservative presentation of the financial position of the BNF, it becomes apparent that the Bank is experiencing a liquidity crisis. The analysis of the loan portfolio (Annex II, Exhibit E.) discloses that at October 31, 1974, Lps. 37,991,000 in loans are delinquent or have been refinanced or extended. This represents 35% of the value of the outstanding loans. By projecting that the approximately 38 million Lempiras will not be collected or rolled over within the next year, and then applying the standard current ratio (after adjusting the short-term liabilities for savings deposits and time deposits), the ratio is a very tight 1.6:1.

More tangible evidence of BNF's cash problem is the fact that they are not meeting their cash reserve requirements as dictated by the Central Bank of Honduras. The Central Bank imposes a 28% reserve requirement on checking, savings, time deposit, and

bond accounts. As of December 31, 1973, the BNF was short of the legal cash requirement by Lps. 1.8 million. By October 31, 1974 this had been reduced to approximately Lps. 1.3 million.

The liquidity problem cannot be rationalized as a short term situation that can be resolved by time or through short term credits. The problem is directly attributable to the large balance in the loan portfolio that is slow in turning over or doubtful as to collectibility.

Delinquencies and extensions of delinquent credits represent more than one-third of the Bank's entire loan portfolio as of October 31, 1974 and total approximately Lps. 38 million, which exceeds the equity capital of the BNF by Lps. 1.4 million. Annex II, Exhibit F shows an aged analysis of the BNF loan portfolio by branch offices, as of October 31, 1974.

The Bank's delinquency problem has been a subject of concern for several years. Analyses were made by A.I.D. in 1971 and by the IDB in 1972. Additionally the BNF itself conducted an intensive review of their bad debt position, and in August, 1973 published a procedures manual that dealt specifically with the problem. Despite the assistance from external sources and their own attempts to cope with the problem, the BNF continues to be plagued by a high delinquency rate in its loan portfolio.

All development banks experience chronic problems in managing their loan portfolio due to the nature of their existence. The danger lies in promoting the development of new and expanded lending without placing an equal or possibly a heavier emphasis toward ensuring turnover liquidity by proper portfolio management. In the case of BNF, the Bank has for liquidity purposes decapitalized itself by allowing loan delinquencies to exceed its contributed capital. The GOH, by expanding the paid-in capital of the BNF for the amount of the proposed agricultural credit activity, will temporarily alleviate the BNF's cash problem and expand its ability to grant credits, but in order for the BNF to reach a level of self-sufficiency, a solution must be found to accelerate the rollover of the loan portfolio.

An effective way to ensure the liquidation of production credits would be to require that farmers sell their crop to the BNF and

liquidate the debt from the proceeds of the sale. This procedure would also provide the BNF with leverage in recouping prior delinquencies from farmers and of course would provide the BNF with a definite and measurable inventory of grain for its stabilization program.

A condition to disbursement of the credit portion of the proposed loan will be that the BNF develop a standard production credit agreement that includes a provision for purchasing collateralized crop production at a pre-determined price or based on a prescribed price index, and a provision for the liquidation of delinquent credits from prior production loans.

Pursuant to Loan Agreement #349-SF-HO with the Interamerican Development Bank, the BNF has agreed to take the following actions and to adopt the following policies to reduce the number and value of loans delinquent and in default:

1. Reduce risk by improving investment planning. Technical assistance to borrowers by Ministry of Natural Resources technicians, an increase in BNF credit analyst and field staff, plus linkages to the BNF grain price stabilization programs should help to improve chances of borrower success and enhance his ability to repay loans.

2. Technical personnel of the Bank should be aware of problems which are likely to affect clients and help the client to take corrective action while the problem is relatively small.

3. Take action to reduce present delinquency or default:

- a) Establish a special credit supervisory group to study each case and recommend action to Bank management.
- b) Operate publicity campaign.

4. Compensate for uncollectible debts (more than one year in default), by establishing a reserve of 100% for loans in default with a fiduciary guarantee, 50% for loans in default with chattel mortgage or crop lien, and 30% for loans in default with a real estate mortgage.

Execution of this policy will be accomplished over a four-year period:

- 1st year - Loans in default over 4 years
- 2nd year - By separate reporting, with its corresponding reserve, loans in default over 3 years at year end.
- 3rd year - By separate reporting, with its corresponding reserve, loans in default over 2 years at year end.
- 4th year - By separate reporting, with its corresponding reserve, loans in default over one year at year end.

5. The goal is to reduce the level of loans delinquent, or in default over ninety days, not to exceed 17% on December 31, 1973; 15% in December 1974; 13% in 1975; and 10% in 1976. To obtain these goals, the BNF will take corrective action or write off loans in accord with the analysis of each loan in default.

By these means, the Bank is attempting to reduce the problem to the following levels:

<u>Year</u>	<u>% Delinquent to 90 days</u>	<u>Delinquent 90 days or more</u>	<u>Total</u>
1973	3.4	17.0	20.4
1974	3.4	15.0	18.4
1975	3.4	13.0	16.4
1976	3.4	10.0	13.4

The result of this effort to date is as follows:

BNF Accounts Overdue  
( \$000 )

	<u>Portfolio Total</u>	<u>Arrears to 90 days</u>	<u>%</u>	<u>Arrears over 90 days</u>	<u>%</u>	<u>Arrearage Total</u>	<u>%</u>
12-31-72	42,074	954	2	6,625	16	7,579	18
7-31-73	43,161	1,578	4	7,032	16	8,610	20
12-31-73	48,794	1,389	3	7,465	15	8,954	18
December, 1973 Target: --			3.4	---	17	---	20.4
10-31-74	54,700	1,785	3	9,692	17.7	11,477	21
December, 1974 Target: --			3.4	---	15	---	18.4

October results are characteristically somewhat higher than the December final results, and the BNF expects to meet the closing 1974 targets set by the IDB. Performance in 1975 will be adversely effected by the Hurricane, and the IDB is discussing a revision of the program accordingly. It appears, however, that the BNF is on a course which could correct this problem over the long term.

f. Financial Analysis

Loan Utilization by Crop  
(All Local Currency)

CORN	\$ 5,000,000
BEANS	1,000,000
RICE	1,500,000
PLATANO	2,000,000
	<u>\$ 9,500,000</u>

Credit recipients will use Loan funds to procure locally the production inputs needed for these crops and, depending on demand, for the other eligible crops listed in Table III of this Section. It is expected that the bulk of the Loan funds will drawn down for the first corn planting season, March through July.

## 2. Grain Marketing

The Government's policy is to increase the supply of basic foodstuffs for internal consumption. The production program described above will achieve this end. To complement the production program it is important that the GOH be active in the purchase of grains during harvest times to increase the supply of grains during periods of traditional scarcity in order to diminish the expected inflationary effects of the disaster-caused shortages.

