

**AIRGRAM**

**DEPARTMENT OF STATE**

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ACTION

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TO - AID/W TOAID A-125

PD-AAN-469  
522003910/43  
ISN-32098

7 11 14

FROM - TECUCIGALPA

DATE SENT  
October 9, 1973

SUBJECT - Evaluation Municipal Development; Project 522-15-810-039.10

REFERENCE - State 226475 of 12/15/72

*ES/OS?*

Attached documents including PAM and revised PIP constitute Mission evaluation of subject project. Mission would appreciate expeditious AID/W approval of request for PRUP extension.

SANCHEZ

Attachments: ~~AIS to [unclear]~~

*Please return to  
Mr. Brent, LA/BPI/ES*

IMAGED BY	OFFICE	PRIME NO.	DATE	APPROVED BY
ID:KSJohnson:mcg	IWD	288	10/5/73	Richard Magaricchio
AID AND OTHER CLEARANCES				
PCD:RHaushammer (in draft)		DD:Kockler (in draft)		

**UNCLASSIFIED**

(Do not type below this line)

PROJECT APPRAISAL REPORT (PAR)

1. PROJECT NO. 522-15-810-039.10	2. PAR FOR PERIOD: 11/72 TO 9/73	3. COUNTRY HONDURAS	4. PAR SERIAL NO. 74-1
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5. PROJECT TITLE

MUNICIPAL DEVELOPMENT

6. PROJECT DURATION: Begin FY 73 Ends FY 75	7. DATE LATEST PROP 11/3/72	8. DATE LATEST PIP 11/3/72	9. DATE PRIOR PAR N/A
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10. U.S. FUNDING	a. Cumulative Obligation Thru Prior FY: \$ 110,000	b. Current FY Estimated Budget: \$ 144,000	c. Estimated Budget to completion After Current FY: \$ 90,000
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11. KEY ACTION AGENTS (Contractor, Participating Agency, or Voluntary Agency)

a. NAME	b. CONTRACT, PASA, OR VOL. AG. NO.
Gibbonev, Schouten, Zallman	PSCs
AVECI	Venezuela Firm

I. NEW ACTIONS PROPOSED AND REQUESTED AS A RESULT OF THIS EVALUATION

A. ACTION (X)			B. LIST OF ACTIONS	C. PROPOSED ACTION COMPLETION DATE
MISSION	A.I.C.V.W.	HOST		
X			Review arrangements with Peace Corps for provision of PCV's to BANMA	October 15, 1973
		X	Complete processing of reimbursement by GOH to BANMA for technical staff costs.	October 31, 1973
X			Complete initial survey undertaken to compile baseline data	October 15, 1973
X			Revise PIP	September 30, 1973
	X		Review and approval of PROP extension for additional project funding.	October 31, 1973

12. REPLANNING REQUIRES	<input type="checkbox"/> PROP <input checked="" type="checkbox"/> PIP <input type="checkbox"/> PROAG <input type="checkbox"/> PIO/T <input type="checkbox"/> PIO/C <input type="checkbox"/> PIO/P	E. DATE OF MISSION REVIEW
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PROJECT MANAGER: TYPED NAME, SIGNED INITIALS, AND DATE Kenneth Johnson	MISSION DIRECTOR: TYPED NAME, SIGNED INITIALS, AND DATE Edward Marasciulo
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AIC 1020-25(10-70)	PROJECT NO. 522-15-810-039.10	PAR FOR PERIOD TO 11/72 - 9/73	COUNTRY HONDURAS	PAR SERIAL NO.
PAGE 2 PAR				

**II. PERFORMANCE OF KEY INPUTS AND ACTION AGENTS**

A. INPUT OR ACTION AGENT CONTRACTOR, PARTICIPATING AGENCY, OR VOLUNTARY AGENCY	D. PERFORMANCE AGAINST PLAN							C. IMPORTANCE FOR ACHIEVING PROJECT PURPOSE (X)				
	UNSATISFACTORY		SATISFACTORY			OUTSTANDING		LOW	MEDIUM		HIGH	
	1	2	3	4	5	6	7	1	2	3	4	5
1. PSC contractors						X						X
2. AVECI					X						X	
3.												

*Comment on key factors determining rating.*  
Contractors have had superior understanding of project purpose, technical qualification relations with cooperating country nationals, and utilization of participants. Planning to achieve project purpose and arrivals of well qualified technicians have occurred without problems. Only negative performance factor has been due to late submission of contractor reports which has recently been corrected by contract monitor. The contractors are vital to reforming the Bank and putting it in a position to successfully utilize outside capital assistance which is the key to its becoming a viable source of financial and technical support to the municipalities.

4. PARTICIPANT TRAINING					X								X
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*Comment on key factors determining rating.*  
Participants are on the job and making positive contribution to BANMA reform program. The participants form the core of a new staff which is orienting the Bank towards an active role in municipal development.

5. COMMODITIES													
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*Comment on key factors determining rating.*  
N/A No commodities

6. COOPERATING COUNTRY	a. PERSONNEL				X								X
	b. OTHER			X							X		

*Comment on key factors determining rating.*  
A. Important to the project's success is the willingness of BANMA staff to accept change of institution goals and methods of operation. Although staff has accepted in superior manner, recommended changes have been implemented behind schedule in important areas. Host Government could have helped change implementation by more vigorous support of project.  
B. The Central Bank has not played the supportive role in the project as originally envisioned therefore BANMA has proceeded to seek support from the ministries represented on its Board of Directors. The delays thus caused have put the project behind schedule but have not altered chances of success. See annex for full discussion of Central Bank role in this project.

7. OTHER DONORS			X							X			
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*(See next page for comments on Other Donors.)*

3

II. 7. Continued: Comment on key factors determining rating of Other Donors

Full time PCV urban planner resigned from Peace Corps/Honduras in February 1973. No replacement scheduled. ACTION currently providing 3 volunteers to Ministry of Public Works Directorate of Urbanism and plans to increase the total number to this office to 8 by the end of FY74.

