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MUNICIPAL DEVELOPMENT BANK
LOAN NOS. 522-T-037, U-038, AND W-039
PROJECT NO. 522-0165
USAID/HONDURAS
AUDIT REPORT NO. 1-522-83-15
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BANMA (the Municipal Development Bank) has made some improvements in its operations, but serious problems remain. Delinquencies on its loans to municipalities are refinanced rather than collected. This procedure is decapitalizing the bank.

Over 90 percent of the initial life-of-the-project had elapsed, but less than 35 percent of the project funds had been disbursed. As a result, the purposes of the project were not being accomplished.

To become a financially viable organization, BANMA must make fundamental changes in its operating policies and practices. These include improving collection procedures, changing the method of measuring delinquencies, developing an annual schedule of evaluations and revising its credit regulations.

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MUNICIPAL DEVELOPMENT BANK

PROJECT No. 522-0165

Loan No. 522-(T-037), (U-038), (W-039)

EXECUTIVE SUMMARY

This report covers our audit of the activities being implemented by the Banco Municipal Autonomo (the Municipal Development Bank -- BANMA) of Honduras with funds provided through Project No. 522-0165. Under the terms of this project, the total cost is estimated at $9,330,000. Of this amount, AID will finance $4,750,000 with a loan, and $250,000 with a grant; the Government of Honduras (GOH) will finance $2,000,000, BANMA $1,510,000, and the communities $820,000.

The purpose of the project is to (a) increase BANMA financing of infrastructure improvements (potable water systems, sewage systems, markets, slaughterhouses, transport terminals, electrical systems, etc.) in secondary cities and towns, particularly in poorer municipalities which have been previously unable to obtain such financing; and (b) improve the ability of municipalities to generate revenue and manage their own projects.

Our current audit had four objectives: (a) to evaluate project accomplishments; (b) to determine compliance with the conditions of the agreements; (c) to evaluate the management effectiveness of the organization; and (d) to ensure that the project was being carried out in the most effective, efficient, and economical manner. In brief, the conclusions of our audit are:

(a) The Government of Honduras has supported BANMA since 1961 and appears committed to the concept and the organization. BANMA financed a number of infrastructure subprojects which helped numerous municipalities throughout Honduras. Therefore, BANMA has made progress towards achieving its assigned objectives ;

(b) From an organizational point-of-view, BANMA made significant efforts to improve its operations, particularly in relation to training of BANMA and municipal personnel, staffing of BANMA, and providing technical assistance to the municipalities. However, BANMA has some very serious problems. It had not achieved -- and will not achieve for sometime -- the status of a financially viable organization. Some of its policies and practices were not contributing towards the creation of a self-sustaining and permanent banking institution. It did not have the full support of all municipalities and several municipalities were not contributing their proportionate share towards the capitalization of BANMA. The financial statements, on an accrual basis, reflected profits;

however, this was not a fair representation of the financial picture of the bank. In fact, BANMA's loan portfolio included many delinquent subloans. The interest and principal of many subloans were past due and were not being collected. In many cases, delinquent payments were refinanced and the past due amounts were capitalized. When the financial information is analyzed on a cash basis, the recorded profit becomes a loss. The reasons for the increasing number of subloan delinquencies are complex and are discussed in this report. Our analysis showed that subloan collections improved during the first three months of 1983. However, BANMA needs to make some fundamental changes in its operating policies and practices. If these changes are not made, decapitalization of the bank will continue (page 3).

(c) Project implementation was behind schedule. As of February 1983 -- when only two-and-a-half months remained in the life of the three-year project -- AID had disbursed only $1.6 million of the $5 million made available for this project. BANAMA had initiated only 25 of the 144 subprojects to be completed under this project. Implementation had been delayed by: (a) changes in municipal officials due to elections in 1980 and 1981; (b) weaknesses in BANMA management; (c) lack of funds to prepare subproject feasibility studies; (d) suspension of project disbursements by AID; and (e) project design deficiencies. Recently, the number of subprojects was reduced to 79 and the date of project completion was extended to August 14, 1984 (Page 10).

(d) Three purposes of the project -- to help the poorer municipalities, to improve the generation of municipal revenue, and to finance labor-intensive subprojects -- were not being achieved to the degree intended. A major problem was the design of the project; some of the components were not practical and could not be achieved. These components should be redesigned and the funds reprogrammed (Page 10).

(e) BANMA's information system should be improved to provide management with more complete, reliable and timely information (page 17) and monitoring of host country contributions was not being accomplished (page 18).

The findings and recommendations in this report were discussed with officials of BANMA and USAID/Honduras and a draft report was submitted to the Mission for review and comments. Their comments, both written and verbal, were considered in preparing the final report.

BACKGROUND AND SCOPE

Background

The Government of Honduras (GOH) created the Municipal Development Bank (BANMA) in 1961 to provide local municipalities with financial and technical assistance to contribute to their economic and social development. BANMA's relationship with USAID/Honduras began in 1972 when BANMA requested USAID/Honduras to analyze the Bank's situation in anticipation of an AID loan. A team of AID analysts determined that BANMA was incapable of performing its role as an instrument for municipal development. To rectify the situation, the team recommended internal reforms. Subsequently, AID provided technical assistance to BANMA. As a result of the progress achieved, AID made a loan to the GOH for $4 million in 1974. The purpose of the loan was to strengthen BANMA's institutional capacity and to provide it with sufficient resources to carry out an expanded lending and assistance program to municipalities. This loan was to be fully disbursed by December 31, 1977. However, due to a series of delays, the terminal disbursement date was extended to January 31, 1980.

On May 13, 1980, AID provided the GOH an additional $5 million (Municipal Development Bank II, Project No. 522-0165). This project was financed with a loan of $4,750,000 and a grant of $250,000. The project was to be completed within three years, or by May 13, 1983. The Project Assistance Completion Date (PACD) was recently extended twice. The PACD is now August 13, 1984.

The project's goal was to improve the quality of life of the poor who either live in secondary cities and towns or depend on these places for services. The project's purposes were to (1) increase BANMA financing of infrastructure improvements in secondary cities and towns, particularly in the poorer municipalities; and (2) improve the ability of municipalities to generate revenue and manage their own projects. The project consisted of the following components:

(a) Infrastructure Subprojects. One hundred infrastructure subprojects were to be financed. These were to be potable water systems, sewage systems, markets, slaughterhouses, transport terminals, and electrical systems. A total of $8.0 million was set aside for this component. In July 1983, this component was reduced to 35 subprojects because of an increase in the average value of the subprojects.

(b) Labor-Intensive Subprojects. Twenty labor-intensive programs in smaller communities were to be implemented with $300,000.

(c) Administrative Reform Subprojects. Twenty-Four administration reform subprojects were to be financed at a cost of $420,000.

(d) Technical Assistance and Training. A training program for municipalities of $160,000 and technical assistance to BANMA of $164,000. In July 1983, the amount of technical assistance to BANMA was reduced to $64,000.

(e) Procurement of Equipment. The project was to finance vehicles and personnel costs for BANMA of $266,000.

The project was estimated to cost $9,330,000. AID was to contribute $5 million, the GOH $2 million, BANMA $1.5 million, and the communities $820,000. AID funds of $1.6 million had been disbursed as of February 8, 1983. Exhibit A shows the status of all funding.

Scope of Audit

This is the first audit of the BANMA II project. It was specifically requested by USAID/Honduras and covered the period from May 13, 1980 to February 28, 1983. We made two audits of the BANMA I project. The last audit of the BANMA I project covered the period from April 1, 1975 to July 31, 1978. The audit report (1-522-79-1) contained 11 recommendations, all of which have been closed, and disclosed that the project was behind schedule, mainly because of inadequacies in BANMA personnel, staffing, internal auditing, administration, accounting, evaluation, and feasibility studies.

The objectives of the current audit were: (1) to evaluate project accomplishments, (2) to determine compliance with the conditions of the project agreement, (3) to evaluate the effectiveness of BANMA management; and (4) to ensure that the project was being implemented in the most effective, efficient and economical manner. Special consideration was given to evaluating BANMA because of its continued weaknesses in bank management which led to delays in project implementation and threatened the financial viability of the institution. In September 1982, USAID/Honduras suspended disbursements under the project pending correction of the deficiencies by BANMA's management.

The audit was conducted in accordance with governmental auditing standards. Accordingly, it included discussions with officials of USAID/Honduras, BANMA, and the municipalities. We reviewed the records maintained by these organizations, made field trips to inspect municipality subprojects, and used such other auditing procedures as was considered necessary.