Government participation in the grains market is carried out by the Grain Stabilization Program of the BNF. The fund has working capital from all sources of \$4.2 million:

National Development Bank	\$ 1,700,000
Central Bank of Honduras	500,000
A.I.D. Loan (L-021)	<u>2,000,000 (1)</u>
Total	\$ 4,200,000 (1)

(1) less \$100,000 for technical assistance

\$500,000 of the A.I.D. loan has not yet been disbursed, but the conditions to complete disbursement are expected to be met by Feb. 1, 1975.

Programmed purchases by the BNF for 1975, using present guarantee prices, are:

	<u>Quantity (M.T.)</u>	<u>Price</u>	<u>Funds</u>
Corn	29,545	\$ 99	\$ 2,924,955
Beans	11,364	231	2,625,084
Rice	9,091	170	1,545,470
Totals	50,000		\$ 7,095,509

Total planned purchases represent approximately eleven per cent of the expected production of these crops. This falls short of the recommended 15-18 per cent requirement for prices stabilization, but given the storage capacity of the BNF facilities (45,000 M.T.) and the management experience of the grain stabilization program, these programmed goals are considered near the maximum feasible.

It is apparent from above that available funds are over \$3 million short of needs. This estimated shortfall does not take into consideration the possibility of higher grain prices

during 1975. This Loan will provide \$3 million dollars to the grain stabilization fund for grain purchases during 1975. Purchases will begin in January, 1975, buying the harvest of the emergency relief program mounted by the Government in the aftermath of the disaster. The largest purchases are expected to take place in August and September of 1975, when production from the main planting begins to flow into the market.

### 3. Primary School Reconstruction

#### a. The Reconstruction Plan

At least 250 primary school buildings were damaged or destroyed by Hurricane FIFI. A listing of individual schools and the damages suffered follows as Annex II, Exhibit A .

The Ministry of Education and CARE have proposed a reconstruction program based on the method employed in the CARE primary school construction program over the past few years, under which CARE would assume the primary responsibility for the reconstruction of rural schools (about 200) and the Ministry's Office of School Construction would be responsible for the reconstruction of urban schools (about 50).

The new school year will commence throughout Honduras by February of 1975. In most locations school will resume in makeshift facilities. CARE proposes, in conjunction of the Ministry of Education, to immediately embark upon the construction and reconstruction of the total number of school buildings that have been affected, with all reconstruction to be completed during 1975. The basic implementation plan is as follows:

- (i) A written sub-contract will be signed between the Ministry of Public Education and CARE stipulating the points mentioned in this section and providing for the payment of CARE's managerial and operational costs.
- (ii) CARE will make available supervisors, each with experience in construction techniques and community development who can readily and immediately be assigned to the affected areas.
- (iii) CARE has been engaged in the purchasing of construction materials for its ongoing programs for several years, and has an efficient procurement system. Desks and chairs will be purchased under contract from local suppliers. The Ministry will provide special classroom equipment (blackboards and the like) and didactic materials.
- (iv) CARE will maintain monthly inventory and accounting procedures.
- (v) In coordination with the Department of School Construction of the MOE, CARE plans to embody the concept of self-help utilized in previous and present programs. CARE supervisors as well as Ministry of

Education personnel will help to form a special school committee in each affected area. The committee representing the community will be responsible for aiding in the construction of the school by providing voluntary labor as well as other tasks during the construction/reconstruction period. At the same time that community organization is taking place, CARE personnel will survey other possible school sites, should the previous site prove inadequate or unacceptable, and would assure that other land chosen meets the legal qualifications for a school site. Where possible, the community will provide local materials such as rock, sand, and gravel.

- (vi) CARE will purchase the necessary construction materials for each site.
- (vii) Pick-up and transportation of materials will be coordinated by the MOE and CARE through the established school committee.
- (viii) A standard building plan, previously designed by the MOE and presently used in primary school construction, will be utilized for the total reconstruction of a school. MOE and CARE engineers and architects will jointly draw up designs where necessary for individual reconstruction projects. In order to assure correct construction techniques, an experienced construction master (maestro) will be hired locally to direct the work. His contract will include a lump sum for the work to be performed. The maestro will also be expected to coordinate the voluntary activities of the community members. Upon completion of the school buildings, an official agreement will be drawn up between the Ministry and each committee, stipulating the responsibilities (upkeep, repair etc.) of each part.

NOTE: Teacher's quarters and latrines will be added when such facilities are not available in given communities. In selected cases, lumber and hand tools will be provided to the communities to facilitate their construction of simple desks.

In each area, the local Supervisor of Education will be advised of the planned construction/reconstruction of schools in his area so that the previous existing staff will not be

reduced. It is a requirement of the regular MOE-CARE school construction program that the local Supervisor of Education must endorse each construction site and the number of classrooms and provide firm assurances that sufficient school teachers will be provided for each classroom. This condition will also apply to the emergency reconstruction program.

As a result of the recent Donor's Meeting in Honduras, it appears that contributions to this Project complementing the A.I.D. and CARE effort will be received by the Ministry from UNESCO and UNICEF. UNESCO will offer Technical Assistance and financing for teachers' scholarships. UNICEF will provide agricultural training equipment -- simple farm implements and the like -- for use in the new curriculum.

b. Ruralized Teacher Training

During mid-1974 A.I.D. provided Grant funding to the Ministry of Education for \$6,000 for training in basic agriculture for two groups of 40 teachers each of primary pilot schools. The training took 1 month for each group, and involved practical as well as theoretical training in the raising of pigs, chickens, vegetables, fruits and agronomy and farm management. The daily schedule included four hours of working in the fields and four at classroom study plus three hours of supervised study in the evenings. The purpose of the course was to improve the agricultural skills of the teachers so they could extend themselves out toward the community and assist the community with its ongoing agricultural problems. At present those teachers are working in pilot schools all over the country and utilizing their agricultural skills. Specific evaluation of their work since the training has not been received but the Ministry states that they have seen excellent results of the program. An evaluation report is due soon.

