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TO - AID/WASHINGTON TOAID A-386 X

*FD-448-14161
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522.001-1001/43*

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ACTION

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INFO.

FROM - TEGUCIGALPA

SUBJECT - NONCAPITAL PROJECT

REFERENCE -

*PRR
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Country: HONDURAS Project No. 522-11-190-036.1

Submission Date: June 1968-Original xx Revision No. _____

Project Title: AGRICULTURAL DEVELOPMENT (Credit & Extension)

U. S. Obligation Span: FY 64 through FY 73

Gross Life-of-Project Financial Requirements:

U.S. Dollars	\$ 1,891,000
Cooperating Country Cash Contribution	6,500,000
Other Donors	1,100,000
Total	\$ 9,491,000

OTHER AGENCIES

*agw
state
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CIA*

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DRAFTED BY	OFFICE	PHONE NO.	DATE	APPROVED BY
<i>CHENYOR</i>	<i>RURAL</i>		<i>6/7/68</i>	<i>ACCTG DIR: W. L. JERRY</i>

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Summary Description

(See FY 69 P.M. Part II A.2 Agric. Sector)

The National Development Bank (BNF) of Honduras has made significant progress in recent years in increasing its agriculture production credit to the small and medium-size farmers of Honduras. A series of loans from the Interamerican Development Bank (IDB) along with continually increasing financial inputs by the GOH has permitted this development. However, most of the BNF credit is being provided to farmers with inadequate farm planning and little or no technical supervision. As a result, too little agricultural and livestock development is occurring and increased production from the BNF credit is not taking place in the magnitude expected. While technical knowledge together with improved seed for food crops are available in Honduras and could more than double production, there is evidence that BNF clients are obtaining only a 15 to 25% increase in production of food crops.

It is generally recognized that Honduras has a well-managed agriculture extension service in the Ministry of Natural Resources' semi-autonomous institution, Desarrural. However, it is obvious that up to the present time an efficient working relationship between the BNF and Desarrural has not been developed. It is agreed that a close working relationship can and must be developed in which Desarrural will provide BNF loan supervisors and their clients with the necessary technical information to permit maximum production from BNF credit.

The BNF has not been able to service the very small farmer, often referred to as "subsistence farmers", which include 70% or more of the farmers in Honduras. There is general agreement that this sector of the farm population offers great potential for increasing production of food crops as well as an important consumer market for industrial goods. It is generally agreed that Production Credit must be provided to the small farmer sector through well-managed agricultural cooperatives. (See PROF Project No. 522-11-990-074.2).

An AID agricultural loan has been requested by the Government of Honduras to be used as follows:

For construction of approximately 25,000-ton central grain storage capacity (to be administered by BNF)	\$ 3.0 million
For production credit - agriculture and livestock producers (to be administered by BNF)	4.5 million

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For agro-industries (to be administered by BNF)

0.5 million

For production credit to small farmers through agricultural cooperatives (to be administered by Federation of Savings and Loan Cooperatives of Honduras (FACACH))

1.5 million

Total

\$ 9.5 million

Specific goals of USAID/Honduras program include:

1. Rapid increase in the production of livestock and food grains through the increased use of inputs including improved breeding animals, improved seed, insecticides and fertilizers--with AID technical assistance and production credit.
2. Establishment of a well-managed grain storage program together with a realistic price stabilization program for food crops coordinated with the Central American Common Market Grains Protocol--with technical assistance from AID loan and GOH.
3. To emphasize and concentrate on a meaningful crop diversification program which de-emphasizes coffee production and encourages production of food grains and new crops for export--with AID and multilateral technical assistance.
4. To assure adequate production credit for a broad segment of the farmer population of Honduras, including the small (subsistence) farmer, through agricultural cooperatives--with AID technical assistance. (See PROP Project No. 522-11-990-074.2).
5. To assure greater efficiency and better management of the BNF program of agricultural credit and agricultural development projects generally--with AID technical assistance.

In order to achieve these goals AID technical assistance and credit will be provided. Technical assistance and training will be the primary concern of this project and will consist of the following activities:

1. Short courses and in-service training for technicians of Desarrural and the BNF on farm planning.
2. Technical guidance to the BNF on livestock and agriculture development projects.
3. Technical assistance and guidance to Desarrural and the BNF in the development of a close working relationship between the two institutions.
4. Short courses and in-service training to BNF technicians and agriculture cooperative technicians and managers on use of production credit through agriculture cooperatives.
5. Technical guidance and assistance on operation of a sound grain storage program, together with a meaningful price stabilization program for food grains.
6. Short courses for Desarrural technicians on pasture and forage improvement and utilization of agriculture by-products for feeding livestock.
7. Participant training abroad for technicians of Desarrural and the BNF with emphasis on degree training.
8. A significant increase in the Desarrural budget to permit employment of 25 additional extension technicians to be officed and serviced by the BNF at its facilities located at 23 different sites throughout Honduras.