AUDIT FINDINGS, CONCLUSIONS, AND RECOMMENDATIONS

Overall Assessment of Project Accomplishments

Our overall assessment involves two areas, first BANMA, as an organization and second, the objectives of Project No. 522-0165. From a financial point-of-view, BANMA's condition was not sound. It was not -- and would not be for sometime -- a financially viable or self-sustaining banking organization. Its financial statements reflected accounting profits; but these profits were not being realized because the bank was not collecting the interest and the principal in a timely manner but merely refinancing them when they became delinquent. BANMA should coordinate its evaluation and information systems to ensure greater feedback and more timely corrective action.

The project purpose of helping poorer municipalities was not being achieved to the degree intended. The implementation of all project elements was severely behind schedule. The design of some components was not practical, thus their objectives will not be achieved. As of February 28, 1983, there was only 2-1/2 months remaining in the three-year life of the project and AID had disbursed only $1.6 million of the $5 million made available (see Exhibit A). Subsequent to the conclusion of our audit field work, the life of the project was extended to August 13, 1984. This provides additional time to accomplish project objectives. However, time alone is not the only change needed. Other changes needed are discussed in the following sections of this report.

The Financial Viability Of BANMA

The financial viability of BANMA was threatened because a sufficient amount of the interest earned on outstanding subloans was not being recovered to meet the bank's current expenses. There were a number of reasons for the subloan delinquencies. As a result, the capital provided by the GOH and the municipalities was being rapidly depleted.

In accordance with its charter, BANMA provided funds on a grant and loan basis to various municipalities for agreed upon purposes. With the passage of time, principal and interest payments on the subloans became due. For various reasons, such as, funds were used for other purposes, less revenue was generated from the subprojects than was anticipated, and poor administration of activities, many of the municipalities were unable to repay BANMA the amount due under their subloans. Also, many of the municipalities were deficient in their payments of subscription capital to BANMA (that is, five percent of their revenues).

Under BANMA's credit regulations, funds could not be loaned to a municipality that was deliquent on subloan repayments or had not made its subscription capital payments. To comply with the terms of the regulations, BANMA refinanced many of the delinquent payments when it decided to loan a municipality additional funds. While this technically met the terms of the regulations, it did not meet the intent of the project, that is, to establish a viable lending institution.

BANMA's financial statements indicated that the bank was on sound footings. This condition existed because the statements were prepared on an accrual basis. Therefore, each time that a delinquent subloan was refinanced, the financial statements showed increased assets which was a true reflection of activities on an accrual basis. However, from a cash flow analysis, the refinancing of principal and interest on a delinquent subloan did not provide the needed cash to pay current bills and make new subloans. If continued, the bank would decapitalize itself in a short period of time.

BANMA's balance sheet as of December 31, 1982, indicated that the bank was in a fairly strong financial position.

Assets		Liabilities and Capital	
Cash	$517,734	Deposits	$4,679,248
Loans	30,067,497	Notes Payable	9,789,850
Other	3,374,046	Municipal Bonds	1,788,150
		Other Liabilities	3,172,084
		Capital	13,604,564
		Retained Earnings	925,381
	$33,959,277		$33,959,277

However, BANMA had been heavily supported by loans and capital contributions from the GOH. Except for a foreign credit of $4,200,000, the notes payable were due to other GOH institutions. BANMA's capital of $13,604,564 was provided by the GOH ($10.2 million) and the municipalities ($3.4 million).

As shown in the above table, the total subloans outstanding amounted to $30 million, of which 25 percent were AID-financed. About one-half of the subloan portfolio was delinquent. This adversely affected BANMA's capacity to pay its expenses from current income, to make available money for new subloans and to repay its liabilities. This is clearly demonstrated by a comparison of the bank's Profit and Loss Statement on a cash and accrual basis:

	1982 Income and Expenses	
	Accrual Basis	Cash Basis
Revenues		
Interest	$3,842,058	$1,390,495
Other	270,526	224,284
Total	$4,112,584	$1,614,779
Expenses		
Interest	$2,138,084	$876,010
Bad Debts	470,194	-
Other	1,297,391	1,137,268
Total	$3,905,669	$2,013,278
Profit (Loss)	$ 206,915	$ (398,499)

On an accrual accounting basis, BANMA showed a profit from operations of $206,915 during 1982. However, it actually spent $398,499 more than it collected. BANMA's loss on a cash basis resulted because only 36.2 percent of the interest earned on its subloans was actually received. 1/ BANMA's position would have been much worse if it had paid all of its interest expenses during 1982. BANMA paid only 41 percent of its interest expense during 1982. During the first two months of 1983, BANMA's real financial position did not improve because it recovered only 33 percent of the interest earned on its subloans. 2/

It was difficult to get a complete picture of BANMA's delinquency situation because its record-keeping system was not adequate and most of its delinquent subloans had been recently refinanced. Delinquent subloans are considered current when they are refinanced. BANMA kept two types of data on subloan delinquencies: first, a record of the interest earned but not paid; and second, a record of the number of subloan payments due but not paid multiplied by the value of each payment. The latter data combines principal and interest included in the subloan payments but it did not include interest due but not paid during the grace period when no subloan payments were due. Since this latter method of calculating subloans in arrears combines principal and interest, separate data on principal due but not paid was not available.

Notwithstanding the above problems, we were able to obtain the following information on the status of the AID-financed portfolio. BANMA compares the total amount of principal and interest payments past due to the total amount of subloans outstanding to determine its percentage of delinquencies. Using this method, the value of delinquent payments as of December 31, 1982 was equal to 10.7 percent of the outstanding value of all AID funded subloans. This percentage dropped to 2.87 percent by March 31, 1983, primarily because four subloans were written off as uncollectible and several subloans were refinanced. Using the bank's standard unit of measurement, only 7 of the 60 subloans outstanding under the BANMA I and II projects were in arrears more than 90 days as of March 31, 1983. The monthly payments from the 53 subloans not in arrears more than 90 days according to BANMA's schedule represented 81.9 percent of the total payments due on all 60 subloans. This comparison shows that BANMA was recovering at least 75 percent of subloan funds not delinquent more than 90 days. The improvement in the recovery of the subloans was due primarily to the refinancing and write-off of subloans and not to improved collection procedures by BANMA.

1/ BANMA said that one client (the Concejo Metropolitano del Distrito Central, CMDC), contributed significantly to this low rate of interest paid. If CMDC is eliminated from the analysis, the interest recovered during 1982 would increased from 36.2 percent to 44 percent.

2/ BANMA said that the percent of interest paid through March 31, 1983, was 45 percent and if CMDC is eliminated from the analysis it would be 48 percent.

In our opinion, the method of measurement used by BANMA regarding delinquencies and repayments did not appropriately show the status of its portfolio and collections. Therefore, we asked BANMA to prepare a special analysis of interest falling due and interest paid on BANMA I and II subloans during all of 1982 and the first months of 1983 (see Exhibit D and E). This analysis showed that in total, BANMA received interest payments equal to 45 percent of the interest falling due in 1982 and 71 percent of the interest falling due in 1983. This improvement in the percentage of interest collected could be due to municipal tax collection that take place generally at the beginning of each year and recent efforts by BANMA to collect amounts due.

Comparing total interest collections to the total amount of interest falling due is an improvement over BANMA's method of measurement. However, this method can be somewhat distorted because several of the municipalities paid much more than 100 percent of the amount falling due during 1982 and 1983. For example, one municipality paid more than 10 times the amount that fell due, another municipality paid more than 5 times the amount that fell due. Therefore, we also looked at the number of subloans on which all or less than 50 percent of the amount due was paid. During 1982, we found that 100 percent of the amount falling due was paid on 18 of the 69 outstanding subloans, or 26 percent, and payments of less than 50 percent were made on 34 of the 69 subloans, or 49 percent. During the first 3 months of 1983, we found that 100 percent of the amount falling due was paid on 32 of the 65 outstanding subloans, or 49 percent and payments of less than 50 percent were made on only 19 of the 65 subloans, or 29 percent. This analysis also shows that there was a substantial improvement during the first 3 months of 1983 over 1982 activity.

We believe that our special analysis gives a much clearer picture on the status of the AID financed portfolio of subloans. While our analysis covered only interest payments, we believe that BANMA should be encouraged to use this type of analysis for both the interest and principal payments.

We identified six reasons for subloan delinquencies; these are discussed below together with the actions taken by BANMA to correct them and the additional actions that need to be taken:

(a) Handling of Subproject Income. According to subloan agreements, the municipalities were required to open a separate bank account for subproject income and expenses. In most cases, the municipalities opened the bank accounts but did not deposit the subproject income into the accounts. Instead, the income was deposited into municipalities' accounts and used for purposes other than repaying subloans to BANMA.

To help correct this problem, BANMA was meeting with municipal officials to emphasize that they should make their subloan payments when due and that the failure to comply could result in action by BANMA to take over administration of the subproject.