Present conditions as a result of Hurricane FIFI indicate a need for a reemphasis on the various areas of agriculture previously mentioned. In addition to losing their schools, many communities lost their crops. Improvements in agriculture in the whole disaster area during this next year is a theme throughout the "Plan de Emergencia del Sector Educacion" issued by the Ministry in November, 1974. In order to assist in this agricultural emphasis in the community as well as the new emphasis on agriculture in primary schools, financing is requested for training 360 primary school teachers from the disaster area in basic agriculture at the Pan American School at Zamorano. They would be trained in groups of 40, one group

a month for a nine month period. A.I.D. has been asked to finance the \$100 cost per student or \$36,000 in total including food and housing. Other costs -- transportation and salaries during training -- will be borne by the Ministry.

c. Institutional Capability

(i) CARE

Since 1966, CARE, in conjunction with the Ministry of Education has been building primary schools through the communities' self-help participation. Communities are selected by CARE field staff and the Ministry of Education's Supervisors on the basis of the communities' interest and ability to undertake a project. Once selected, CARE motivates the community to organize into a patronato (committee) and to provide their self-help input. Materials are immediately provided from the GOH-CARE stock and/or by purchasing on the local market. Supervision of the projects is carried out by regular field visits by CARE and/or MOE supervisors. This established methodology has been proven by CARE. The following table shows classroom construction by year :

<u>Year</u>	<u>Classrooms Constructed</u> (Actual)	<u>Schools Constructed</u> (Actual)
1965	17	8
1966	197	80
1967	321	126
1968	350	120
1969	332	97
1970	347	83
1971	302	80
1972	400	138
1973	350	85
1974 (9 months)	350	122
	<u>2,966</u>	<u>939</u>

About 200 of these schools are in the disaster-affected area. Many are being used as distribution centers for refugee feeding. Four hundred and twenty five new classroom units will be built in 1974 alone and over 2,000 classrooms are targeted for construction during the current plan period of five years.

(ii) Construcciones Escolares

The Ministry of Education's Construction Office has built 10 to 15 schools annually over the past few

years and has the responsibility for maintenance of the national system. Their construction activity in 1973 included 15 schools (\$306,000) and maintenance of 55 schools (\$87,500). New construction in 1974 included 11 schools (\$300,000); the maintenance report for 1974 is not available. In conjunction with the disbursement of A.I.D. Loan 522-L-017 (Secondary Education) the Maintenance Office budget has been increased, with \$400,000 to be available for 1975.

The Construcciones staff includes nine engineers as well as controller and administrative personnel and appears capable of producing the designs for all schools to be rebuilt and supervising the urban construction.

d. Financial Analysis

	<u>AID</u>	<u>GOH</u>
Administrative Costs		\$75,000
Classroom Equipment		
Textbooks, and Aids	\$ 364,000	
Reconstruction	1,000,000	
Teacher Training	36,000	
CARE Administration	100,000	
	<u>\$1,500,000</u>	<u>\$75,000</u>

These figures are based on Ministry of Education analyses, of the damage sustained by each school; their records of the original cost of the construction, equipment, and classroom supplies were lost; and an estimate of the replacement cost today. The CARE administrative charge is yet to be negotiated with the Ministry, and will reflect actual costs including personal services and vehicle operations.

#### 4. Rural Shelter Reconstruction

##### a. The Reconstruction Plan

This Project is intended to (a) develop a capacity within INVA (National Housing Institute) to coordinate and execute rural sector shelter projects with private non-profit institutions already working in the area; (b) strengthen the capacity of the executing non-profit entities such as FUNHDESA-APH, FEHCOVIL, FACACH, and FESITRANH-ANACH to mount effective, self-sustaining shelter programs in rural areas; and (c) to provide approximately 2,400 units of permanent shelter to needy families in the affected areas (Leán, Aguán, and Sula Valleys and the Island of Guanaja).

The immediate objective of the project is to construct 2,400 units of wooden housing in the affected areas. The houses shall average about \$400 in cost to the consumer and shall be financed by 100% mortgage loans at medium to long-term periods.

INVA will receive a grant from the GOH of \$1 million in Lempiras to help it establish a rotating fund for rural housing, and will enter into agreements with interested non-profit private sector institutions which have demonstrated experience in rural housing to select, design, implement and service LCH projects in the affected areas. INVA will advance such funds as are needed by the executing agencies to purchase materials, construct modules, and deliver and assemble the same on selected sites. INVA shall be responsible for coordinating the activities related to this effort as may be necessary with INA, COHDEFOR, ENEE, SANAA, and other public sector institutions.

##### b. Technical Analysis

The Project as described above is deemed technically feasible. At present COHDEFOR possesses a large inventory of non-exportable "shorts", and while it is not itself interested in building houses, it has designed an attractive, viable building system utilizing this otherwise useless lumber for shelter purposes, and at reasonable cost to the participating agencies. Both this system and others now in use or contemplated are simply designed and easy to deliver and assemble.

The Mission understands that the UNDP is considering funding 3 technical advisers to INVA in order to strengthen that organization's capacity to meet the challenge presented

by Fifi's aftermath. RHIDD/ROCAP, now located in Tegucigalpa, will be available to assist USAID/H in its monitoring responsibilities for this Project.

c. Institutional Capability

Since its creation in 1957, INVA has been responsible for building some 6,800 units at a total cost of some \$8.8 million. Until 1963 INVA had built only 334 units, which quite probably reflects the scarcity of housing finance during that period. However in 1963 IDB made its first loan for \$1,000,000 to INVA, which led to production during the next 3 years of 997 units. A second IDB loan of U.S. \$2,725,000 was made in 1966, and during 1969 and 1970 the Government made capital contributions to INVA totalling slightly more than \$2.5 million, which helped to keep INVA production at more than 1,200 units per year. INVA production slumped thereafter, to the point where no units were completed and sold in 1973, although construction was taking place. However during the first seven months of 1974, 1,244 units were completed, while another 530 are slated for completion prior to the end of the year. It is generally accepted that this increase is due primarily to the new leadership in INVA. The average production during the past 7 years was 706 units per annum, or 4,942 units.

INVA programs have served low income families. INVA urbanized 298 lots on the project "Colonia 21 de Octubre" at an average price of \$334.00 during the middle of the 1960's. They also produced 3-bedroom units for an average of \$2,052 per unit and 2-bedroom units for \$1,876, all in Tegucigalpa. During the latter part of the Sixties units built with self-help methods cost as low as \$1,000, with monthly payments of \$7.53 including insurance. This meant that families earning as little as \$35.00 per month could afford such a unit.

This self-help element has been an important factor in contributing to the total number of units built by INVA, in that it permits INVA to build more units with a given amount of financing. Of the 4,352 units built with IDB financing (up to the year 1973), 2,614 were built under the self-help plan, while the remaining units were built under direct contract with private builders. For a typical low cost, self-help unit, labor costs are only 17% of total construction costs, which is about 1/2 of the normal cost of labor in direct contract projects.

There are a number of private institutions in the Honduran private sector which have had experience in housing, although their record is mixed and their target group varies from upper to low income families. Two institutions have concentrated their efforts in the low cost housing area "Asociación Pro Desarrollo Humano" and the Federation of Credit Unions of Honduras (FACACH).