III. KEY OUTPUT INDICATORS AND TARGETS

A. QUANTITATIVE INDICATORS FOR MAJOR OUTPUTS		TARGETS (Percentage/Rate/Amount)					END OF PROJECT
		CUMULATIVE PRIOR FY	CURRENT FY 74		FY 75	FY ____	
			TO DATE	TO END			
1. Reduction of BANMA staff; No. staff remaining on board includes technicians #2 below.	PLANNED	35	35	35	35		35
	ACTUAL PERFORMANCE	46	46				
	REPLANNED			47	37		37
2. Development of BANMA technical staff (No. technicians)	PLANNED	0	6	6	6		6
	ACTUAL PERFORMANCE	0	4				
	REPLANNED						
3. Development of BANMA senior management staff (No. short courses)	PLANNED	6	0	9	9		24
	ACTUAL PERFORMANCE	8	0				
	REPLANNED			4	4		16
B. QUALITATIVE INDICATORS FOR MAJOR OUTPUTS	PLANNED						
	ACTUAL PERFORMANCE						
	REPLANNED						
1. Disposition of commercial portfolio by May 31, 1973	COMMENT: BANMA has attempted to sell entire commercial portfolio to the six major commercial banks in Tegucigalpa. All have officially declared they are not interested. BANMA is still exploring possibilities with smaller banks. In the meantime, since effective date of ProAg, recuperation from the portfolio has reduced total commercial holdings from \$1.30 million to \$1.01 million.						
2. BANMA relieved of admin. & financial responsibility for SPS airport by Sept. 30, 1973.	COMMENT: Mission considers this action accomplished although some financial arrangements are pending.						
3. BANMA receiving GOH financial support for capitalization. GOH providing funds for national technical staff salaries and corresponding expenses.	COMMENT: Capitalization alternatives are still being studied. Estimate chances of establishing acceptable capitalization source by 6/30/74 at better than 50%. BANMA's request for funding the technical staff will be submitted officially to the GOH for inclusion in the regular 1974 budget.						

AID 1070-25 (10-70) PAGE 4 PAR	PROJECT NO. 522-15-810-039.10	PAR FOR PERIOD 11/72 9/73	COUNTRY HONDURAS	PAR SERIAL NO.
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IV. PROJECT PURPOSE

1. Statement of purpose as currently envisaged.

2. Same as in PROP?  YES  NO

The project purpose is to reform the Honduran Municipal Bank into a viable institution for financial and limited loan related technical assistance to municipalities. See State 226475 of 12/15/72.

1. Conditions which will exist when above purpose is achieved.	2. Evidence to date of progress toward these conditions.
<p>1. BANMA charter revised (EOPS #1 in PROP):</p> <p>2. Five year capital assistance plan in execution by the Bank. (EOPS #2 in PROP);</p> <p>3. Five year training plan implemented by BANMA (EOPS #3 in PROP)</p> <p>4. Coordinated GOH support for municipal development (EOPS #4 in PROP).</p>	<p>1. Draft in preparation by BANMA. To be presented to GOH by October 30, 1973;</p> <p>2. List of financeable projects-completed-September 30 1973. Basic regulations (credit policy, bidding procedures, etc.) ready in draft. To be adopted by October 31, 1973. Loan programming system-20% complete-to be finished by October 31, 1973. Applications for loans-10% complete to be finished by December 31, 1973;</p> <p>3. First training course held in 6/73. Training course schedule for the first two years has been prepared and put into effect. Significant progress in moving ahead depended on hiring training coordinator, which occurred 9/1/73.</p> <p>4. Draft of interagency cooperation agreement prepared and presented to the interagency committee. Approval's expected by October 30. Implementation should start November 1; under this agreement BANMA and Ministry of Public Works/Director General of Urban Development will jointly prepare urban development plans for polar and sub-polar cities. (Cont.)</p>

V. PROGRAMMING GOAL

A. Statement of Programming Goal

1. The goal is to improve the effectiveness and efficiency of municipalities which act as key points in the national and regional marketing systems.

B. Will the achievement of the project purpose make a significant contribution to the programming goal, given the magnitude of the national problem? Cite evidence. Progress toward purpose as cited above directly relates to improving municipal effectiveness. Especially as regards IV B.1.2 above, the project list concentrates on such activities as markets, slaughterhouses, water and sewer systems, etc. for those polar and sub-polar cities not currently providing such services. The interinstitutional coordination agreement currently being discussed, will ensure a uniform policy among national level agencies with regard to municipal development, eliminate duplication of programming for the above services, plus promote planned and orderly development of the polar and sub-polar cities. BANMA plans to finance fiscal cadasters for all polar and sub-polar cities, coordinating these with the planned national rural cadaster. With improved tax collection and control and expanded assistance resources that will be available to the municipalities through the recapitalized BANMA, municipal level infrastructure and provision of public services should show significant improvements over the next 3-5 years.

AID 1070-23 (10-70)	PROJECT NO.	PAR FOR PERIOD	COL BY	PAR SERIAL NO.
PAGE 4 PAR	522-15-810-039.10	11/72 9/73	HONDURAS	

IV. PROJECT PURPOSE

1. Statement of purpose as currently envisaged.

2. Same as in PROP?  YES  NO

<p>B. 1. Conditions which will exist when above purpose is achieved.</p>	<p>2. Evidence to date of progress toward these conditions.</p>
<p>5. Recapitalization program in execution - GOH \$1.0 million in place (EOPS #5 in PROP).</p> <p>6. BANMA acting as municipal fiscal agent/depository (EOPS #6 in PROP).</p>	<p>Other agencies will give highest priority to accomplishing projects specified in the plans.</p> <p>5. BANMA intends to submit formal application to AID for \$5.0 million loan about 12/73. GOH counterpart funds currently being requested for 1974 GOH budget.</p> <p>6. The ability of BANMA to progress is limited by the lack of a mechanism to make bank services easily available to municipalities. A correspondent bank plan is now being developed.</p>

V. PROGRAMMING GOAL

A. Statement of Programming Goal

B. Will the achievement of the project purpose make a significant contribution to the programming goal, given the magnitude of the national problem? Cite evidence.