We believe that BANMA's department of internal audit (5 employees), technical services (21 employees), and engineering (7 employees),

should coordinate their efforts to evaluate the progress of completed subprojects to identify and correct operational problems and compliance with the terms of the subloan agreements such as the deposit of subproject income into separate accounts. At the present time, each department makes separate reviews and the results do not represent a comprehensive evaluation of the subprojects. Also, no formal system exists to make and follow-up recommendations. By using a team approach that combines engineering, technical and auditing expertise, the quality of the evaluation effort would be enchanced. We believe that BANMA should develop an annual schedule of evaluations using personnel with expertise in different fields, an evaluation program and a system to follow-up the implementation of recommendations. In addition to ensuring that subproject income is not diverted to non-project uses, these comprehensive evaluations would serve to improve subproject management by the municipalities -- another cause of subloan delinquencies.

(b) Feasibility Studies Overestimated Demand For Services. The demand for the services was often overstated in the feasibility study. As a result, the subprojects were earning less money than projected and there was not enough funds to repay the subloans. To help correct this problem, BANMA sent its technical personnel to training courses. This was done by BANMA in lieu of providing technical assistance to improve feasibility studies as planned under the project. We believe technical asssistance is needed because the problem still exists. BANMA would also benefit from technical assistance since the advisor could (1) assist BANMA to update its guide for preparing feasibility studies which is too general and outdated; and (2) provide on-the-job guidance on how to do more realistic demand surveys, socio-economic studies and financial analysis, including determinations of breakeven points.

(c) Collection Procedures Were Not Adequate. BANMA's collection procedures consisted of sending collection notices and statements of account to municipalities. Recently, BANMA met with municipal officials to emphasize the need to make subloan payments when due and to warn them that BANMA could take over the administration of the subproject if repayment performance did not improve.

BANMA had not documented its collection procedures and thus, the sequence of events in the collection cycle were not clearly defined as a guide for action. The procedures should indicate the actions to be taken when delinquencies reach 30, 60, 90, 120 days, etc. Under the terms of the subloan agreements, BANMA has the right to attach municipal revenues or to take over the administration of the subproject to recover delinquent subloans. A few examples of strong enforcement actions should be taken and properly publicized by BANMA to demonstrate to other municipalities that debts must be paid.

(d) Subprojects Were Not Adequately Managed. As a result, subproject income was not enough to repay the subloans to BANMA. There were many completed subproject facilities such as markets and transportation terminals that were not being fully used (see Exhibit C). One reason for the low rate of utilization of markets was that the municipalities had not taken adequate actions to obtain better use of facilities such as charging more competitive tariffs to street vendors to encourage them to use market facilities. In addition, the tariffs charged on some subprojects were not high enough to generate sufficient income to repay the subloans. There were also collection problems on water system subprojects.

To help municipalities improve subproject administration, BANMA planned to give training courses to the municipalities. We also believe that BANMA should improve its evaluation of completed projects (see part (a) above).

(e) BANMA Made New Subloans To Municipalities That Had A Poor Repayment Record. A review of 13 subloans made to 7 municipalities between 1976 and 1982 showed that in only one instance was the municipality current under its obligations to BANMA (other subloans and the 5 percent annual contribution required from the municipalities). This was not only a bad management practice but also was contrary to BANMA's own credit regulations.

BANMA's credit regulations provided that in order to be eligible for subloans, municipalities had to be current on their existing obligations with BANMA or guarantee that they would be current at the time they sign the new subloan agreement.

In addition to requiring compliance with the regulations, BANMA needs to tighten its own credit regulations to help ensure that new subloans are only made to municipalities with good repayment records. In this connection, the credit regulations permit BANMA to make new subloans to municipalities who did not have good repayment records since BANMA could refinance delinquent obligations with the municipalities concurrent with the execution of new credits. In this way, the delinquent debt was converted to a non-delinquent debt and the municipalities were eligible for new subloans.

Our special analysis showed that BANMA continued to experience problems on the 33 subloans that it refinanced since 1981. BANMA collected only 37 percent of the interest falling due on these subloans after the date they were refinanced (see Exhibit F). We believe the repayment performance of a municipality under a refinanced subloan should be tested before new credits are made. Therefore, the credit regulations should be revised to provide that the municipalities would be eligible for new credits only if they are current on the repayment of the refinanced debt after a test period of about six months.

(f) Construction Or Design Deficiencies Delayed Or Interfered With The Efficient Use of Facilities. Examples of problems encountered were poor locations, leaky roofs, inadequate drainage around the facilities, lack of repair facilities in transportation terminals and failure to pave parking lots or roads leading to facilities (see Exhibit C). BANMA was working with many of the municipalities to overcome these problems. We believe that BANMA has now had enough experience to know the type of design problems that interfere with the use of facilities. We therefore believe they should prepare a subproject design checklist to ensure that past problems are not repeated in future subprojects.

As discussed above, BANMA needs to take action to improve its operations and more readily collect principal and interest payments. These actions include (1) using an improved system to measure subloan delinquencies; (2) developing an annual schedule of evaluations and follow-up on recommendations; (3) contracting for technical assistance to improve feasibility studies; (4) preparing a subproject design checklist of past problems; and (5) complying with and revising its own credit regulations on new subloans.

During 1982, USAID/Honduras became concerned with the procedures used by BANMA in the disbursement of AID loan funds and the uncertainty of the bank as a permanent, self-sustaining institution. Because of these concerns, USAID/Honduras requested an evaluation and an audit. On September 24, 1982, USAID/Honduras, after receiving the results of the evaluation, suspended disbursements for new infrastructure subprojects because of serious weaknesses in BANMA's management. The evaluation reported that the financial viability of the bank was being threatened because only 55 percent of the subloan payments under the BANMA I and BANMA II projects that were due as of June 30, 1982 were paid. The evaluation also disclosed that BANMA was not complying with some of the AID project requirements. AID conditioned the resumption of project disbursements on BANMA's satisfaction of: (a) compliance with all of the special covenants of the project agreement; (b) development of plans for the use of the remaining project funds; (c) development of an improved policy for selecting eligible municipalities for subprojects to improve repayment performance; (d) preparation of an acceptable program to solve the problem of unused subproject facilities; and (e) an increase the rate of subloan recovery so that at least 75 percent of the project subloan funds of BANMA I and II would not be delinquent more than 90 da

On July 7, 1983, USAID/Honduras issued Implementation Letter No. 43 on Project No. 522-0165 which addressed many of the problems noted in the evaluation and in our audit (our draft audit report was submitted to USAID/Honduras on May 30, 1983.). USAID/Honduras, among other things, resumed disbursements, advised the bank to develop manuals to describe feasibility studies, to list typical problems encountered on subprojects and to set out the specific steps the bank should take in dealing with delinquent subloans. These actions, when completed, should improve the performance of the bank's activities. Since these actions have not been completed, we have retained our recommendation.

Recommendation No. 1

USAID/Honduras should obtain evidence that BANMA has taken appropriate action to improve its financial viability.

Accomplishing Project Objectives

As of February 28, 1983, project achievements were behind schedule. The design of some components did not appear practical and needed to be redesigned. Funding on these components should probably be reprogrammed or adjusted. The concept of funding them from loans rather than from grants should be reassessed. Our analysis of the status of the project follows.

Delays In Project Implementation

The major reasons for delays in subproject implementation were:

- In 1980 and 1981, municipal elections were held in Honduras to transfer power from the military to a civilian government. These changes resulted in delays by municipal officials in the consideration and preparation of subproject proposals.

- In 1980 and 1981, the president of BANMA was not interested in improving the operations of the bank. In February 1982, the current president was appointed and since then, he has improved the staffing, productivity, and image of the bank.

- The municipalities lacked funds to prepare subproject feasibility studies. These studies generally represented 10 percent of the total subproject cost and were financed by the municipalities, or other GOH agencies, such as the Honduran Preinvestment Fund on a grant basis. Also, students have prepared some studies for the municipalities free of charge for thesis projects. Under Implementation Letter No. 34 dated August 16, 1982, USAID/Honduras approved the use of AID loan funds to finance engineering studies for the municipalities on a loan or grant basis. This should provide sufficient funds so that municipalities can overcome this problem.

- No labor-intensive subprojects have been started because BANMA claims that poorer municipalities do not have the capability to manage them and to repay the subloans. Because no progress has been made under the labor-intensive component, we believe USAID/Honduras and BANMA should evaluate the program to determine what to do with it.

Poorer Municipalities Were Not Receiving The Intended Benefits

The majority of the funds provided under Project No. 522-0165 have been committed to assisting the larger municipalities. This is the reverse of the

intent contemplated in the loan agreement and project paper. Thus, the poorer municipalities were not receiving the intended assistance that was contemplated and the purpose of the project was not being achieved. This happened because project assumptions regarding the number of poorer municipalities that could qualify for subproject financing were not realistic and because the threshold amounts used by BANMA to classify the poorer municipalities had not been adjusted for inflation.