Asociación Pro Desarrollo Humano is one of 6 service organizations which form the Council for Development Coordination (CONCORDE). Formed in 1967, it has to date completed two projects (200 units) whose unit cost averages about \$750 including attributed "sweat equity". A further two projects totaling 100 similarly priced units is presently underway. Funding for the above comes from a mix of overseas grants and locally raised capital. The organization is anxious to begin housing projects on a large scale and has requested financing from CABEI and technical assistance from AID. The greatest problems it faces have to do with post-occupancy project management and collection procedures. Despite these shortcomings, very inexpensive, reasonably attractive shelter is being provided which incorporates a good measure of community participation in the building process. The construction technique utilized is a primitive wooden frame modular construction system which has found wide local acceptance and has been manufactured and sold in large number (modules) to Nicaragua in connection with Managua earthquake relief efforts.

FACACH has taken two experimental initiatives in semi-urban housing on a very limited scale. Two of FACACH's 110 member credit unions have sponsored the construction of 10-unit projects, with funding from FACACH's general fund at typical 1% per month interest rates over a 10-year period, with an average unit price of \$750. In each case, the projects turned out to be less than successful due mainly to the lack of orientation FACACH was able to provide its affiliates in the housing area, especially in post-occupancy management. Aside from these two experiences, 10% of FACACH's re-lending portfolio (and it is thought that this holds true for the entire credit union movement) goes for home improvement loans. FACACH is also a member of the CONCORDE group, and some consideration is being given to the possibility of unifying its efforts to those of ASOCIACION PRO DESARROLLO HUMANO's with CABEI financing in order to provide each with greater outreach and effectiveness.

The Honduran Cooperative Housing Federation (FEHCOVIL) has been active in the development of middle income housing. FEHCOVIL is an institution assisted at its inception and nurtured to maturity through AID's initiative. Begun in 1963, its first projects came about as a

result of an AID concessional housing loan whose administration has since been passed to FEHCOVIL. The interest spread from this loan and rollovers will provide substantial operating income for FEHCOVIL into the foreseeable future. To date 688 units have been completed in 4 main projects located in Tegucigalpa, San Pedro Sula and La Ceiba.

Financing for two of the above was provided by the AID loan, another was funded by CABEI, while the fourth and largest was financed by an AID housing guaranty. Unlike many cooperative technical service organizations, FEHCOVIL is governed by a Board of Directors elected from among the residents of the above four cooperatives which lends a touch of community participation to the design of new programs and institutional management and planning. In the immediate future FEHCOVIL is nearing completion of the design of two other guaranty projects and has solicited from CABEI a large line of credit for low cost housing projects outside of Tegucigalpa.

FEHCOVIL signed a contract with the National Agrarian Institute (INA) to provide the latter with technical assistance in the development of low cost rural cooperative housing projects. In addition, a loan arrangement has recently been concluded with CARE/HONDURAS whereby CARE will lend FEHCOVIL at favorable rates \$50,000 per annum over a 3-year period to construct approximately 150 semi-urban units outside Tegucigalpa.

Two unions have demonstrated interest in housing which has been translated into concrete achievements: (1) FEDERACION DE SINDICATOS DE TRABAJADORES DEL NORTE DE HONDURAS (FESITRANH); (2) SINDICATO DE TRABAJADORES DE LA TELA RAILROAD COMPANY (SITRATERCO). Between the two, approximately 1,600 units have been built in the larger northern urban centers, but mainly in San Pedro Sula. Funding for these projects has come from IDB and AIFLD sources. In general, the project and unit design would have to be characterized as lower middle income. Post-occupancy management and collection problems are being experienced by the sponsoring unions.

#### d. Policy Considerations

##### (i) National Policy

The current national housing policy is expressed in two documents and a series of related actions taken by the Government of Honduras since the first of this year.

The two documents are the Chief of State's 1974 New Year's speech, made over national radio and shortly thereafter distributed in print; and the National Development Plan, drafted early this year and now in the process of review and approval by the Council of State. In his New Year's speech the Chief of State said "housing projects will complement the agricultural and industrial sectors. For that reason, the housing problem will be tackled in both the rural and urban areas. Rural housing projects will be oriented toward the new rural settlements developed through the agrarian reform program". The overall policies clearly distinguish between urban and rural housing, with more emphasis in rural areas than in the past. In this sense rural housing will be complementary to the agrarian reform programs in that projects should be located in new rural settlements. Local construction materials and aided self-help housing methods should be utilized. INVA will continue to be the main implementing agency for both urban and rural housing in the public sector. Sources of financing should be predominantly local. Mechanisms, such as the Financiera Nacional de Vivienda, are being created to attract more private capital for investment in housing. Since local sources of housing finance are not sufficient, foreign loans will be solicited to the degree necessary to cover the short-fall in local funds.

(ii) The National Housing Plan:

The National Housing Plan for 1974-1978 has not yet been approved. In its present form, however, a total of some 12,000 urban units have been programmed for construction over the 5 year period. Most of the units will be developed by INVA with some 2,000 units as the responsibility of local governments.

Rural housing will be built preferably in new settlements under three types of programs: Permanent Housing, Provisional Housing for New Settlers, and Housing Improvement. About 70% of the units will be for housing improvement, while the rest will be permanent or provisional housing, 15% each. Total units to be improved and built in rural areas during 1974-1978 will be about 70,000.

Investment goals in the plan show that even though most of the units in the plan will be in rural areas, most of investment will take place in urban areas. In fact, about 2/3rds of the

financial investment will be in urban areas built by INVA.

e. Financial Considerations

This \$1,000,000 portion of the Loan will finance locally provided materials and construction costs for approximately 2,400 houses costing the buyer about \$400 each. (A typical drawing as-built follows in Annex II, Exhibit G) It will also finance \$40,000 of technical assistance.

The costs of land and construction supervision will be borne by the GOH, with INVA and the participating private institutions sharing the supervisory responsibility.

The long-term objective of the program is the formation of a rotating fund to be administered by INVA, whose rollover will provide for program replicability. To this end, the units will be amortized at terms which buyers will be able to afford with a minimal subsidy. Mortgage loans will be made for terms of not less than 10 nor more than 25 years, bearing an annual interest rate of not less than 8%. In certain cases it may be necessary to concede grace periods prior to the first repayment. In others, amortization schedules linked to harvest cycles may be necessary. In yet others, repayment schedules utilizing variable payment formulas will be required. Combinations involving some or all of the above may also be employed as the situation warrants.

f. Technical Assistance

Technical assistance will be provided to INVA for planning and policy specific to the A.I.D. financial effort. One advisor for eight months and four months of short-term advice are planned for a total of \$40,000.