AID 1070-25 (110-70)	PROJECT NO.	PAR FOR PERIOD	COUNTRY	PAR SERIAL NO.
PAGE 4 PAR	522-15-810-039.10	11/72 9/73	HONDURAS	

IV. PROJECT PURPOSE

1. Statement of purpose as currently envisaged.

2. Same as in PROP?  YES  NO

0. 1. Conditions which will exist when above purpose is achieved.	2. Evidence to date of progress toward these conditions.
<p>5. Recapitalization program in execution - GOH \$1.0 million in place (EOPS #5 in PROP).</p> <p>6. BANMA acting as municipal fiscal agent/depository (EOPS #6 in PROP).</p>	<p>Other agencies will give highest priority to accomplishing projects specified in the plans.</p> <p>5. BANMA intends to submit formal application to AID for \$5.0 million loan about 12/73. GOH counterpart funds currently being requested for 1974 GOH budget.</p> <p>6. The ability of BANMA to progress is limited by the lack of a mechanism to make bank services easily available to municipalities. A correspondent bank plan is now being developed.</p>

V. PROGRAMMING GOAL

A. Statement of Programming Goal

D. Will the achievement of the project purpose make a significant contribution to the programming goal, given the magnitude of the national problem? Cite evidence.

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ANNEX F - page 1 of 4

JOINT PROJECT IMPLEMENTATION PLAN PART I - WORK SCHEDULE		1. COORDINATING COUNTRY	2. PROJECT TITLE			3. PROJECT NUMBER	4. DATE (Month, Day, Year)				
RESPONSIBLE PROJECT COORDINATOR		5. RESPONSIBLE COOPERATING COUNTRY AGENCY	7. COOPERATING AGENCY			8. DRAFT / ORIGINAL / REVISION NO. 1					
INSTITUTIONAL DEVELOPMENT OFFICER		HONDURAS	MUNICIPAL DEVELOPMENT			039.10	8/31/73				
		HONDURAS AUTONOMOUS MUNICIPAL BANK	MINISTER OF GOVERNMENT PRESIDENT, CENTRAL BANK								
9. DESCRIPTION OF MAJOR ACTIONS OR STEPS	10. PRIMARY ACTION AGENT	11. TARGET DATES			12. TIME SPAN (Options)						
		PREPARATION ACTION	PLANNING START	IMPLEMENTATION START	FY-73	FY-74	FY-75	FY-	FY-	FY-	
A. GOH Reform - BANMA	BANMA / GOG / BANMA	12/71	2/72	12/75							
1. Sale of Commercial Portfolio		7/72	8/72	12/75							
a. Schedules prepared	BANMA	1/72	3/72	10/72							
b. Negotiations for sale	BANMA	8/72	8/73	12/73							
c. Collections made	BANMA	7/72	12/73	12/75							
2. Airport Transfer		2/72	9/73	12/73							
a. BANMA Request for Financial Administration Analysis	CB/BANMA	8/72	10/72	10/72							
b. AID-BIDCAP assistance in analysis	AID	8/72	10/72	1/73							
c. Decision by GOH to accept a recommendation on Transfer	GOH	12/72	12/72	9/73							
d. Negotiations to establish terms Transfer	GOH	1/73	9/73	10/73							
e. Legal authorization for Transfer	GOH	2/73	9/73	11/73							
f. Transfer / Refinancing Actions Completed	GOH	4/73	10/73	12/73							
3. Personnel Reductions BANMA (Reorganization-BANMA w/AID Advisor)		8/72	12/73	12/75							
a. Personnel Reduced as commercial portfolio sold	BANMA	8/72	12/73	12/75							
b. Revised staffing plan designed for new objectives	BANMA	10/72	12/73	3/74							
c. Execute 3.b.	BANMA	12/72	3/74	12/75							
4. Banking Systems - Asset Control/Management Information System	BANMA/	5/72	7/72	6/75							
a. Phase I Accounting Procedures - Design and Parallel Test	AID Adv	5/72	7/72	10/72							
b. Install-Debug Accounting Procedures	AID Adv	10/72	11/72	1/73							
c. Property, Equipment, Supplies Controls	AID/BANMA	9/72	9/73	11/73							
d. Reconcile Accounts/Refine System for Financial Statements	AID/BANMA	7/72	9/73	12/73							
e. Departmental Controls-Common File System	AID/BANMA	10/72	1/74	6/74							
f. Budget System & Cash Flow Projection System	AID/BANMA	10/72	1/74	6/74							
g. Management Reporting System - Own Resources	AID/BANMA	5/72	4/74	12/74							
h. Control and Reporting System External Capital Sources	AID/BANMA	3/73	6/74	6/75							
i. System Audit for Revision & Feasibility EDP Applications	AID/BANMA	9/73	11/74	6/75							

See also AID Loan Approved - Not part basic reform (see D.3. following)