The project agreement established that AID, BANMA, and the GOH, were to contribute $7,920,000 to finance 144 subprojects. Financing was to be provided on either a subloan or mixed subloan/grant basis. Only self-financing subprojects were to be financed with subloans. If the subprojects were not self-financing and the projected debt capacity of the municipality was not sufficient to allow for repayment of the entire project cost, the municipality was to receive a grant of up to 30 percent of the subproject cost, with the remainder of the cost financed with a subloan carrying the most favorable interest rate offered by BANMA. The grant financing provision was included in the project to help the poorer municipalities qualify for subproject financing.

Of the $7,920,000 budgeted for subproject financing, $3,018,021 had been committed on approved subprojects, and $4,901,979 remained uncommitted as of February 28, 1983.

	Status of Subproject Financing		
Type of Municipality	Budgeted	Committed	Uncommitted
Large	$3,168,000	$2,757,975	$410,025
Poor	4,752,000	260,046	4,491,954
Total	$7,920,000	$3,018,021	$4,901,979

As shown above, only $260,046 (8.6 percent) of the funds ($3,018,021) committed for subloans and grants to municipalities were approved for subprojects for the poorer communities instead of the 60 percent planned in the project paper. In addition, only 13.2 percent of the funds granted to municipalities (included within the $3 million on the above table) have gone to the poorer communities instead of the 60 percent required by Section 5.1 (c) of the project agreement.

The original project design may not have been realistic. Also, the amounts used by BANMA to define the categories of the municipalities has not been updated to reflect the effect of inflation. Two options appear open to USAID/Honduras and BANMA.

First, BANMA and USAID/Honduras could consider three changes in subproject procedures and criteria to qualify and classify municipalities so more funds can be provided to the poorer municipalities.

- Increase The Grant Subsidy Above 30 Percent. This would enable more of the poorer municipalities to quality for subloans. The project paper estimated that a sufficient number of poorer municipalities would qualify for financing to meet the 60 percent requirement if they were given grants of up to 30 percent of project cost. However, since experience has shown that a grant subsidy of 30 percent is not high enough to qualify a sufficient number of the poorer municipalities to absorb 60 percent of project funds, the grant subsidy may have to be increased above 30 percent.

- Decrease The Minimum Interest Rate Offered by BANMA (Now 12 Percent). This should enable more of the poorer municipalities to qualify for subloans.

- Change The Threshold Amounts Used To Classify The Larger And Poorer Municipalities. This would increase the number of municipalities classified as poor. In 1974, BANMA established a system to classify the municipalities as follows:

	Amount of Annual City Budget
Class A	Over $37,500
Class B	$12,500 to $37,500
Class C	Less than $12,500

The poorer municipalities were defined as Class B and C, and the larger ones were defined as Class A for purposes of meeting project requirements. Since inflation in Honduras has increased 127 percent from the beginning of 1974 through the end of 1982, a good case could be made for increasing the budget ceilings in the three classifications. This would have the effect of classifying more muncipalities as poor for the purposes of meeting project requirements. For example, at the time of our audit, BANMA was considering 37 proposals for infrastructure subprojects for implementation under the BANMA II project. These subprojects were estimated to cost $8.5 million which was more than enough to absorb the $4.9 million in uncommitted funds budgeted for subproject financing. Unfortunately, only 8 of the proposed subprojects, costing an estimated $1.3 million were for the poorer municipalities (Classes B and C). However, if the budget ceilings were raised from $37,500 to $85,000 to consider the impact of inflation on the budgets since 1974, then 20 subprojects costing an estimated $3.8 million could be financed in order to meet the requirement to help the poorer municipalities (see Exhibit H).

The second option opened to USAID/Honduras and BANMA is to redesign the project to provide more flexibility in the assistance to the municipalities. As in the above option, sound rationale can be introduced for this alternative. First, one of the unstated objectives of the program is for institutional development of BANMA and for it to be a self-sustaining and financially viable institution. Many of the poorer municipalities were not capable of repaying their debts and an increase of the grant or interest rate subsidies would serve to decrease BANMA's chances to develop its relending capability. Second,

we were told by BANMA officials that the majority of municipalities in Honduras were extremely poor and can all be categorized as "C" municipalities. On this basis then, most municipalities need to be helped and the important aspect is to choose the priority of the project assistance.

A further problem in this respect was that USAID/Honduras and BANMA had not adequately monitored the project regarding the allocation of subloan and grant funds between the larger and poorer municipalities. The reason was that BANMA had not included information on compliance in its quarterly progress reports. If the majority of the funds are to be allocated to the poorer communities, then these reports should be revised so that USAID/Honduras and BANMA can monitor compliance.

Recommendation No. 2

USAID/Honduras should determine whether the classification of municipalities and the allocation of funds is appropriate based on current conditions and make any necessary adjustments in project documents.

Recommendation 3

USAID/Honduras should establish reporting requirements that will provide sufficient information to adequately monitor the project.

Administrative Reform Subprojects May Have Little Impact On Increasing Municipal Revenues

One purpose of the project was to improve the ability of the municipalities to generate revenue through administrative reform subprojects. These subprojects may have improved the abilities of specific individuals, but probably have had little impact on increasing municipal revenues because of high rate of turnover in municipal officials. Under these circumstances, we question the value of continuing with these training subprojects.

Thirty-seven administrative reform subprojects were initiated under the BANMA I and II projects as well as with its own funds. Statistical information existed to measure the annual rates of growth in municipal revenues for 4 years before the subprojects and for the years after the subprojects through 1982 for 31 of the 37 subprojects.

Subsequent to the 31 subprojects, 14 municipalities showed higher growth rates in revenues and 17 municipalities showed lower growth rates. The average growth rate in municipal revenues before the subprojects was 13.22 percent versus 13.52 percent after the subprojects. If one municipality with a growth rate of 20.30 percent before and 135.70 percent after the subproject is eliminated from the analysis, then the average growth rate before the subprojects is 12.98 percent compared to 9.45 percent after the subprojects.

Whenever there are changes in municipal government, the technical personnel are frequently changed by the new administration. As a result of the 1980 and 1981 elections, many of the individuals trained under administrative reform subprojects were changed. The high rate of turnover in municipal officials has probably limited the impact the training provided under the subprojects. If the GOH were to estabish a civil service for the technical personnel at the municipal level, this should reduce the rate of turnover in trained personnel and, thus, improve the effectiveness of the administrative reform subprojects. However, in the absence of such a change, we question the value of the administrative reform subprojects.

Recommendation No. 4

USAID/Honduras and BANMA should evaluate the administrative reform program to decide whether it can be improved or should be eliminated from the project.

The Labor-Intensive Program Was Not Working

No labor-intensive subprojects had been started because BANMA claimed that the poorer municipalities did not have the capability to manage them or to repay the subloans. In addition, many of these subprojects (for repairs to existing infrastructure) may not generate enough additional revenues to be self-financing. BANMA also claimed that the staff time required to plan and monitor these small subprojects could be equal to or greater than large infrastructure subprojects.

The project agreement allocated $300,000 to finance 20 labor-intensive subprojects to repair or expand existing public works on a loan/grant basis. These subprojects were to be located in the smaller municipalities where there was a need but not the resources to finance the improvements. BANMA had not started any separate labor-intensive subprojects, but claimed that the potable water subprojects are labor-intensive.

Considering the anticipated implementation problems on labor-intensive subprojects, we believe several courses of action could be taken. The anticipated problems should be evaluated and a decision made on whether to go ahead with the program or eliminate it and use the funds for some other project purpose. Another option would be for BANMA to offer courses to the municipalities on the management of labor-intensive subprojects. This would be consistent with one purpose of the project, which was to improve the ability of the municipalities to manage their own projects. Or perhaps the labor-intensive subprojects could be grant financed.

Recommendation No. 5

USAID/Honduras and BANMA should evaluate implementation problems of labor-intensive subprojects and decide whether to go ahead with the program or drop it and use the funds for some other project purpose.

Municipality Training Program Delayed

BANMA had not implemented the training program for municipalities as planned. As of February 28, 1982, BANMA had given only 8 courses versus 21 planned over the life-of-the-project. This occurred because of a lack of interest in training by the previous president of BANMA, changes in municipal officials during the 1980 and 1981 elections, and the failure of BANMA to establish a training unit until September 1982.

BANMA began to consider, plan, and design a training program after the current president of BANMA was appointed in February 1982. A training unit was established and staffed with one person in September 1982 and BANMA gave its first course in October 1982. By February 28, 1983, a total of 8 courses had been given. BANMA had firm plans to give an additional 6 courses by June 30, 1983.