## C. FINANCIAL ANALYSIS

### 1. Program Summary

The Loan will finance substantially all the cash costs of four Projects: Agricultural Production Credit, \$9,500,000; Grain Marketing, \$3,000,000; Primary School Reconstruction, \$1,500,000; and Rural Shelter Reconstruction, \$1,000,000. Government contributions to these Projects will include the administrative services of the BNF, the agricultural extension services of the Ministry of Natural Resources, technical services of the Ministry of Education's Office of School Construction and Maintenance, the costs of any new school sites which must be purchased, and the administrative costs of INVA. It is expected that all procurement will be carried out in local markets, and the Loan will be wholly disbursed in Lempiras.

### 2. Alternative Sources of Financing

As a program requiring unusually rapid preparation, authorization, and execution, this financing does not appear appropriate for any international agency except AID at this time. In the light of the recent Donors' Meeting in Honduras, however, this Program is a logical and necessary interim step while the other agencies prepare their longer-range development projects. As a wholly local-currency program, this financing is not eligible for EXIM consideration.

### 3. GOH Debt Repayment Capacity

The Borrower will be the Government of Honduras. Given the low levels of Government incurred international debt, contracted on fairly soft terms, the amount of foreign exchange going to service outstanding debt is quite low as a percentage of exports. Table IV-2 shows that Honduras has the lowest debt service ratio (debt service to foreign exchange earnings) in Central America.

TABLE IV-2

CENTRAL AMERICAN DEBT SERVICE RATIOS: 1972  
(Per cent)

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

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SOURCE: IBRD Data

HONDURAN DEBT SERVICE RATIO: 1965-72

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	Debt Service (\$ Millions)	Exports (\$ Millions)	Debt Service Ratio (Per cent)
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	196.5	2.8
1971	7.0	215.6	3.2
1972	7.9	230.6	3.4

---

SOURCES: 1965-72: IBRD Data

Central Bank estimates show a substantially higher debt service ratio over the recent past:

	Debt Service (\$ Millions)	Exports (\$ Millions)	Ratio (%)
1970	10.9	198.9	5.5
1971	13.5	217.2	6.2
1972	16.8	235.4	7.1
1973	26.7	288.6	9.3

Source: Informe Económico 1973, pp 54 and 60.

At this time we do not have sufficient information on the methodology used by the IBRD to reconcile the discrepancy. We suspect, however, that Central Bank figures may include some capital flight rather than just servicing of contractual external debt. We also suspect that the IBRD data are incomplete. The important fact that shows through in both sets of figures is that Honduran debt servicing had been taking an increasing share of foreign exchange earnings in the 1970-73 period.

The amount of foreign exchange needed for debt service will undoubtedly increase sharply during the next ten years as grace periods on international loans contracted to finance the 1965-1969 Development Plan terminate and as interest payments on external financing for the 1975-1979 Development Plan begin.

The Planning Council has prepared a projection of debt servicing on the basis of full implementation of projects already in execution or pending signature. It does not include projects being negotiated or prepared for presentation. The projection paints a picture which is relatively dark in terms of Honduran experience to date with its foreign debt, and augers an even more difficult time in meeting interest and amortization of the external financing foreseen in the Plan for projects being negotiated or prepared for presentation. The projection is as follows:

	Debt Service (\$ Millions)	Exports (\$ Millions)	Ratio (%)
1974	40.0	295.2	13.5
1975	49.7	286.5	17.4
1976	64.5	366.9	17.6
1977	74.7	427.7	17.5
1978	87.4	474.7	18.4
1979	98.7	522.5	18.9

Source: See Supplement 1, p. 33.

To the extent that further financing becomes available and is utilized actual debt servicing will be greater than projected above. The Mission notes at the same time that two factors not reflected above will ameliorate the debt servicing ratio: first, export projections could be seriously understated if major export projects, especially the pulp and paper and hydroelectric power projects, come on stream as a result of foreign financing to be contracted; second, while debt servicing obligations are not adjusted to account for inflation, increases in export prices, and therefore foreign exchange receipts, will decrease the relative burden of debt servicing.

Despite the above factors, it is clear that there will be a substantial increase in the actual value of foreign exchange earnings dedicated to meeting debt repayment obligations. The GOH is fully aware of this and recognizes it to be one of the costs of externally-financed development. Indeed, this is one of the main reinforcing arguments it is using to stress the need for greater reliance in the future on internal financing of the national development effort.

### III. Loan Administration

#### A. Implementation Plan

The Loan is designed to be fully implemented during 1975. The Mission's plan is to establish the Terminal Commitment Date in September and the Terminal Disbursement Date at the end of the year. Although the Project will be completed at the end of the twelfth month the Mission estimates that an additional 90 days will be required to submit final vouchers etc. and process payment.

#### B. USAID Monitoring Responsibilities

The Agriculture Production and Grain Marketing Project, will be monitored by the Rural Development Division (RD). RD is currently monitoring two loans: Agriculture Credit and Storage (018) and Grain Marketing (021). Loan 018 is expected to be completely disbursed by the end of CY1974. Under the Marketing Loan the BNF is moving to fulfill the Conditions to disbursement of the \$500,000 loan balance. Two new loans - National Cadaster and Agriculture Sector - have been negotiated and will be signed before December 31, 1974. The National Cadaster project provides for contractor technical assistance to advise the Honduran administrator on the Project. A PASA technician will also be provided to assist with monitoring activities. In addition, RD will be monitoring two grant projects: CORE Services and Agricultural Cooperatives (to be proposed). The present direct-hire staff is considered sufficient to monitor these two Projects and the Sector Loan.

The Multi-Sector Division (MS) will monitor the Primary School Demonstration Project. At present MS is monitoring the Secondary Education (017) and EDUCREDITO (020) loans. The Secondary Education Loan Terminal Dates have been extended to permit completion of

construction and final procurement of educational materials. With project monitoring increasingly an Engineering Office responsibility, correspondingly less MS time will be required during 1975. The EDUCREDITO Loan has been progressing smoothly for some time and therefore does not call for much MS time. On the grant side MS is monitoring the Export Promotion Project, the Maternal Child Health Project, and the Emergency Relief Grant. The Export Promotion Project is drawing to a close. A new PROP will be submitted shortly extending and revising the Project. The Program Office will be providing assistance in writing the PROP. Until the new PROP is approved only a small amount of monitoring will be required for the Project. The Maternal Child Health Project has a direct hire assigned for administration and monitoring responsibilities.

The Rural Shelter Reconstruction Project will be monitored by the Mission Housing Officer (and Controller), with the assistance of the Mission Engineer and the RHIDD/RGCAP Office, now stationed in Tegucigalpa.

C. Procurement and Disbursement

Procurement from Code 941 and the CACM countries will be authorized consistent with AID Capital Projects Guidelines, and will be carried out by the various GOH offices charged with the execution of the program. The financing of credit operations will be carried out in compliance with the Guidelines concerning intermediate credit institutions.