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ANNEX F - page 2 of 4

JOINT PROJECT IMPLEMENTATION PLAN PART I - WORK SCHEDULE	1. COOPERATING COUNTRY	2. PROJECT TITLE	3. PROJECT NUMBER	4. DATE (Month, Day, Year)						
	HONDURAS	MUNICIPAL DEVELOPMENT	039.10	8/31/73						
RESPONSIBLE PROJECT COORDINATOR	5. RESPONSIBLE COOPERATING COUNTRY AGENCY		7. COOPERATING SPONSOR							
MUNICIPAL DEVELOPMENT OFFICER	HONDURAN AUTONOMOUS MUNICIPAL BANK		MINISTER OF GOVERNMENT PRESIDENT, CENTRAL BANK							
DESCRIPTION OF MAJOR ACTIONS OR STEPS	10. PRIMARY ACTION AGENT	11. TARGET DATES			12. TIME SPAN (Optional)					
		PREPARATORY ACTION	PHYSICAL START	FINANCIAL COMPLETION	FY-73	FY-74	FY-75	FY-	FY-	FY-
GDH Reform BANMA (Cont.)	AID/BANMA	12/71	10/72	12/74						
5. Develop Technical Assistance Capability	BANMA	3/72	6/72	9/72						
a. Select TA Staff	AID/ROG/BAN	3/72	10/72	4/73						
b. Develop and Initiate Out-of-Country Training	AID/BANMA	3/72	4/73	4/74						
c. One-year Internship - On-job Training	AID/BANMA	1/73	7/73	6/74						
d. Develop TA Plan: Parallel to CA Program (See D following)	ROG/BANMA	6/71	5/73	12/74						
e. Develop in-Country Training Plan (See F following)	BANMA/PC	1/73	7/73	6/74						
f. Develop Coordinated TA Resources as part d above.										
6. GDH Contribution to BANMA Recapitalization (See D.2. following)		2/72	8/73	6/74						
7. GDH Provide Revenue Source for BANMA	ROF/BANMA	2/72	3/73	6/74						
a. Revenue needs analyzed and alternatives developed	AID/BANMA	11/72	6/73	7/73						
b. Alternative selected and legislation prepared	ROG/ROF/CB	2/73	8/73	12/73						
c. Legislation approved and in force	CONGRESS	6/73	12/73	6/74						
8. Develop BANMA Management Staff (Short Courses)	AID	12/71	12/71	6/75						
a. Armando Blanco - President	AID		12/71	6/75						
b. Miguel A. Mejia - Manager	AID		12/71	6/75						
c. Efraim López Medilla - Loan Officer/Controller	AID		12/71	6/75						
d. Armando Bogran - Internal Auditor	AID		12/71	6/75						
e. Selected Support Staff	AID		12/71	6/75						
9. BANMA Charter Reform	/ROG/BAN	1/73		2/74						
1. Analysis of BANMA Charter in light of CB & AID reports & BANMA Strategy Document	BANMA/AID	2/73	7/73	8/73						
2. Drafting of Charter Revision, Review and Preliminary Draft of Revised Charter and Statement of Purpose	BANMA	3/73	8/73	9/73						
3. Consultation and Rendering of Written Opinions	GDH	4/73	9/73	11/73						
4. Consideration and Incorporation of Written Opinions into Final Draft	GOV/AID	6/73	11/73	12/73						
5. Introduction of Final Bill to Council of State (CCS)	CCS	7/73	12/73	1/74						

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ANNEX F - page 3 of 4

JOINT PROJECT IMPLEMENTATION PLAN PART I - WORK SCHEDULE		1. COOPERATING COUNTRY	2. PROJECT TITLE		3. PROJECT NUMBER	4. DATE FOR THE YEAR					
POSSIBLE PROJECT COORDINATOR		HONDURAS	MUNICIPAL DEVELOPMENT		039.10	8/31/73					
INSTITUTIONAL DEVELOPMENT OFFICER		6. RESPONSIBLE COOPERATING COUNTRY AGENCY			7. COOPERATING SPONSOR			8. REVISIONS			
		HONDURAN AUTONOMOUS MUNICIPAL BANK			MINISTER OF GOVERNMENT PRESIDENT, CENTRAL BANK			<input type="checkbox"/> DRAFT <input checked="" type="checkbox"/> ORIGINAL REVISION NO. 1			
DESCRIPTION OF MAJOR ACTIONS OR STEPS	10. PRIMARY ACTION AGENT	11. TARGET DATES			12. TIME SPAN (Optional)						
		PREPARATION ACTION	PHYSICAL START	PHYSICAL COMPLETION	FY-73	FY-74	FY-75	FY-76	FY-77	FY-78	
Technical Assistance Provided (for Reform and Program)	AID/PC	9/71	1/72	6/75							
1. Financial Analysts	AID/AID/V	9/71	1/72	6/75							
a. Recruitment - Initial Survey	AID/AID/V	10/71	1/72	2/72							
b. Follow-up Visits on Progress - Evaluation	AID/AID/V		7/72	6/75							
2. Banking Systems Advisor	AID	6/72	6/72	11/74							
3. Municipal/Capital Projects Advisor	AID	10/72	7/73	6/75							
4. Regional Planning Economists - Municipal Surveys & Analysis	AID	12/71	6/72	9/73							
5. Training and Special Programs Advisors (AVECi)	AID	11/71	5/72	6/75							
5. Equipment Advisor - (See D.3.a.(1) following)	AID	9/72	10/72	12/73							
BANK Recapitalization for Municipal Development		12/71	2/72	Continuous							
1. Recovery Assets from Commercial Portfolio/Airport (A1. & 2 above)		12/71	2/72	12/73							
2. GOB Provides additional seed capital (A.6. above)		2/72	8/73	6/74							
3. AID Loan		2/72	2/72	6/74							
a. Loan Application Prepared	BANMA	2/72	6/73	12/73							
(1) BANMA Equipment Advisor provides Plan/Cost Estimates	AID Adv	-	6/73	9/73							
(2) Advisors/Staff prepare 5 year-Project Plan	AID/BANMA	10/72	6/73	10/73							
(3) Draft Application Prepared/Submitted GOB review	BANMA	10/72	9/73	11/73							
(4) All approvals/Planning Council Sent to AID	SECPLAN	1/73	11/73	12/73							
b. IRK Prepared, submitted, approved	AID	2/73	9/73	11/73							
c. Mission Loan Paper Completed, submitted	AID	2/73	9/73	3/74							
d. Loan authorized	AID/W	-	-	4/74							
e. Agreement signed - CPs satisfied	AID/GOB	-	-	6/74							
f. Disbursements	AID	-	6/74	Continuous							
Municipal Surveys and Analysis	AID/Adv			Continuous							
1. First Stage (with AID advisors' assistance)	BANMA, MOG SECPLAN										
a. Data Collection	"	12/71	6/72	11/73							
(1) Coll. Existing Fiscal and Economic Data	"	12/71	6/72	9/73							
(2) Supplement with Other Available Data on Population	AID/Adv	12/71	6/72	9/73							