BANMA staffed its training unit with only one person instead of three as was planned in the project paper. However, BANMA officials believed that they may be able to carry out an adequate training program with a one-person unit because the unit will use other technical personnel of BANMA to give the courses. We agree with this assessment if BANMA's other workload does not increase. Therefore, USAID/Honduras and BANMA should review the municipal training program from time to time to ensure that the training objectives of the project are being met.

Policy to Conduct Wage Surveys to Maintain Salaries At Competitive Levels Not Formalized

BANMA had not fully complied with Section 6.4 of the AID project agreement that required BANMA to maintain personnel policies pursuant to a written plan which would ensure the retention of qualified professionals on its staff. While it had conducted a wage survey, BANMA had not revised its personnel manual to require periodic surveys, how they would be conducted, or what would be done with the results. Therefore, there was no assurance that effective personnel policies would be maintained.

The requirement to maintain written personnel policies was established because studies showed that low salaries at BANMA encouraged high employee turnover. It was intended that BANMA would survey wages paid by other institutions and increase its wages to competitive levels.

In October 1982, BANMA did its first wage survey and considered the survey results in preparing its 1983 budget. However, the salary increases budgeted for 1983 were not approved by the Honduran Congress since the Congress froze all government salaries at the 1982 level. Since BANMA obtained salary increases in 1981 and 1982, the problem of employee retention because of low salaries was not as serious as it had been prior to the project.

Although BANMA did conduct a wage survey in 1982, we do not believe that this action fully complies with Section 6.4 of the project agreement. BANMA

did not revise its personnel manual to require periodic wage surveys, establish the procedures to be used in conducting surveys, and provide for wage adjustments based on survey results. This should be done to ensure that the surveys are periodically performed, that the results are realistic, and that wages are maintained at competitive levels.

We found two deficiencies in the procedures used to conduct the 1982 survey which should be considered by BANMA in writing its survey procedures. First, the 1982 survey only included a comparison of salaries. Both salaries and benefits should be compared to determine if total compensation is competitive. Second, the 1982 survey of the private sector wages was outdated because it was based on a survey done by Price Waterhouse in 1979. BANMA's survey should be based on current data.

Recommendation No. 6

USAID/Honduras should obtain evidence that BANMA has revised its personnel manual regarding the timing, procedures and use of wage surveys.

Interest Rate Not Charged According To Repayment Capability

BANMA had not fully complied with Section 6.5 of the AID project agreement. BANMA increased its interest rates as required but did not charge higher rates on subloans to municipalities with higher repayment capabilities. This happened because BANMA charged the lowest interest rate to most municipalities since the repayment capability of most municipalities was considered to be low.

Section 6.5 of the AID project agreement states:

> "BANMA will revise its interest rate structure in order to permit higher rates for subloans to municipalities with higher repayment capabilities. The new structure will maintain the flexibility established in the current structure, but will raise the existing ceiling on interest rates."

On March 10, 1983, BANMA revised its credit manual to increase its minimum interest rates from 7 to 12 percent and the maximum rates from 10 percent to the one authorized by the Central Bank of Honduras. On September 5, 1980, BANMA revised its credit manual to indicate that municipalities that qualify for a grant to partially finance a subproject were to be given the most favorable rate of interest. We found that BANMA had not followed this policy because the repayment capability of most municipalities was considered to be low regardless of whether or not the municipalities qualified for grant financing.

For purposes of our analysis, repayment capability was defined as low if the municipality received grant financing combined with a subloan. This is consistent with the project description and BANMA credit regulations which states that municipalities receiving grants would be offered BANMA's most favorable rate of interest on subloans. Since project inception, BANMA charged an average rate of interest of 10.8 percent on 15 subloans to municipalities with low repayment capability. This rate exceeded the average rate of 10.2 percent charged on 10 subloans to municipalities with higher repayment capability.

	Subprojects			
	With Grants		Without Grants	
Year	No. of Subloans	Average Interest Rate	No. of Subloans	Average Interest Rate
1980	3	10.00%	5	9.70%
1981	5	10.80%	3	10.33%
1982	7	11.14%	2	11.25%
Total	15	10.80%	10	10.20%

If BANMA's claim is valid that the repayment capability of most municipalities is low regardless of whether they qualify for partial grant financing, USAID/Honduras may want to consider revising Section 5.2 of the project agreement to make it more realistic. If it is not valid, then USAID/Honduras should ensure that the required interest policy is followed and applied in an equitable manner in the future.

Recommendation No. 7

USAID/Honduras should either (a) ensure that BANMA complies with interest rate policy contained in Section 6.5 of the AID project agreement; or (b) revise the policy to make it more realistic.

BANMA's Management Information System Should Be Improved

BANMA's information system should be improved to provide management with more complete, reliable and timely information. The system was not producing adequate information to plan, approve, and monitor municipal subprojects, to measure and control subloan delinquencies, and to plan and control the implementation of its annual loan and operating budgets. We believe the system should be computerized so more analyses can be performed and more reports produced.

At the time of our audit, the information system had many deficiencies which included:

- Lack of centralized information;
- Lack of complete data on the financial condition of munincipalities and the operation of completed subprojects;
- Lack of complete data on socioeconomic status of municipalities;
- No coordination between the different departments of BANMA with respect to the collection and maintenance of information;
- Data analysis is time-consuming because it is manually prepared;
- Cash flow projections are not made for the loan and operating budgets of the bank;
- Subloan files are poorly organized; and
- Lack of an adequate system to measure subloan delinquencies.

Similar observations about BANMA's information system were reported in an AID evaluation of the project done in August 1982.

To improve, and possibly computerize the information system, we believe AID should provide technical assistance to BANMA. On August 15, 1983, USAID/Honduras approved the use of project funds for a consultant to advise the bank, as part of its overall program to mechanize operations, on the most appropriate computer system.

Recommendation No. 8

USAID/Honduras should provide technical assistance to BANMA to improve, and possibly computerize, its management information system.

Monitoring GOH and BANMA Contributions

USAID/Honduras asked us to determine what contributions had been made to the project by BANMA and the GOH for subproject financing because BANMA was not providing this information. The amount of contributions by all parties is required to effectively monitor the project.

The project agreement provides that AID, BANMA, and the GOH are to contribute $7,920,000 to the project for subproject financing:

	Contribution	Percent of Total
AID	$4,750,000	59.98
GOH	2,000,000	25.25
BANMA	1,170,000	14.77
Total	$7,920,000	100.00

As of February 28, 1983, actual contributions were as follows (see Exhibit G).

	Contributions	
	Amount	Percent
AID	$1,515,233	65.3
BANMA	510,289	22.0
GOH	295,015 1/	12.7
Total	$2,320,537	100.0

USAID/Honduras was not obtaining information on the BANMA and GOH contributions for subproject financing because BANMA had not included the information on cumulative disbursements in its "Summary Claim for Reimbursement". If this had been done, then the cumulative disbursements of AID, BANMA, and the GOH could have been readily determined.

BANMA maintained records of cumulative disbursements for subproject financing but it overstated the actual contributions because it included expenses paid with contributions received in cash from municipalities and accrued interest refinanced by BANMA (see Exhibit G). These items should not be included in the cumulative disbursement figures reported in the "Summary Claim for Reimbursement".

Recommendation No. 9

USAID/Honduras should establish procedures to ensure that BANMA includes data for all contributions on subproject financing in its periodic reports.

1/ The GOH has actually contributed $995,015 to BANMA under the project but only $295,015 has been attributed to subproject financing by BANMA.