The general approach and plan of action will involve a coordinated effort on the part of USAID (technical and capital assistance), IDE (technical and capital assistance), BNF (technical, administrative and capital inputs), Desarrural of the Ministry of Natural Resources (agriculture extension, agronomic research, improved seed), JEDP Special Fund Project "Crop Development through Applied Research and Demonstration" (technical assistance and training), and the Agriculture Cooperative Program (technical assistance on cooperatives organization and management, together with training). In addition to training benefits both in-service and training of Honduran technicians abroad, the provision of technical and advisory services contemplated by the agencies and institutions cited above will bring about a significant improvement in the management and operation of the BNF, Desarrural and the agricultural cooperatives.

Setting.

(See FY 69 P.M. Part II A.2 Agric. Sector)

The National Development Bank (BNF) is the principal agriculture lending institution in Honduras. After more than 15 years of experience, this institution has become a major contributing factor in agricultural development and increased agriculture production.

More than 50% of its total resources is being lent to about 12% of the total farmers in Honduras for agricultural and livestock production. In 1967 BNF clients included about 10,500 small farmers producing livestock and food grains. Funds for lending to small farmers were made available from an IDB loan, along with GOH resources. The following table shows relative size of loans made by the BNF in 1967:

<u>Size of Loans (in Lempiras)*</u>		<u>No. of Loans</u>	<u>%</u>	<u>Value/Lempiras*</u>	<u>%</u>
0 -	200	194	1.9	31,788	0.1
201 -	500	3,764	36.1	1,462,021	4.7
501 -	1,000	3,001	28.8	2,575,254	7.7
1,001 -	2,500	1,863	17.9	3,147,392	10.2
2,501 -	5,000	869	8.3	3,217,949	10.4
5,001 -	10,000	377	3.6	2,807,612	9.1
10,001 -	20,000	164	1.6	2,542,710	8.2
20,001 -	50,000	127	1.2	4,145,301	13.4
50,001 -	100,000	43	0.4	3,078,311	10.0
100,001 -	250,000	21	0.2	3,196,866	10.3
250,001 -	500,000	7	-	2,551,294	8.3
500,001 -	750,000	2	-	1,322,207	4.3
1,000,000 -	over	1	-	1,000,000	3.3
		<u>10,433</u>	<u>100.0</u>	<u>30,878,705</u>	<u>100.0</u>

* 2 lempiras = \$1.00 U.S.

Unfortunately, almost 100,000 potentially credit-worthy small and subsistence farmers in Honduras are still without a means of production credit. Of the more than 10,500 small farmers receiving BNF credit in 1967, very few or none received adequate technical supervision in the use of credit. This resulted in a less than desirable return from increased production. The BNF organization, management and operations have been successful in reaching credit-worthy small farmer clients with an

ever-increasing amount of credit, but has so far been unable to orient credit to meaningful farm plans, along with the necessary technical supervision. This unfavorable situation can and will be improved with the proposed technical guidance and training assistance to be provided by AID along with IDB technical assistance.

The BNF has 25 field offices well distributed throughout Honduras and located in the principal agriculture producing areas. At the end of 1967, 52 agricultural technicians were employed by the credit department of the bank to serve as agriculture credit appraisers (loan supervisors). These technicians were attempting to provide supervision on an average of more than 250 loans each. This volume of loans per technician automatically ruled out adequate technical supervision for individual small farmer clients.

Desarrural is a well-organized and efficiently operated agriculture extension organization, semi-autonomous and dependent upon the Ministry of Natural Resources. This institution has 33 field offices well distributed throughout the principal agriculture producing areas of the country. In addition to agriculture extension activities, it manages and operates two modern seed-processing plants (one in San Pedro Sula and one in Tegucigalpa) and conducts a seed-improvement program which provides improved corn, bean, sorghum and rice seed for the processing plants. It is also carrying out applied research on the four basic food grain crops of corn, beans, sorghum and rice, and to a lesser extent on fruits and vegetables. In addition, Desarrural owns, manages and operates a 4,000-acre livestock center at Comayagua, where it produces pure and cross-bred breeding animals (principally beef and dairy cattle) for sale to livestock farmers throughout Honduras. This center also serves as a source of breeding stock for the BNF's livestock borrowers.