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JOINT PROJECT IMPLEMENTATION PLAN PART I - WORK SCHEDULE		1. COOPERATING COUNTRY	2. PROJECT TITLE	3. PROJECT NUMBER	4. DATE, MONTH, YEAR							
		HONDURAS	MUNICIPAL DEVELOPMENT	039.10	8/31/73							
5. RESPONSIBLE PROJECT COORDINATOR		6. RESPONSIBLE COOPERATING COUNTRY AGENCY		7. COOPERATING SPONSOR		8. DRAFT, ORIGINAL, REVISION NO.						
INSTITUTIONAL DEVELOPMENT OFFICER		HONDURAS AUTONOMOUS MUNICIPAL BANK		MINISTER OF GOVERNMENT PRESIDENT, CENTRAL BANK		I DRAFT IX ORIGINAL REVISION NO. 1						
9. NO.	10. DESCRIPTION OF MAJOR ACTIONS OR STEPS	10. PRIMARY ACTION AGENT	11. TARGET DATES			12. TIME SPAN (Optional)						
			PREPARATORY ACTION	PHYSICAL START	PHYSICAL COMPLETION	FY-73	FY-74	FY-75	FY-76	FY-77	FY-78	
E	a. (3) Establish links with Ag. Sector Analysis	AID/Adv	12/71	6/72	9/73							
	(4) Design Municipal Survey to Update and Fill in missing Bench Marks	AID/Adv	-	11/72	4/73							
	(5) Conduct Survey	AID/Adv	3/72	5/73	6/73							
	(6) Process and Establish Baseline Data	MOG										
	b. Data Analysis	(1) Preliminary Geo-economic Investment Guidelines	AID/Adv		6/73	11/73						
		(2) Compare with nonBANMA Planned Investment	AID/Adv/BAN10/72		9/73	1/74						
		(3) Compare with Municipal Request and Debt Servicing Capability	BANMA		9/73	11/73						
		(4) Develop Preliminary CA Plan	"	10/72	9/73	3/74						
	2. Continuing Analysis	BANMA	6/67	Continuous								
	F	Municipal Reform Program (Firm dates to be set)	SECPLAN									
1. Basic Municipal Law reformed		MOG	6/71	6/71	6/75							
2. Municipal revenue base rationalized/increased in new law		MOG	3/72	1/74	6/74							
3. Municipal personnel training program		MOG	6/68	1/74	6/74							
4. Honduran Municipal Association Revitalized		MOG/BANMA		Continuous								
5. Cooperative Regional Project Developments		MOG/BANMA	1/73	6/75								
		AMHON/BANMA	3/73	Continuous								

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Further evidence of GOB intention to assume the airport administration and financial obligations is its investment during 1973 of \$1.1 million to improve and extend the runway and construct parking facilities for GOB military aircraft. Thus, although some legal decrees and refinancing documents are still pending, we expect these will be completed by December 31, 1973. In spite of these paperwork details, the Mission considers this GOB as now realized based on the Minister's letter.

### (3) Personnel Reductions

Prior to USAID involvement in BAMEA, the latter was characterized by internal disorganization, overstaffing, and a weak chain of command, which in turn produced a lack of effective communication, inefficiency, low employee morale and output, plus a general obscuring of overall Bank objectives. It was difficult to prepare an accurate organization chart at that time.

Since January 1, 1972, reorganization and streamlining efforts have produced a net reduction in Tegucigalpa staff from 45 to 35. These reductions include four employees from the San Isidro "satellite" branch (which was closed in September, 1972), one secretary, three clerks, one teller and two draftsmen. One officer currently on "loan" to the San Pedro airport will be reinstated upon transfer of airport administration. The San Pedro Sula branch staff has been reduced from 13 to 11 in the same period, and will be reduced to 7 by 12/31/73. This will result in an overall staff reduction of 16 from 56 to 42. However this total does not take into account 4 new AID trained technicians plus a secretary who are currently charged to BAMEA's payroll (see paragraph 5) but who will be so charged in 1974. Adding these 5 positions will result in 47 positions as of 1/1/74.

BAMEA management has prepared an organization chart which shows the departments that it intends to create to implement its program as a municipal development bank. Job descriptions have been prepared for all permanent personnel and these together with the organizational chart and a salary scale, will be submitted shortly to the Board of Directors for approval. The new organization plan defines 35 permanent staff positions in 4 departments plus the internal auditing office. Including the Manager and President, the Bank will have 37 employees. While reductions of personnel have not yet met the levels recommended in the ERDP, BAMEA management has developed plans which Mission advisors agree will be reached within a prudent time.

Starting in 1974, the Bank will name as permanent employees only those who meet the requirements of the job descriptions approved by the Board. Other personnel needed to follow up on the recovery of the commercial portfolio will be named as temporary personnel until such time as their services are no longer needed. (See Organization Plan, page 3).

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ANNEX "C"

## (1) Sale of Commercial Portfolio

Detailed analyses of the commercial portfolio were prepared by AID/BANCA advisors as of September 30, 1972, and summary tables were delivered to BANCA's Board of Directors and to the Central Bank in late 1972. Original AID strategy called for the Central Bank to act as agent for the portfolio sale perhaps by taking it into receivership and advancing BANCA a fair amount pending ultimate sale or transfer to a commercial bank (or banks). While awaiting help from the Central Bank, BANCA management improved the repayment experience through better follow up of individual loans. When the Central Bank's help did not materialize, BANCA's management attempted to sell the portfolio directly to all private banks in Honduras.