EXHIBIT A

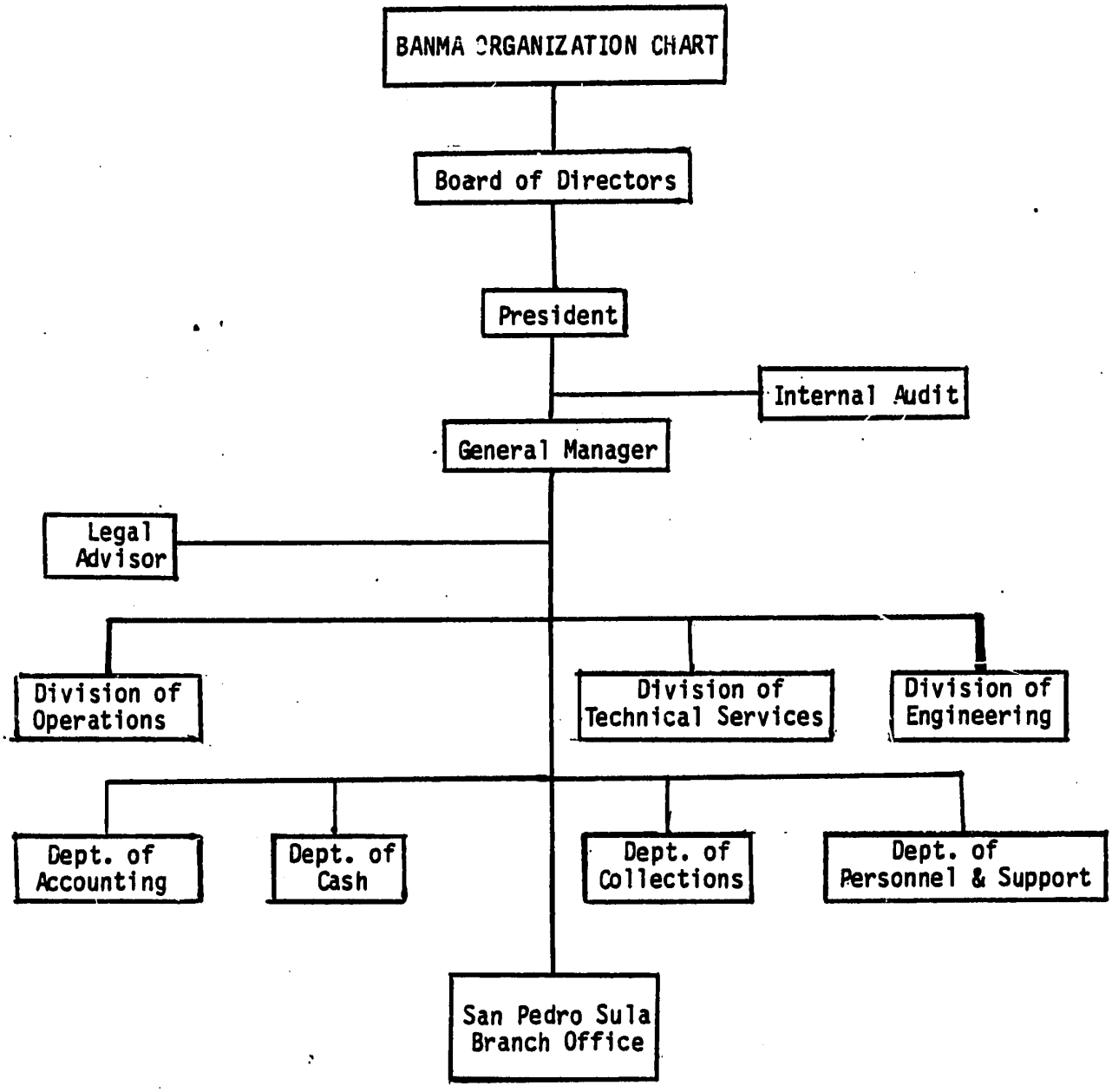
STATUS OF AID CONTRIBUTION

As of February 28, 1983

	Budgeted	Disbursed 1/	Balance
Loans			
Subprojects			
Infrastructure	$4,173,460	$1,482,398	$2,691,062
Administrative Reform	420,000	32,834	387,166
Labor-Intensive	156,540	-0-	156,540
Total Loan	$4,750,000	$1,515,232	$3,234,768
Grant			
Municipal Training	$30,000	-0-	$30,000
Technical Assistance	164,000	111,307	52,693
Other Support Costs	56,000	17,238	38,762
Total Grant	$ 250,000	$ 128,545	$ 121,455
Grand Total	$5,000,000	$1,643,777	$3,356,223

1/ Auditors increased disbursements by $78,176 because USAID did not post a payment made in May 1982 to its project ledger. USAID posted this voucher in March 1983 and has improved their accounting controls to prevent a recurrence of this type of error.

EXHIBIT B


BANMA ORGANIZATION CHART
Board of Directors
President
Internal Audit
General Manager
Legal Advisor
Division of Operations
Division of Technical Services
Division of Engineering
Dept. of Accounting
Dept. of Cash
Dept. of Collections
Dept. of Personnel & Support
San Pedro Sula Branch Office

Occupancy for Subproject Facilities
As of April 30, 1983

BANMA I

Markets	Percentage Used	
Puerto Cortes	100%	
Tela	100%	
La Entrada	100%	
Danli	80%	
Choluteca	90%	
Santa Rosa de Copan	80%	
Trujillo	43%	1/
Potrerillos	20%	2/
Cofradia	100%	
Sonaguera	0%	3/
Olanchito	90%	
La Lima	80%	
Villanueva	20%	4/
Tocoa	30%	5/
Sava	0%	6/
La Ceiba	0%	7
Bus Terminals		
Santa Rosa	70%	8/
Choluteca	0%	10/

BANMA II

Markets		
Choloma	100%	
El Progreso	75%	
Orocuina	90%	
Bus Terminals		
Danli	0%	9/
Average Rate of Use	58%	

Occupancy for Subproject Facilities
As Of April 30, 1983

Reasons For Low Occupancy And Corrective Actions Taken

1) Feasibility studies overstated demand for services and the market was too large.

2) Municipal authorities have not taken action to ensure that the market will be used. Municipality is trying to sell building to the Ministry of Health.

3) Municipal authorities have not taken action to ensure that the market will be used.

4) The location of the market was bad. The municipality is trying to sell the building to the Institute of Social Security.

5) Municipal authorities have not taken action to ensure that the market will be used.

6) Municipal authorities have not taken action to ensure that market will be used.

7) The location of the market was bad, the road to the market was not paved and the market lacked a sewage disposal system. The municipality is acting to have the road paved and to have a septic system installed so that market can be used.

8) Demand for services lower than projected in feasibility studies.

9) The transportation companies have requested that the facilities be improved with installation of a telephone, potable water storage tank and repair shop. The municipality is in the process of making the requested changes in facilities which are expected to be completed in June 1983.

10) The municipality has authorized the largest transportation in Choluteca to build its own terminal and the parking lot was not paved.

Source of Information:

Field visits and BANMA Technical Services Division.

SUBLOAN DELINQUENCY ANALYSIS - BANMA I

City	Country	1/ Type of Project	1/1/82 To 12/31/82 Interest Falling Due	1/1/82 To 12/31/82 Interest Paid	1/1/82 To 12/31/82 Percent Paid	1/1/83 To 3/31/83 Interest Falling Due	1/1/83 To 3/31/83 Interest Paid	1/1/83 To 3/31/83 Percent Paid
Tela	Atlantida	AR	$437	$541	124%	$70	$59	84%
Choluteca	Choluteca	AR	1,039	1,135	109%	67	67	100%
Siguatepeque	Comayagua	AR	403	539	134%	44	103	234%
Comayagua	Comayagua	AR	2,125	719	34%	362	188	52%
Juticalpa	Olancho	AR	548	351	64%	188	0	0%
El Paraiso	El Paraiso	AR	27	75	278%	0	0	0%
Villanueva	Cortes	AR	1,504	0	0%	601	913	152%
Santa Rita	Yoro	AR	1,900	525	28%	279	279	100%
Olanchita	Yoro	AR	677	862	127%	67	126	189%
Choloma	Cortes	AR	546	816	149%	127	0	0%
Catacamas	Olancho	AR	1,158	837	72%	263	115	44%
La Ceiba	Atlantida	AR	3,321	5,391	162%	283	786	277%
La Entrada	Copan	AR	770	605	79%	57	241	423%
San Jose	St Barbara	AR	1,608	150	9%	409	698	170%
Trinidad	St Barbara	AR	711	670	94%	28	131	468%
San Luis	St Barbara	AR	638	628	98%	119	115	97%
Tela	Atlantica	MM	6,220	4,533	73%	1,170	974	83%
La Ceiba	Atlantica	MM	41,823	4,091	10%	12,267	8,245	67%
Trujillo	Colon	MM	1,529	540	35%	1,603	1,128	70%
Catacamas	Olancho	MM	300	337	112%	0	0	0%
Danli	El Paraiso	MM	11,047	8,209	74%	3,032	3,032	100%
El Paraiso	El Paraiso	PW	22,479	28,047	125%	3,365	11,773	350%
Choluteca	Choluteca	MM	84,746	18,282	21%	14,131	0	0%
Puerto Cortes	Cortes	MM	5,443	6,201	114%	723	723	100%
La Entrada	Copan	MM	1,835	2,078	113%	108	108	100%
Olanchito	Yoro	MM	15,450	13,873	90%	1,427	4,476	314%
La Lima	Cortes	MM	11,000	2,594	23%	2,309	11,546	500%
Cofradia	Cortes	MM	1,764	2,129	121%	0	0	0%
Sonaguera	Colon	MM	3,014	31,766	1054%	0	0	0%
Sava	Colon	MM	11,416	625	5%	6,346	3,816	60%
Tocoa	Colon	MM	10,057	379	4%	2,596	584	22%
Santa Rosa	Copan	MM	37,280	29,250	78%	9,501	0	0%
San Luis	St Barbara	PW	6,085	3,219	53%	1,058	1,064	100%
Santa Rita	Yoro	PW	14,427	15,782	109%	4,029	4,125	102%
Goascoran	Valle	PW	2,001	948	47%	579	258	44%