D. Evaluation

Due to the nature of this Loan and the need to disburse it rapidly evaluation will center on implementation progress of the four Sub-Projects and identifying problem areas. The Mission will conduct a preliminary review of progress around March 1. At that time careful scrutiny will be given to the various working relationships (CARE-Ministry of Education, INVA-Private agencies, Ministry of Education-Zamorano) required to carry out the Loan. If friction occurs between pairs of organizations there is a good chance

a bottleneck to disbursement will occur. Therefore, the Mission will be interested in knowing if each of the parties understands and cooperates with its counterpart. At the same time the Mission will look at the BNF to determine if it has sufficient capacity in terms of manpower: (a) for processing the requisite number of sub-loans, including collections; and (b) purchasing the increased amount of grains. A cursory review of the objectively verifiable indicators at the purpose and output levels (see the Logical Framework, Annex II, Exhibit H ) will be made; however, because of the evaluation timing very little progress can be expected beyond the attainment of operational efficiency.

Prior to July a second evaluation will be carried out. At this time the Mission will look closely at the verifiable indicators found at both the output and purpose levels. By July 1, the following should have occurred:

(a) 40,000 hectares of corn, rice, beans and other crops planted;

(b) food price increases less than projected;

(c) 17,000 quintales of corn, rice and beans purchased by the BNF;

(d) 6,000 farms assisted;

(e) construction started and/or completed on 1500 homes (agreements should have been signed between INVA and private agencies to construct the remaining units);

(f) repair work completed on 75% of all schools identified for repair;

(g) construction begun and or completed on at least 60% of the schools programmed for this activity (communities should be organizing for construction or repair of the remaining schools);

(h) 200 teachers trained;

(i) 50% of all textbooks, classroom equipment and audiovisual aids in place (all purchase orders for the

balance required should be placed by this time).

The harvest from the first crop cycle does not begin until late August; therefore crop production figures will not be available for this evaluation.

An End of Project evaluation will be carried out prior to January 31, 1976. At that time progress at the Goal level as well as Output and Purpose levels will be reviewed. Continued monitoring of Portions of this Program will be carried out under various other new and ongoing projects. Review of the Agriculture Production Credit Project will occur during evaluation of the Agriculture Sector Loan (025). The Grain Marketing Project will be reviewed during the Grain Marketing Loan's evaluation (021). Evaluation of the Rural Shelter Reconstruction Project will be incorporated in the Savings and Loan (023) review.

ANNEXES

**I Legal Annexes**

- A. Loan Application
- B. Director's Certification
- C. Statutory Checklist
- D. Draft Authorization

**II Project Annexes**

- A. Primary School Damage Report
- B. Comparative Consolidated Balance Sheet
- C. Comparative Consolidated Income and Expenditure Statement
- D. BNF Balance Sheet as of October, 1974
- E. Aged Analysis BNF Loan Portfolio
- F. Aged Analysis By Branch Office of the BNF Loan Portfolio
- G. As-Built \$400 House (sketch)
- H. Logical Framework
- I. Macroeconomic Analysis

LOAN APPLICATION

(Letter, Ministry of Finance to A.I.D.) December 12, 1974.

Pursuant to our discussion of the economic and social effects of Hurricane "Fifí", and in particular of the effects which will be felt most strongly by Honduras during 1975 and for which immediate remedies must be found, including in particular the balance of payments crisis which we will face, the loss in basic food production and rural incomes, and the destruction of large numbers of schools and homes serving the largely rural and economically disadvantaged population of the North Coast, in the name of the Republic of Honduras I hereby formally request a Loan from the Agency for International Development of up to \$15,000,000 on your most favorable terms to finance the Lempira costs of a good production credit program for small farmers and the marketing of basic grains (\$12,500,000); the Lempira costs of a program of reconstruction of the damaged and destroyed primary school system (\$1,500,000); and the Lempira costs of a low-cost housing program for the campesino (\$1,000,000).

To make your financing effective during the period of greatest need, as well as to maximize the balance of payments support effect of your financing, all of these Projects will be completed during 1975.

In regard to counterpart, it appears that within the context of Emergency Reconstruction during 1975 the efforts we have made and propose comply with the intent of your legislation concerning host country contributions to projects.

The national loss of assets due to Hurricane damage has been compounded by a severe drop in Government revenues. Despite this drop, however, we have taken a number of self-help steps in the context of Emergency Reconstruction, including the diversion of National Budget funds to emergency needs, such as a special National Budget allocation of Lempiras 835,000 to the Ministry of Natural Resources for agricultural activities in the Emergency Plan for Production of Basic Grains, and a special Central Bank aporte to the BNF of Lempiras

5,000,000 for production credits in the Hurricane Zone for the planting of the postrera, which is now nearly complete. At present we are preparing to take certain fiscal actions to increase Government revenues, and are intensifying our efforts to eliminate unnecessary expenses and control inflation, which is being felt most strongly by the lower economic classes and those most hurt by the Hurricane. Furthermore we intend to comply with our counterpart commitment to your Loan 522-T-025, for \$12,000,000, against which we have committed over \$8,000,000, including approximately \$4,275,000 to be disbursed during 1975 against a Loan drawdown of approximately \$3,845,000, and proceed with the balance of our 5-year development plan as well.

Annex  
Exhibit  
Page

Honduras: Hurricane-Rural Reconstruction

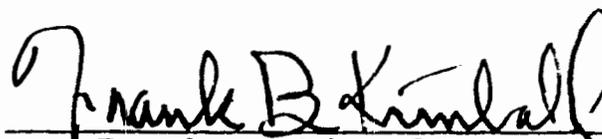
CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE  
FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Frank B. Kimball, the principal officer of the Agency for International Development in Honduras, having taken into account, among other things, the maintenance and utilization of projects in Honduras previously financed or assisted by the United States, do hereby certify that in my judgement, the Government of Honduras has both the financial and human resource capabilities to effectively maintain and utilize the Capital Assistance Project entitled Honduras: Hurricane - Rural Reconstruction.

This judgement is further based upon:

1. The performance to date of the Government of Honduras in meeting the needs created by the emergency as shown by its feeding and temporary housing programs, its initiative in repairing roads, and its organization of an emergency lending program for farmers through the BNF.

2. The Government's declared interest in carrying out the reconstruction effort as evidenced by its attempts to mobilize financing from various free world sources, commitment to self-help based on reform of its monetary and fiscal policies, and its avowed intention of continuing simultaneous reconstruction and development programs.



Frank B. Kimball  
Mission Director

December 13, 1974

Date

CHECKLIST OF STATUTORY CRITERIA

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;

1. This Loan is being made for agricultural  
and rural development but will have a  
positive impact on education and human  
resources development

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;

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 § 201 (b) (5), (7) & (8); § 203

##### 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.

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

(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 markets 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.