Desarrural maintains a close working relationship with the BNF in many aspects, but this relationship has not been effective in providing either the BNF agricultural credit appraisers or the BNF small farmer clients with adequate technical guidance that is needed. An improvement in this situation can and will be effected with AID technical assistance and training.

The agricultural cooperative movement in Honduras is developing and growing rapidly. If the agricultural cooperative movement is to continue to grow and flourish, it must have the close support and attention of the public sector in the form

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of a production credit source and agricultural extension services. USAID technical assistance to be provided will help to assure agricultural cooperatives of the necessary agricultural extension and production credit needs. (See PROP Project No. 522-11-990-074.2).

BNF operations include a number of activities which in the past have served an important purpose, but at present and in the future should not be a part of the Bank's operations. These consist of various industries, including a milk-processing plant; the functions of a coffee growers' association; grain storage and marketing, together with a price stabilization program; an extensive network of agricultural retail stores; and industrial promotion activities. Technical assistance provided by AID through grant funds together with loan funds will help to assure that the BNF divest itself of many of these non-banking operations and that these essential functions, where applicable, become private enterprises or if necessary semi-autonomous institutions created to carry out such functions.

The Mission sees no major economic, social, legislative or administrative obstacles to be overcome in achieving project goals.

Strategy

Broadly speaking, project objectives for this project consist of training, institutional improvement and increasing production of livestock and food crops through production credit with technical supervision. The proposed approach is an extension of and is consistent with over-all U.S. assistance strategy for Honduras. It supports and complements Central American Common Market (CACM) goals and objectives planned for the region. The project contributes in a direct manner to the following U.S. goals: (1) increasing livestock and food grain production, and therefore increasing incomes for small and subsistence farmers; (2) it will make a significant impact on crop diversification by increasing acreages of food crops and new export crops, by taking land out of coffee production; (3) providing credit for some improvement in rural areas; (4) improving social economic and technical institutions; and (5) benefitting U.S. commercial interest by the creation of new and increasing markets for U.S. industrial goods, including machinery, insecticides and fertilizers. At the same time, more and new agricultural exports will find a growing demand in U.S. markets.

This project will be tied to and closely associated with an AID agriculture loan of \$5 million dollars to the GOB. (See Summary Description, p. 2). The loan is expected to be approved by early July 1968 and the first loan disbursement made by September 1968. Loan funds will be drawn down by the end of December 1970. Two resident advisors will be provided by USAID contract and will be on board on or before 1 September, 1968. Three resident advisors will be contracted by the BNF with IDB loan funds and will be on board by 1 September, 1968. Two U.S. resident advisors will be contracted by the BNF with AID loan funds and will arrive by 1 January, 1969. Short-term contract consultants will be used throughout the course of this project for specific services, including short courses for local employees of the BNF, Desarrural and agricultural cooperatives.

In the opinion of the Mission, local institutions, including the BNF, Desarrural and FACACH, will provide adequate sources of support, leadership and stimulus to assure the success of the project on a continuing basis. At the same time, there do not appear to be elements of potential opposition or disinterest in the achievement of project objectives.

Cross-relationships of institutions and sectors appear to be especially appealing in this project. They include:

1. The BNF - being assisted by IDB and AID with both capital and technical assistance.
2. Desarrural (agriculture extension and research) being assisted by USAID and FAO and providing technical agriculture supervision to the BNF.
3. The Livestock Department of the Ministry of Natural Resources - provides assistance in livestock disease control and slaughterhouse inspection of beef for export and for internal consumption.
4. Farm-to-market and primary road construction with AID and IDB capital assistance.
5. The proposed UNDP project "Crop Development through Applied Research and Demonstration", under Food and Agriculture Organization (FAO) administration - will concentrate on agriculture research, with Desarrural as its counterpart agency.

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6. The agricultural cooperative movement under the direction of FACACH - receiving technical and capital assistance from AID; will need to establish close working relations with Desarrural and the BNF.
7. The National Agrarian Institute (INA) - with its proposed cadastral survey project and land settlement activities, it will relate closely to Desarrural and BNF activities and will receive technical and capital assistance from IDB and AID, and technical assistance and training from the OAS.
8. The National Planning Council - plays a coordinating role in the training of Honduran technicians abroad and in the carrying-out of national agricultural development plans; receives technical assistance from AID.