SUBLOAN DELINQUENCY ANALYSIS - BANMA I

City	Country	1/ Type of Project	1/1/82 To 12/31/82 Interest Falling Due	1/1/82 To 12/31/82 Interest Paid	1/1/82 To 12/31/82 Percent Paid	1/1/83 To 3/31/83 Interest Falling Due	1/1/83 To 3/31/83 Interest Paid	1/1/83 To 3/31/83 Percent Paid
Sigvatepque	Comayagua	SS	35,969	0	0%	10,029	5,680	57%
El Progreso	Yoro	PW	28,563	3,846	13%	1,901	1,037	54%
San Jose	St Barbara	SS	14,254	12,974	91%	1,404	2,434	173%
San Lorenzo	Valle	SS	5,398	31,927	591%	0	0	0%
Choluteca	Choluteca	TT	49,982	0	0%	8,332	0	0%
La Ceiba	Atlantida	TT	413	0	0%	69	482	698%
Santa Rosa	Copan	TT	21,324	16,200	76%	5,424	0	0%
Villanueva	Cortes	MM	9,770	0	0%	2,110	3,752	178%
Portrerillos	Cortes	AR	1,854	463	25%	375	0	0%
		Total	$472,855	$252,137	53%	$96,852	$69,058	71%

1/ AR = Administrative Reform
MM = Municipal Market
PW = Potable Water
SS = Sanitary Sewer
TT = Transportation Terminal

EXHIBIT E

SUBLOAN DELINQUENCY ANALYSIS - BANMA II

City	County	1/ Type of Project	Class of City	1/1/82 To 1/31/82 Interest Falling Due	1/1/82 To 1/31/82 Interest Paid	1/1/82 To 1/31/82 Percent Paid	1/1/83 To 3/31/83 Interest Falling Due	1/1/83 To 3/31/83 Interest Paid	1/1/83 To 3/31/83 Percent Paid
San Francisco	Cortes	AR	B	$555	$509	92%	$123	$269	218%
San Marcos	St Barbara	AR	B	356	124	35%	66	95	144%
San Nicolas	St Barbara	AR	B	1,036	1,023	99%	277	0	0%
El Triunfo	Choluteca	AR	A	123	0	0%	31	0	0%
Orucuina	Choluteca	AR	B	217	227	105%	52	84	162%
La Libertad	Comayagua	AR	A	356	0	0%	78	53	68%
Omoa	Cortes	AR	B	411	335	82%	103	113	110%
Sava	Colon	AR	B	163	0	0%	106	236	223%
Santa Barbara	St Barbara	AR	A	248	0	0%	239	0	0%
San Francisco	Atlantida	AR	B	7	0	0%	72	21	29%
Danli	El Paraiso	AR	A	128	0	0%	257	0	0%
La Lima	Cortes	PW	A	17,503	5,252	30%	3,500	0	0%
Santa Rita	St Barbara	PW	C	778	1,598	205%	114	114	100%
San Nicolas	St Barbara	PW	B	2,945	1,305	44%	802	2,288	285%
Portrerillos	Cortes	PW	A	45,056	5,000	11%	4,143	0	0%
Trinidad	St Barbara	PW	A	13,254	6,351	48%	2,780	5,118	184%
Campamento	Olancho	PW	A	4,322	323	7%	2,817	2,500	89%
San Antonio	Comayagua	PW	B	1,885	358	19%	1,283	2,481	193%
Curaren	Morazan	PW	B	543	469	86%	199	81	41%
Puringla	La Paz	PW	B	267	0	0%	611	0	0%
Tocoa	Colon	PW	A	354	3,159	892%	883	498	56%
Choloma	Cortes	MM	A	17,571	784	4%	3,121	3,400	109%
Orocuina	Choluteca	MM	B	1,289	735	57%	322	735	228%
El Progreso	Yora	MM	A	30,384	0	0%	20,344	11,338	56%
Danli	El Paraiso	TT	A	12,365	3,099	25%	1,005	1,005	100%
			Total	$152,116	$30,651	20%	$43,328	$30,429	70%
	Grand Total for BANMA I and II			$624,971	$282,788	45%	$140,180	$99,487	71%

1/ AR = Administrative Reform
PW = Potable Water
MM = Municipal Market
TT = Transportation Terminal

DELINQUENCY ANALYSIS FOR BANMA I & II REFINANCED SUBLOANS

City	County	Type 1/ of Project	Class 2/ of City	Date Subloan Refinanced	From Date Refinanced To 3/31/83 Interest Falling Due	Interest Paid	Percent Paid
A. BANMA I							
Tela	Atlantida	AR	NA	12/82	$70	$59	84%
Comayagua	Comayagua	AR	NA	9/82	1,081	908	84%
Villanueva	Cortes	AR	NA	8/82	1,363	913	67%
Santa Rita	Yoro	AR	NA	7/82	804	804	100%
Catacamas	Olancho	AR	NA	12/82	263	115	44%
San Jose	St Barbara	AR	NA	8/82	699	699	100%
Tela	Atlantica	MM	NA	12/82	1,173	974	83%
La Ceiba	Atlantica	MM	NA	8/82	24,609	12,335	50%
Trujillo	Colon	MM	NA	12/82	1,603	1,128	70%
Danli	El Paraiso	MM	NA	12/82	3,033	3,033	100%
Olanchito	Yoro	MM	NA	9/82	5,736	5,736	100%
Sava	Colon	MM	NA	7/82	7,956	4,191	53%
Tocoa	Colon	MM	NA	12/82	923	0	0%
Santa Rosa	Copan	MM	NA	2/83	3,286	0	0%
San Luis	St Barbara	PW	NA	10/82	1,662	1,064	64%
Santa Rita	Yoro	PW	NA	5/82	18,456	0	0%
Goascoran	Valle	PW	NA	12/82	579	258	44%
Sigvatepque	Comayagua	SS	NA	8/82	23,402	5,680	24%
El Progreso	Yoro	PW	NA	12/82	1,901	1,037	54%
San Jose	St Barbara	SS	NA	8/82	4,237	4,237	100%
Santa Rosa	Copan	TT	NA	2/83	1,735	0	0%
Villanueva	Cortes	MM	NA	8/82	4,234	3,752	89%
Portrerillos	Cortes	AR	NA	10/82	375	0	0%
			Total		$109,180	$46,923	43%
B. BANMA II							
San Marcos	St Barbara	AR	B	8/82	$191	$131	69%
San Nicolas	St Barbara	AR	B	12/82	277	0	0%
La Libertad	Comayagua	AR	A	12/82	24	53	221%
Santa Rita	St Barbara	PW	C	12/82	114	114	100%
San Nicolas	St Barbara	PW	B	5/82	2,306	2,282	99%
Portrerillos	Cortes	PW	A	5/81	59,827	5,000	8%
Trinidad	St Barbara	PW	A	10/82	5,099	5,121	100%

DELINQUENCY ANALYSIS FOR BANMA I & II REFINANCED SUBLOANS

City	County	Type 1/ of Project	Class 2/ of City	Date Subloan Refinanced	From Date Refinanced To 3/31/83 Interest Falling Due	Interest Paid	Percent Paid
Choloma	Cortes	MM	A	10/82	9,363	3,400	36%
El Progreso	Yora	MM	A	1/83	20,344	11,338	56%
Danli	El Paraiso	TT	A	7/82	3,955	4,022	102%
				Total	$101,500	$31,461	31%
				Grand Total	$210,680	$78,384	37%

1/ AR = Administrative Reform
MM = Municipal Market
SS = Sanitary Sewer
TT = Transportation Terminal
PW = Potable Water