(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 various grant and loan programs designed to strengthen private institutions, including coops. In addition, the GOH's currently developing programs which will draw into the nation's economic mainstream the rural populace which accounts for 70% of the country's total population.

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

(b) Diversing 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).

(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.

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

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

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

(4-a) Honduras has been allocating approximately 25% of its budget in the recent past for investment purposes.

(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) 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 direct result of the Pilot and National Cadaster Projects the GOH is revising the property tax law. These projects will assist the GOH develop a more rational land tenure pattern. Honduras does not restrict freedom of expression and of the press and recognizes the importance of individual freedom, initiative, and private enterprise.

(6) The Government has contributed towards both the relief effort and rural development. It has made a commitment to contribute funds to both the Agriculture Sector Loan (522-T-025) and the National Cadaster Loan (522-T-024) and is presently reprogramming and revising its budget to commit more funds to reconstruction.

(7) 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. All of the above factors were taken into account.

Treatment of U.S. Citizens and Firms.

3. FAA § 320 (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) A.I.D. 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.

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?

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

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 furnished assistance to Cuba nor permits ships or aircrafts under its flag to carry cargo to or from Cuba.
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). Does recipient country in any way favor or (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. A.I.D. 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 unrest caused by factors such as the latest change of government in Chile where public attention is focused on the U.S., the GOH has at times unsuccessfully contained demonstrations which resulted in damage to USG property. To minimize this problem the GOH has given the Chancery a 24 hour guard.
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 (u). Does recipient country furnish goods to North Viet-Nam or permit ships or aircraft under its flag to carry cargoes to or from North Viet-Nam?
13. A.I.D. 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 § 120 (a). Has the recipient country covered under this article reported to the United States? If not, what steps have been taken and have the U.S. and the recipient country agreed to take steps to prevent such transfers into since such transfers?

15. Honduras has maintained diplomatic relations with the U.S.

16. FAA § 120 (a). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrears taken into account by the A.I.B. Administration in determining the current A.I.B. Operational Year Budget?

16. Honduras is not in arrears to the extent described in Article 19 of the U.N. Charter.

17. FAA § 481. Has the government of recipient country failed to take adequate steps to prevent narcotics 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 BNDD. Legislation was recently passed which up-dates a previous law by providing criminal penalties for newer forms of drug abuse.

18. FAA 1975 § 29. (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 recipient government or the government of such country has authorized regular access to U.S. correspondents to such base?

18. No such base exists in Honduras.

Military Expenditures

19. FAA s 522 (a). 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 was allocated to military spending during 1974. Only 0.9% 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.

Conditions of The Loan

General Soundness

20. FAA s 201 (d). Information and conclusion on reasonableness and legality (under laws of country and the United States) of lending and re-lending 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 s 201 (b) (2); s 201 (c) 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 economical and technically sound. The Borrower has submitted a loan application to A.I.D. which contains assurance that the funds will be used in a sound manner.

22. FAA s 201 (b) (2). 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 II-C of the CAP.

23. FAA § 611 (a) (2)(A) Financing for this project is apparently not available from other free-world sources, including private sources within the United States.

23. Financing for this project is apparently not available from other free-world sources, including private sources within the United States.

24. FAA § 611 (a) (2)(B) 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)(C) Is another legislative action required within recipient country as basis for reasonable expectation that such action will be completed in time to permit orderly acceptance 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. A.I.D. loans made to the Government and its agencies in the past have been ratified on a timely basis.

26. FAA § 611 (a) (2)(D) The loan is for Capital Assistance, and the U.S. assistance to project now exceeds \$1 million, has Mission Director certified the country's capability to receive, maintain and utilize the project?

26. The Mission Director has signed the certification included in Annex I of this CAP.

Loan's Relationship to Development of Country and Regional Goals

27. FAA § 207 (a) (1)  
Extent to which assistance reflects recipient's development on; (a) economic development of domestic economy; political, social and institutional; (b) self-help; (c) the country's loan program; (d) improving availability of trained manpower in recipient country; (e) progress development of recipient country's health program.

27. (a) The Loan will directly strengthen the National Development Bank, one of the key institutions responsible for implementing the country's agrarian reform program. (b) This Loan will provide the National Development Bank with funds needed for relending to small farmers thus permitting them to return to full production quickly. (c) The educational portion of the Loan will replace lost physical plant permitting students to return to school. (d) This Loan will not directly assist in meeting the country's health needs except nutrition.

(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.

(e) Part of the National Development Banks lending will be to farmer cooperatives and associations. The housing portion will provide funding to those Voluntary Agencies, both local and international, who wish to develop housing projects. (f) This Project will employ women to the fullest extent possible.

28. FAA § 209. Is project susceptible of execution as part of regional project? If so why is project not so executed?

28. The project is not suitable for execution as a part of a regional project.

29. FAA § 201 (b) (4). Information and conclusion on activity's relationship to, and consistency with, other development activities, and its contribution to realizable 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 § 201 (b) (9). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.

30. Insofar as returning Honduras to its pre-hurricane level of development is essential to expanded economic development this Project will contribute to the achievement of self-sustaining growth.

31. FAA § 209;  
Information and conclusion whether assistance will encourage regional development programs.

3. To the extent that the Project returns Honduras to its pre-hurricane economic position and contribution to strengthening the country's agricultural capacity; the project will contribute toward economic and political integration because Honduras will be in a stronger bargaining situation in the CACM, encouraging it to negotiate with other members.

32. FAA s 111. Discuss the extent to which the loan will strengthen the participation of urban and rural poor in their country's development, and will assist in the development of cooperatives which will enable and encourage greater numbers of poor people to help themselves toward a better life.

33. FAA s 201 (f). If this is a project loan, describe how such project will promote the country's economic development taking into account the country's human and material resources requirements and relationship between ultimate objectives of the project and overall economic development.

34. FAA s 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.

35. FAA s 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.

32. To the extent that the agriculture portion of the Project is limited to loans for small farmers, including farmer cooperatives and other farmer groups, and the educational portion will construct and repair schools permitting poor children to resume their education, the Project will enable and encourage greater numbers of poor people to help themselves toward a better life.

33. The Project will replace lost lending and educating capacity which had been counted on when the country planned its agrarian development program. The Project will minimize the reallocation of programmed resources from the development program to replacement of lost capacity.

34. The Project will strengthen the National Development Bank, a key institution in the Honduras' agrarian reform program which is designed to bring greater number of the rural poor into the country's economic mainstream. The Project will also repair and construct local school buildings which often serve as the meeting place for publicly attended village government and cooperative meetings, thus permitting greater participation of citizens in local government and rank and file members in their cooperatives.