Planned Targets, Results and Outputs

1. Increasing amount of BNF credit for production of food crops and livestock from 37.5% in 1967 to 57% in 1970. At the same time, the number of BNF small-farmer clients will be increased from approximately 10,500 in 1967 to 15,000 in 1970.
2. The provision of essential technical supervision for BNF's small-farmer loans will be increased from approximately 1,000 in 1967 to 13,000 in 1970.
3. Increasing the percentage of medium- and long-term loans to BNF small-farmer clients from approximately 18% in 1967 to 60% in 1970.
4. Total fertilizer consumption will be increased up to 100,000 tons in 1970, compared with approximately 50,000 in 1967.
5. Use of improved seed (corn, beans, sorghum and rice) will be increased to 20,000 quintales in 1970, compared with 6,000 quintales in 1967.
6. Production credit will be provided to 7,000 small farmers through agricultural cooperatives in 1970, compared with production credit to 1,000 such farmers in 1967. (See PEOP Project No. 522-11-990-074.2).

7. The annual calving rate for cows will be increased to 60% by 1970, compared with approximately 35% in 1967; mortality of calves under one year of age will be reduced to 10% in 1970, compared with approximately 25% in 1967; this will result in an estimated 30% increase in slaughter of beef animals in 1970 compared with 1967.
8. Medium- and long-term credit for livestock production will result in an 800 pound marketable beef animal at two years compared to the same weight at four years of age in 1967. This should occur by 1970.
9. Central grain storage for food grains will be increased by 25,000 tons by 1970; this will be accompanied by a meaningful price stabilization program for food grains as set forth by SIECA of the CACM.
10. Up to 2,500 tons of grain-storage capacity will be constructed by seven agricultural cooperatives by 1970. No such grain-storage capacity existed in 1967. Farmers will be given credit against warehouse receipts issued for grain stored by the cooperative, assuring them of optimum prices for their produce.
11. Three central agriculture research centers and five sub-stations will be in operation by 1972 and will be providing additional basic information on new and improved varieties of food crops along with new crops to be grown for export in 1973. Research activities in 1967 were confined to the main experiment station in Comayagua and three sub-stations. Information was available on improved seed for corn, sorghum, beans and rice, principally, and to a lesser extent on potatoes, melons and citrus. This target will be assisted by a U.N. Special Fund project to be administered by FAO.
12. The Desarrural agriculture extension program of the Ministry of Natural Resources will expand its operations by adding 30 new technicians to its field staff by 1970. It will establish close working relations with the ENP and the agricultural cooperatives in order to provide the necessary technical guidance for the respective production credit programs.

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13. During the 1968-1971 period approximately 62 credit supervisors of the BNF and 35 Desarrural extension workers will be provided in-service and short-course training on farm management and improved lending procedures for small farmers. In addition, 15 agricultural cooperative managers and 7 agricultural cooperative extension workers will receive in-service and short-course training in credit for agricultural cooperatives.
14. By 1973, 30 technicians selected from field staffs of the BNF and Desarrural will have received B.S. degrees in Agriculture under USAID and UNDP participant training programs.

The outputs described above will result in doubling of production for up to 40,000 small farmers, thus more than doubling their net incomes in 1970 over 1967. At the same time, it will have made active consumers of industrial products out of these small farmers, approximately 25,000 of which were by and large outside the Honduran consumer market in 1967.

With the considerable technical assistance being provided by the IDB and USAID, significant improvement will result in the following:

1. BNF organization, management and operation;
2. Desarrural management and operation; and
3. Management and operation in agricultural cooperatives.

Course of Action

The following describes the time sequences of steps to be taken in order to achieve the project targets during the life of the project:

1. Capital Loan Paper for 9.5 million dollar loan to the GOH to be submitted to AID/W by 1 June, 1968. Loan approval expected by 1 July, 1968. Loan agreement to be ratified by GOH by 1 September, 1968 and loan disbursement to begin by 1 October, 1968. Loan funds to be completely drawn down by 31 December, 1970.
2. Two USAID resident contract consultants, one a general

livestock advisor and the second a cooperative credit advisor, to be on board to begin in-service training to BNF, Desarrural and agricultural cooperative technicians by 1 September, 1968. The services of these resident advisors will continue through December 1971. USAID short-term contract advisors to arrive in Honduras as determined by specific needs for short courses. They will include the following:

- a. Livestock geneticist - 1 month - 1968.
- b. Improved pasture and forage production specialist - 2 months - 1968.
- c. Livestock disease control specialist - 1 month - 1968; 1 month - 1969.
- d. Grain storage specialist for agricultural cooperatives - 3 months - 1968 and 1969.
- e. Soil fertility specialist, fertilizer demonstrations - 1 month - 1968; 1 month - 1969.
- f. Farm management specialist - 2 months - 1969.
- g. Small agriculture industries specialist - 3 months - 1969 and 1970.