For this purpose, the 9/30/72 analyses were updated again by AID/BANCA advisors as of 6/30/73, and summaries delivered to BANCA's Board to establish guidelines for negotiation. Offers have been tendered to eleven banks, with 6 negative replies. Although five replies are still pending, these represent small banks which we believe will also submit negative replies. The recent tight money situation has simply not allowed the private banks to consider new lending to their prime customers let alone acquire a portfolio not within their normal banking practices. This, coupled with the official replies received, leads BANCA management to conclude that it cannot sell the portfolio outright at any reasonable price.

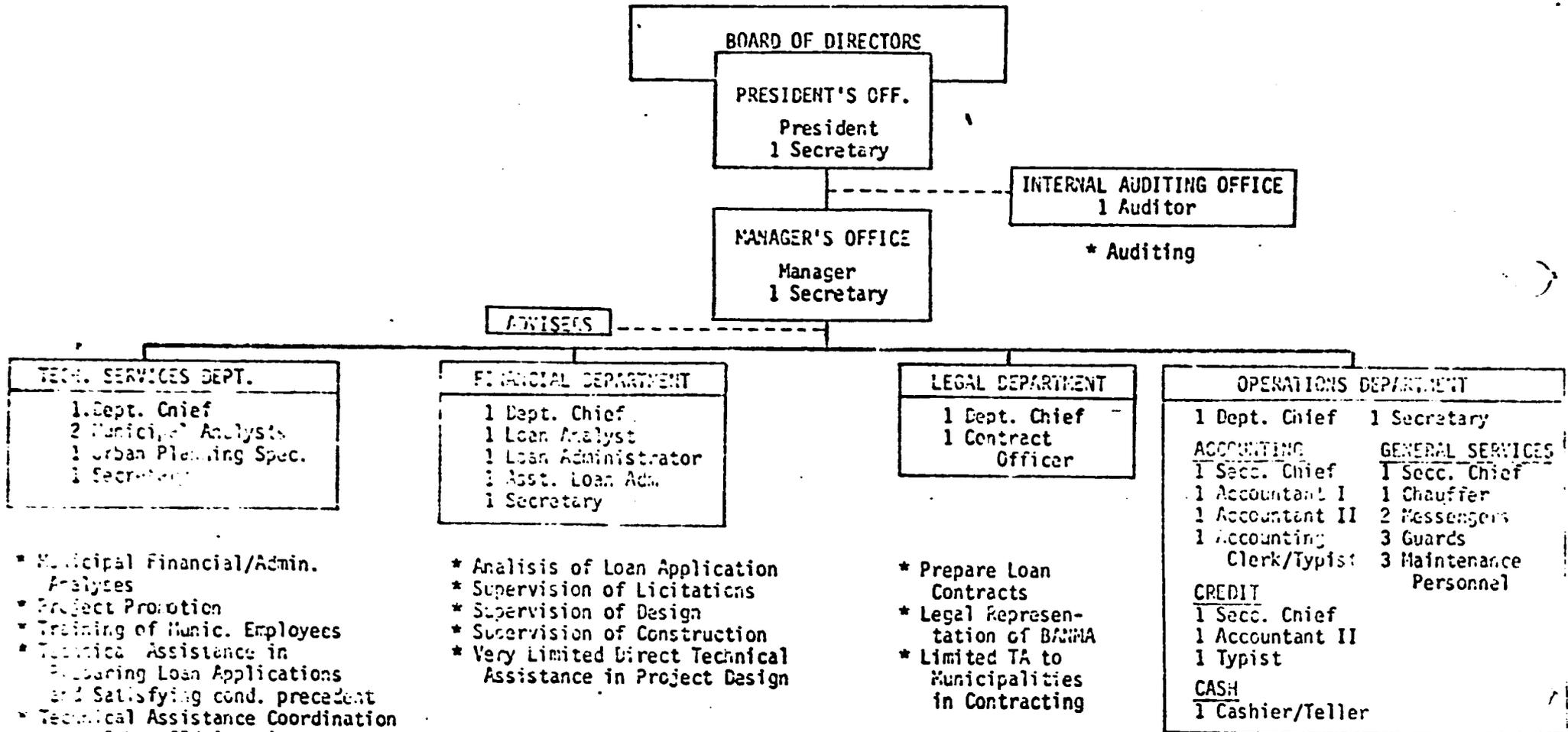
Assuming that the pending replies from the banks that have not yet responded bear out this conclusion, BANCA has been following an alternative strategy for recovery of the commercial portfolio. This is discussed under output (6), BANCA Recapitalization.

While attempting to sell the portfolio, BANCA has stopped all new commercial lending. Commercial lending was stopped in Tegucigalpa in September, 1972 and efforts are being directed toward collection and, where necessary, re-financing of existing loans. On August 15, 1973, BANCA stopped commercial lending at the San Pedro Sula branch. The Mission therefore considers that one of its principal purposes--getting BANCA out of the commercial lending business--has been achieved. Due to the problems mentioned above, the recovery from these loans will, however, take longer than originally planned.

## (2) Airport Transfer

The Mission had expected BANCA to be out of management and financing of the San Pedro Sula airport by September 30, 1973. By a letter from the Minister of Finance to the USAID Director dated 9/5/73, we are assured that the GOH will assume airport administration and operating responsibility. (See Annex 5). Final disposition of financial arrangements involving BANCA loans and construction advances is still under study. By the same letter, we are informed that the GOH also intends to assume the "fully contracted" obligations. It may be that BANCA will not realize any reimbursement for its direct investment in the airport.