35. The Project is designed to alleviate the needs of rural inhabitants injured by the hurricane. The Loan will utilize professionally trained Hondurans. The Project indirectly supports civic education through its school reconstruction program.

36. FAA § 201 (b) (3). In what ways does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities?

36. The Loan will indirectly contribute to an increase in productive capacity insofar as it will assist Honduras return to a pre-hurricane level of economic activity without diverting resources from planned development activities.

37. 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.

37. The Project will: (a) encourage the flow of international trade through a return to pre-hurricane levels of farm production; (b) encourage the use of cooperatives by channeling Nation Development Bank funds through them, to farmers; (c) strengthen free labor unions by providing them access to funds that can be used to rebuild members' houses; and improve technical efficiency in agriculture by training primary school teachers in farming methods. The Project will have very little impact on the other portions of this Section in a direct way.

38. FAA § 619. If assistance is for newly independent country, is it furnished through multi-lateral organizations or plans to the maximum extent appropriate?

38. Honduras is not a newly independent country.

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

39. FAA § 201 (b) (6). 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

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

and assistance are furnished in a manner consistent with improving the U.S. balance of payments position.

40. FAA § 202 (a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.
41. 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).
42. 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?

40. Approximately 83% of loan funds will go to intermediate credit institutions for use by private enterprise. Over 90% of total loan funds will go to private enterprise.

41. U.S. private trade and investment abroad will be indirectly encouraged through improved social and economic welfare of the Honduran population derived from this project.

42. Services of U.S. consultants will be used to the maximum extent.

43. FAA § 602. Information and conclusion whether U.S. small business will participate equitably in the furnishing of goods and services financed by the loan.

43. All direct procurement from loan funds will be made locally.

44. FAA § 620 (h). Will the loan promote or assist the foreign aid projects or activities of the Communist-Bloc countries?

44. This loan will not promote or assist foreign aid projects of Communist-Bloc countries.

45. FAA § 621. If Technical Assistance is financed by the loan, information and conclusion whether such assistance will be furnished to the fullest extent practicable as goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.

45. Technical assistance to be financed under the loan will be furnished to the fullest extent practicable by private organizations or individuals.

Loan's Compliance with Specific Requirements

46. FAA § 119 (a); § 208 (c). In what manner has or will the recipient country provide 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?

46. According to IBRD estimates, by December 31, 1974 the Government will have allocated over \$10 million to the relief and reconstruction effort. The Mission considers this as meeting the counterpart requirement.

47. FAA § 112. Will loan be used to finance police training or related program in recipient country?
47. No such use is contemplated.
48. FAA § 114. Will loan be used to pay for performance of abortions or to motivate or coerce persons to practice abortions?
48. No such use is contemplated.
49. FAA § 201 (b). Is the country among the 20 countries in which development loan funds may be used to make loans in this fiscal year?
49. Yes.
50. FAA § 201 (d). Is interest rate of loan at least 3% per annum during grace period and at least 3% per annum thereafter?
50. The interest rate is 2% per annum during the grace period and 3% thereafter.
51. FAA § 201 (f). If this is a project loan, what provisions have been made for appropriate participation by the recipient country's private enterprise?
51. Under the Project the National Development Bank will make lending available to individual privately owned farms. Where practicable commodities and technical assistance will be obtained locally.
52. FAA § 605 (a). Will all commodity procurement financed under the loan be from the United States except as otherwise determined by the President?
52. Yes.

53. FAA § 604 (b). What provision is made to prevent financing commodity procurement in bulk at prices higher than adjusted U.S. market price?
53. No bulk procurement is contemplated.
54. 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?
54. The loan agreement will so require.
55. FAA § 604 (c). 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?
55. No such procurement is contemplated.
56. 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?
56. Loan does not finance a commodity import program.
57. FAA § 603 (8). Information on measures to be taken to utilize U.S. Government excess personal property in lieu of the procurement of new items.
57. The loan agreement will so require.

58. FAA s 611 (b); App. s 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?

58. This project is not a water or water-related land resource construction project.

59. FAA s 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?

59. Construction contracts will be let on a competitive basis to the maximum extent practicable.

60. FAA s 612 (b); s 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

60. The Government will provide no new counterpart to the Project. No U.S. owned foreign currencies are available for utilization in the Project.

61. App. s 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?

61. No such excess currency is on deposit in the U.S. Treasury.

62. FAA s 612 (d). Does the United States own excess foreign currency and, if so, what arrangements have been made for its release?

62. The U.S. does not own such excess foreign currency.

63. FAA s 620 (j). What provision is there against use of subject assistance to compensate owners for expropriated or nationalized property?
63. The Loan Agreement will provide for specific use of the loan funds and thereby preclude allocation of the funds for such purposes.
64. FAA s 620 (k). If construction of productive enterprise, will aggregate value of assistance to be furnished by the United States exceed \$100 million?
64. This project will not involve construction of a productive enterprise.
65. FAA s 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 transaction?
65. No loan funds will be used for this purpose.
66. App. s 103. Will any loan funds be used to pay pensions, etc., for military personnel?
66. Loan funds will not be used for this purpose.
67. App. s 105. If loan is for capital project, is there provision for A.I.D. approval of all contractors and contract terms?
67. The Loan Agreement will so provide.
68. App. s 107. Will any loan funds be used to pay UN assessments?
68. No loan funds will be used to pay U.N. assessments.

69. App. s 108. Compliance with regulations on employment of U.S. and local personnel. (A.I.D. Regulation 7).
69. This provision will be complied with.
70. App. s 110. Will any of loan funds be used to carry out provisions of FAA s s 209 (d)?
70. No.
71. App. s. 114. Describe how the Committee 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.
71. The LA Bureau should take immediate action to notify Congress as prescribed under the Act.
72. App. s 601. Will any loan funds be used for publicity or propaganda purposes within the United States not authorized by Congress?
72. No loan funds will be used for propaganda purposes.
73. MFA s 901. b; FAA s 640 C.
- (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.
73. a) 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?
- b) No such grant will be necessary.

74. Section 20 and 31 of Pl. 93-189 (FAA of 1973). Will any part of the loan be used to finance directly or indirectly military or paramilitary operations by the U.S. or by foreign forces in or over Laos, Cambodia, North Vietnam, South Vietnam, or Thailand? 74. No
75. Section 37 of Pl. 93-189 (FAA of 1973); App. s. 111. Will any part of this loan be used to aid or assist generally or in the reconstruction of North Vietnam? 75. No
76. App. s 112. Will any of the funds appropriated or local currencies generated as a result of AID assistance be used for support of police or prison construction and administration in South Vietnam or for support of police training of South Vietnamese? 76. No
77. App. s 604. Will any of the funds appropriated for this project be used to furnish petroleum fuels produced in the continental United States to Southeast Asia for use by non-U.S. nationals? 77. No