2/ NA = Not Available

STATUS OF SUBPROJECT FINANCING - BANMA II
As of: February 28, 1983

City	County	Type 1/ of Sub-Project	Date Start/ Finish	Class of Project	2/ Commitments	Disbursements AID	BANMA	GOH	2/ 3/ Total	Uncommitted Balance
San Francisco	Cortes	AR	7/80-2/81	B	$9,436	$5,662	$3,646	$0	$9,308	$128
San Marcos	St Barbara	AR	9/80-1/81	B	4,249	2,326	1,076	885	4,287	(38)
San Nicolas	St Barbara	AR	3/81-7/81	B	13,475	7,271	739	2,784	10,794	2,681
El Triunfo	Choluteca	AR	10/81-2/82	A	1,819	1,260	280	279	1,819	0
Orucuina	Choluteca	AR	9/81-1/82	B	3,681	1,576	1,497	604	3,677	4
La Libertad	Comayagua	AR	9/81-2/82	A	5,907	3,278	1,055	907	5,240	667
Omoa	Cortes	AR	1/82-5/82	B	8,667	3,467	2,090	1,329	6,886	1,781
Sava	Colon	AR	8/82-12/82	B	6,004	1,727	2,954	908	5,589	415
Santa Barbara	St Barbara	AR	8/82-2/83	A	13,500	5,496	2,597	2,104	10,197	3,303
San Francisco	Atlantida	AR	12/82-2/83	B	4,905	0	2,857	806	3,663	1,242
Danli	El Paraiso	AR	10/82-2/83	A	10,635	4,823	2,078	2,446	9,347	1,288
La Lima	Cortes	PW	5/80-7/81	A	412,494	188,053	21,973	0	210,026	202,468
Santa Rita	St Barbara	PW	7/80-12/81	C	10,817	6,300	1,143	2,508	9,951	866
San Nicolas	St Barbara	PW	8/81-12/81	B	68,046	48,751	0	11,844	60,595	7,451
Portrerillos	Cortes	PW	10/80-3/82	A	237,512 4/	187,881	18,280	0	206,161	31,351
Trinidad	St Barbara	PW	8/81-2/82	A	155,321	87,300	1,157	33,465	121,922	33,399
Campamento	Olancho	PW	2/82-10/82	A	216,589	61,606	40,382	14,726	116,714	99,875
San Antonio	Comayagua	PW	4/82-10/82	B	75,025	29,956	42,939	0	72,895	2,130
Curaren	Morazan	PW	4/82-11/82	B	13,300	9,502	174	2,398	12,074	1,226
Puringla	La Paz	PW	7/82-1/83	B	27,500	10,526	9,965	0	20,491	7,009
Tocoa	Colon	PW	2/83-2/84	A	464,436	176,555	0	0	176,555	287,881
Choloma	Cortes	MM	4/80-12/80	A	188,946	85,907	92,610	0	178,517	10,429
Orocuina	Choluteca	MM	9/81-1/82	B	14,941	8,502	6,180	0	14,682	259
El Progreso	Yora	MM	12/81-1/83	A	913,386	495,008	234,324	182,317	911,649	1,737
Danli	El Paraiso	TT	5/80-12/81	A	137,430	82,500	20,293	34,705	137,498	(68)
				Total	$3,018,021	$1,515,233	$510,289	$295,015	$2,320,537	$697,484

STATUS OF SUBPROJECT FINANCING - BANMA II
As of: February 28, 1983

City	County	Type 1/ of Sub-Project	Date Start/ Finish	Class of Project	2/ Commitments	Disbursements AID	Disbursements BANMA	Disbursements GOH	2/ 3/ Total	Uncommitted Balance

1/ AR = Administrative Reform;
PW = Potable Water;
MM = Municipal Market;
TT = Transportation Terminal;

2/ Excludes delinquent interest refinanced of $102,716 allocated as follows:

San Marcos, AR, $324;
San Nicolas, AR, $850;
La Libertad, AR, $432;
Santa Rita, PW, $87;
San Nicolas, PW, $530;
Potrerillos, PW, $20,198;
Trinidad, PW, $5,836;
Choloma, MM, $29,557;
El Progreso, MM, $30,442; and
Danli, TT, $14,460.

3/ Excludes BANMA disbursements of $68,470 from cash contributions made by municipalities for subprojects as follows:

La Lima, PW, $12,908;
San Nicolas, PW, $2,223;
Tocoa, PW, $40,839; and
Danli, TT, $12,500.

4/ Only includes commitments with BANMA II financing. BANMA I financing of $85,481 is excluded.

EXHIBIT H

BANMA II SUBPROJECTS PLANNED AS OF MARCH 31, 1983

City	County	1/ Type of Project	Class	Annual City Budget	Estimated Cost	Cumulative Estimated Cost
Lejamani	Comayagua	PW	C	$8,631	$164,000	$164,000
Florida Opatoro	La Paz	MM	C	14,249	40,156	204,156
Chinda	St Barbara	BR	C	14,401	48,513	252,669
San Juan Flores	Morazan	PW	B	20,534	196,129	448,798
Brus Laguna	Gracias	PW	B	21,517	63,026	511,824
Jose Santos	La Bahia	PW	B	26,785	250,500	762,324
Jesus de Otoro	Intibuca	PW	B	31,357	470,478	1,232,802
Intibuca	Intibuca	MM	B	31,357	89,192	1,321,994
San Antonio	Comayagua	SS	A	37,654	195,109	1,517,103
San Marcos	Ocotepeque	PW	A	38,241	160,500	1,677,603
Nva. Ocotepque	Ocotepeque	PW	A	39,538	314,000	1,991,603
Pto. Lempira	Gracias	PW	A	44,007	331,050	2,322,653
Morazan	Yoro	PW	A	45,287	323,207	2,645,860
San Francisco	Cortes	SS	A	45,386	250,500	2,896,360
S Marcos Colon	Choluteca	MM	A	49,036	77,700	2,974,060
Gracias	Lempira	SS	A	50,645	210,500	3,184,560
San Manuel	Cortes	PW	A	66,171	210,500	3,395,060
La Libertad	Comayagua	PW	A	67,560	219,404	3,614,464
Saba	Colon	PW	A	68,228	84,042	3,698,506
Macuelizo	St Barbara	PW	A	73,875	160,070	3,858,576
San Nicolas	St Barbara	PW	A	88,690	42,125	3,900,701
Campamento	Olancho	SS	A	98,301	210,500	4,111,201
Marcala	La Paz	SS	A	101,617	394,736	4,505,937
Santa Cruz	Cortes	PW	A	102,336	488,187	4,994,124
San Jose Colina	St Barbara	PW	A	104,464	201,120	5,195,244
Florida	Copan	PW	A	107,390	210,250	5,405,494
Tocoa	Colon	PW	A	122,467	148,020	5,553,514
La Entrada	Copan	SS	A	134,246	220,098	5,773,612
San Luis	St Barbara	SS	A	143,394	231,150	6,004,762
El Paraiso	Paraiso	PW	A	242,789	411,105	6,415,867
Choloma	Cortes	PW	A	286,310	565,749	6,981,616
Yoro	Yoro	PW	A	305,866	435,275	7,416,891
Villa Nueva	Cortes	SS	A	343,201	292,147	7,709,038
Olanchito	Yoro	PW	A	427,261	219,000	7,928,038
Trinidad	St Barbara	PW	A	459,279	79,475	8,007,513
Siguatepeque	Comayagua	SS	A	621,158	253,030	8,260,543
Danli	El Paraiso	PW	A	766,655	210,500	8,471,043
			Total	$5,249,883	$8,471,043	

1/ PW = Potable Water; MM = Municipal Market;
BR = Bridge; SS = Sanitary Service;

2/ Class C municipalities have annual budgets of less than $12,500;
Class B of from $12,500 to $37,500; and
Class A of over $37,500.

LIST OF RECOMMENDATIONS

Recommendation No. 1

USAID/Honduras should obtain evidence that BANMA has taken appropriate action to improve its financial viability. (Page 10)

Recommendation No. 2

USAID/Honduras should determine whether the classification of municipalities and the allocation of funds is appropriate based on current conditions and make any necessary adjustments in project documents. (Page 13)

Recommendation 3

USAID/Honduras should establish reporting requirements that will provide sufficient information to adequately monitor the project. (Page 13)

Recommendation No. 4

USAID/Honduras and BANMA should evaluate the administrative reform program to decide whether it can be improved or should be eliminated from the project. (Page 14)

Recommendation No. 5

USAID/Honduras and BANMA should evaluate implementation problems of labor-intensive subprojects and decide whether to go ahead with the program or drop it and use the funds for some other project purpose. (Page 14)

Recommendation No. 6

USAID/Honduras should obtain evidence that BANMA has revised its personnel manual regarding the timing, procedures and use of wage surveys. (Page 16)

Recommendation No. 7

USAID/Honduras should either (a) ensure that BANMA complies with interest rate policy contained in Section 6.5 of the AID project agreement; or (b) revise the policy to make it more realistic. (Page 17)

Recommendation No. 8

USAID/Honduras should provide technical assistance to BANMA to improve, and possibly computerize, its management information system. (Page 18)

Recommendation No. 9

USAID/Honduras should establish procedures to ensure that BANMA includes data for all contributions on subproject financing in its periodic reports. (Page 19)

APPENDIX B

LIST OF REPORT RECIPIENTS

	No of Copies
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