BAWMA - ORGANIZATION PLAN



- \* Municipal Financial/Admin. Analyses
- \* Project Promotion
- \* Training of Munic. Employees
- \* Technical Assistance in Preparing Loan Applications and Satisfying cond. precedent
- \* Technical Assistance Coordination with Other GOB Agencies
- \* BAWMA Loan Programming

- \* Analysis of Loan Application
- \* Supervision of Licitations
- \* Supervision of Design
- \* Supervision of Construction
- \* Very Limited Direct Technical Assistance in Project Design

- \* Prepare Loan Contracts
- \* Legal Representation of BAWMA
- \* Limited TA to Municipalities in Contracting

- \* Loan Vigilance and Follow-Up
- \* Accounting
- \* Receipt and Disbursement of Cash and Securities
- \* Administrative Services

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**(4) Banking Systems**

The new central accounting system has been installed and began functioning in 10/72; refinements and additions are being implemented or studied. The major advantages of the new system are:

- departmentalization of daily accounting functions, for ease and accuracy of proof plus a more equitable distribution of work;
- greater control over accounts;
- simplification of the audit function, and a corresponding greater ease in document retrieval;
- preparation of more accurate and meaningful financial statements;
- a more suitable base for eventual development of management reporting.

Somewhat less tangible benefits are the increased morale, spirit of cooperation, and sense of responsibility among bank staff resulting from introduction of the improved system.

Work in systems evaluation will be accelerated with the mid-October transfer of the San Pedro Sula branch manager to Tegucigalpa, where he will take over as Chief of Operations.

**(5) Develop Technical Assistance Committee**

Since June 1972, USAID has provided nearly \$15,000 in PIO/P funding for training of a new technical assistance staff at BANCA. This training included 6 months of observation and classroom attendance at municipal institutions in the United States, Guatemala, Costa Rica, Venezuela and Colombia. The 4 participants who received this training are now working at BANCA. Although currently funded by the Ministry of Government, permanent arrangements for paying their salaries from BANCA have been incorporated in a request for regular GOB budget funds in 1973. We consider that this training program has been most successful in accomplishing the objective of forming a new technical staff to orient the bank to play an active role in municipal development.

The technicians are now working on studies such as: the municipal survey and analysis; alternative coverage sources for BANCA; development of lending policy; loan application procedures; and analysis of projects for BANCA financing. These studies should be completed by October 31, 1973.

**(6) BANCA Recapitalization**

The principle sources of funds for new BANCA municipal lending will be:

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(a) BANMA recoveries; (b) GOH capital transfers; (c) continuing capitalization source; (d) an external loan. The amounts expected to be available at the present time are as follows:

	<u>CY 74</u>	<u>CY 75</u>	<u>CY 76</u>
	(in \$000)		
(a) BANMA Recoveries			
Commercial Portfolio	350	250	50
Airport Contingency Fund	1,000	-	-
(b) GOH Capital Transfers (loan counterpart)	100	500	400
(c) Continuing Capitalization Source	50	200	300
(d) External Loan	500	2,500	2,000

(a) BANMA Recoveries

Given the uncertainty involved in attempting to secure an external recapitalization loan, BANMA's management has felt that it had to keep sufficient productive assets that would allow it to live through the negotiation period and beyond. It has maintained even a wholesale disposal of the portfolio at say 25% of book value (at which price a buyer - not necessarily a bank - might be found) was ill-advised because if BANMA eventually proved unsuccessful, for any reason, in obtaining a recapitalization loan, it would have to close its doors. The Mission concurs in this opinion. Furthermore, upon transferring the San Pedro Sula Airport to the Central Government, BANMA will lose about a fourth of its current income, which will turn a small profit from current operations into a loss.

Given the above situation, BANMA management has pursued the course of action described below, which the Mission has accepted as an alternative strategy for recovery of the commercial portfolio and airport investment:

- (1) BANMA renegotiated the \$752,000 in airport bonds that were payable in 1974, so as to both serve the necessity of a severe contraction of its lending resources and to offer the airport to the national government on the most favorable terms. The renegotiation has been verbally agreed to and the paperwork is being prepared. The bonds will mature in 1983.
- (2) It turned the \$225,000 notes payable on the airport into bonds issued by the municipality of San Pedro Sula, thus extending until 1983 the

period for meeting that capital obligation, and eliminating the necessity of making capital payments before then.

(3) While renegotiating the above obligations, BANMA accumulated more than \$1.0 million which it is maintaining in easily convertible bonds in case the above bonds and notes proved not renegotiable or in case the Central Government did not take over the airport debt before those obligations came due. These bonds constitute the airport contingency fund and are considered by BANMA management as the Bank's contribution to the recapitalization plan. Although it seems unlikely given the Finance Minister's letter, if BANMA is able to recover its direct investment of \$950,000 in the San Pedro Sula airport from the Central Government, that amount will also be considered as part of the recapitalization plan.

(4) BANMA has retained the commercial portfolio for collection purposes. It has already recovered some \$300,000 in the past year and projections to 12/31/73 show that the loan balance will be about \$1.0 million at that time. Approximately 35% of these loans will be written off as of the end of the year, leaving about \$650,000 to be recovered according to the following schedule.

Balance projected to 12/31/73 (after write-offs):	\$ 650,000
Recovery in CY 74 (projected)	\$ 350,000
Recovery in CY 75 (projected)	\$ 250,000
Recovery in CY 76 (projected)	\$ 50,000

By contrast, recovery from outright sale of the commercial portfolio - if a buyer could be found - would leave this picture:

Balance projected to 12/31/73 (before write-offs):	\$ 1.0 million
Recovery in 1974	\$ 250,000
Further recovery	-
<b>Total Recovery</b>	<b>\$ 250,000</b>

b) GOB Capital Transfers

When a recapitalization loan is applied for, the Mission will seek official commitment for loan counterpart funds. The Mission believes such commitment will be made at the appropriate time.

c) Continuing Capitalization Source

The GOB is considering several alternatives:

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(1) The BANMA staff and AID advisers have drafted a proposed new property tax law. Its main features would be the following:

- An increase of the tax rate from 1.5 per thousand and 5.0 per thousand, lowering the homeowner exemption from \$10,000 to \$5,000.
- The BANMA would receive 1.0 per thousand of the 5.0 per thousand rate and the present legal obligation of municipalities to contribute 5% of their revenues for BANMA shares would be eliminated.