During the years 1968 through 1971, approximately five Honduran technicians will be selected each year for academic training leading to B.S. or M.S. degrees in Agriculture under the USAID participant training program.

3. Through the IDB loan agreement with the GOH three resident advisors are to be contracted by the GOH with IDB loan funds. These include:
 - a. A bank accounting advisor;
 - b. A banking organization and management advisor; and
 - c. An agriculture credit advisor.

While the accountant is already on board, the other two advisors are expected to be on board by 1 September, 1968. The services of these three consultants will be provided through December 1969.

4. A UNDP Special Fund project, "Crop Development through Applied Research and Demonstration", will be approved in June 1968. This project will be administered by FAO of the U.N. Desarrural will serve as the GOH counterpart agency for this project. The project manager will be on board in late 1968 and specialists in agriculture marketing, soil fertility, plant breeding, pasture and forage crops, irrigation, tropical crops, horticulture, plant diseases and soil survey will arrive in early 1969. Selection of Honduran technicians in the fields of irrigation, tropical crops, pastures and forage crops, horticulture and plant diseases will be made in early 1969; they will be sent abroad the same year for academic training leading to B.S. degrees in agriculture. During 1969 and 1970, approximately 24 Honduran technicians will be selected for academic training leading to B.S. degrees in agriculture.

During 1969 three central research centers will be selected and established. These research facilities will be fully staffed by the UNDP project and Desarrural by 1970. Five sub-stations will be selected and staffed during 1970.

5. The BNF staff of loan supervisors consisted of approximately 50 agricultural technicians at the end of 1967. Up to 20 additional loan supervisors will be employed by the BNF over the 1968-1970 period. In-service training of BNF field staff will begin in 1968 and continue through 1970. Special short courses for BNF field staff will commence in early 1969 and will continue from time to time through 1970. Along with in-service training of BNF field staff, up to 30 technicians of Desarrural will receive in-service and short-course training along with more than 50 BNF technicians.
6. The Ministry of Natural Resources will enter into a formal arrangement with the BNF in 1968 in order to provide technical supervision to BNF small-farmer clients. Its budget will be increased to enable it to employ 25 additional agriculture extensionists in 1969. The BNF will provide transportation, offices and other support for the 25 Desarrural extension technicians beginning in 1969.

NONCAPITAL PROJECT FUNDING (OBLIGATIONS IN \$000)

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Table 1
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COUNTRY: HONDURAS

Project Title: Agricultural Development
(Credit and Extension)

PROP DATE: 6/68
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Proj. No. 521-11-198-036.1

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USAID/Tegucigalpa TOAIB A- 386

Fiscal Years	Ap	L/G	Total	Cont (Non-Add)	Personnel		Serv. CONT	Participants		Commodities		Other Costs	
					AID	PASA		US	CONT	Dir.	Cont	Dir.	Cont
Prior through Acc.													
FY 67	AG		1,275	192	347	14	62	65		528		127	130
Over. FY 68	AG	G	169	92	15		92	51		8		3	
Prog. FY 69	AG	G	97	26			24	68		5			
B + 1 FY 70	AG	G	184	122			120	59		5			
B + 2 FY 71	AG	G	84	20			18	64					
All Subs.	AG	G	84	20			18	64					
Total Life			1,891	472	362	14	334	371		541		130	138

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USAID/Tegucigalpa TOAID A-380

Fiscal Years	AID-controlled Local Currency	Other Cash Contribution Cooperating Country	Other Donor Funds (\$ Equiv.)	Food for Freedom Commodities
Prior through Act. FY 67		GOH	UNDP	Coop. Federation (Sec PROP 522-11- 990-074.2)
Oper. FY 68		\$ 1,000,000	\$ 100,000	
Budg. FY 69		\$ 1,000,000	\$ 250,000	
B + 1 FY 70		\$ 1,500,000	\$ 250,000	
B + 2 FY 71		\$ 1,500,000	\$ 250,000	
FY 72		\$ 1,500,000	\$ 250,000	
Total Life		\$ 6,500,000	\$ 1,100,000	

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