Action on this alternative, if adopted by the GOH, is expected by the end of FY 74. According to Mission estimates, this alternative would raise nearly \$1,000,000 a year for BANMA and the Bank considers it the most desirable course of action.

- (2) BANMA's current capitalization source could be made effective. To do this the GOH should guarantee the municipal 5% contribution or \$500,000/year, whichever is greater. This would be the minimum acceptable alternative.
- (3) Third alternative is continuing budgetary transfers by the GOH. Past experience leads us to believe this is the least desirable alternative due to the numerous demands on GOH budget resources.

(d) External Loan

Based on project progress to date the Mission believes BANMA will soon be ready for a loan. The schedule for presenting the IRR is discussed in the text of the request for PRO2 extension.

(7) Develop BANMA Management Staff

Primarily through invitational travel funding, USAID has provided courses and observation training for management staff. The President and the Bank Internal Auditor visited Costa Rica to observe operations of the Institute of Municipal Assistance and Development (IEMAD). The same officials attended the Inter-American Seminar on Municipal Banks (Caracas) and the Inter-American Municipal Conference (Rio de Janeiro). In connection with this same trip, these two officials paid their own travel to Buenos Aires and Santiago to observe municipal credit procedures in Argentina and Chile. USAID sponsored the President's and Internal Auditor's attendance at the Monterrey Institute in Mexico for a course in Municipal Administration, plus travel to Guatemala to visit the National Development Administration Institute (INDA) and the Municipal Development Institute (IMDI). In addition, USAID sponsored attendance of the President, Auditor, and Manager to the Central American Institute for Public Administration (ICAP) courses on Public Enterprise Management held in Honduras. Finally, management officials have

**Annex "G"**

**been involved both as participants and instructors in local municipal training courses planned by the Venezuelan Inter-Municipal Cooperation Association (AVMCI). Within the next 9 months, the President may travel for approximately one month to Madrid for study at the Spanish Municipal Development Bank; additional invitational travel for RAEMA senior staff may be provided as appropriate high level courses are announced.**

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UNCLASSIFIED

Mr. Edward Marasciulo, Director, USAID/H

October 4, 1973

Tom G. Sebout, Regional Financial Analyst, ROCAP/G

Ames Municipal Autónomo (BANMA)

In accordance with your oral request, I have attempted to analyze the extent of BANMA's progress, during the last year, toward becoming a viable institution oriented towards providing financial and limited loan-related technical assistance to municipalities. To establish BANMA's condition a year ago, before USAID/H grant assistance, reference was made to the McKeel/Roach Report of Financial Analysis dated May 5, 1972 and to the Hobbgood/McKeel Strategy Paper dated August 15, 1972. BANMA's present status was ascertained by discussions with the three USAID/H financed advisors who have been responsible for initiating and monitoring the implementation of changes and by reference to the Mission correspondence and working files.

My general conclusion is that BANMA has made more progress than anticipated during the last year and that this evidence of management's capability and intent justifies the extension of grant assistance for at least one more year. From the chart-form analysis attached to this memo, it is clear that significant progress has been made on five of the eight major weaknesses highlighted in the Strategy Paper: BANMA is well on the way to disengaging itself from the airport; improvements have been made in its organizational structure and control of personnel positions; substantial steps have been taken to effect accounting control and provide for management information; the nucleus of a technical assistance staff is in place and producing; and top management has already received valuable municipal development training and familiarization.

Perhaps even more obvious than BANMA's progress, however, are the vital elements still missing: after the current year, there is no assurance of the financing required for the current TA staff or the planned additions; there is no commitment from the COM relative to a dependable revenue source or the necessary recapitalization; agreement has yet to be reached on interagency cooperation and the setting of priorities; and actual losses on the portfolio and the airport (if any) have yet to be realized and taken into consideration for planning purposes.

The sheer weight of the missing elements indicates that BANMA cannot yet be considered a candidate for AID loan assistance and that its goal of

~~being~~ a viable institution oriented to municipal development is still some distance away. It is important to note, however, that the institution has evidenced a strong desire and the ability to make what changes it could, internally, and has taken the initiative on those changes requiring the cooperation of the COM. Close examination reveals that all the vital missing elements require some degree of COM cooperation and commitment. Mission officials believe that this cooperation will be forthcoming in the very near future and, if they are, BAMA will be well on its way to achieving its goals of reorientation and viability.

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REQUIREMENTS PER HOIGOOD/MCKEEL  
STRATEGY PAPER (8/15/72) AND  
MONITORING REPORT (5/5/72)

	TARGET DATE PER 11/72 PIP	ACCOMPLISHED TO DATE	REVISED DATE PER 10/73 PIP	REMAINING TO BE DONE AS OF 10/73
<p>4. New Accounting Control and Information Systems -</p> <p>a) Design and install effective system of accounting control including control over capital assets, travel advances and proper year-end accruals of income and expense. System must provide an accurate basis for management reporting.</p> <p>b) Analyze all old balances including the capital account.</p> <p>c) Transfer SPS manager to effect improvements.</p> <p>d) Improve filing systems</p>	May 74	<p>New control accounting system, including a system of daily inter-departmental balancing installed. Will provide improved budget formulation and control and a base for improved management reporting.</p> <p>Detail of capital account, control of capital account and control of cashier checks established.</p> <p>Former SPS manager assuming Director of Operations position in October 1973</p>	June 75	<p>Remaining tasks include:</p> <p>Analysis of old balances, inventory of capital assets, adjustment of accrual procedures, municipal bond accounting and control system, design of additional management reports, development of an operations manual.</p> <p>Complete design and negotiations for implementation of a correspondent banking system.</p>
<p>5. Develop Ability to Coordinate and Provide Technical Assistance</p> <p>a) Not staffed for or promoting TA</p> <p>b) Superficial evaluation of applications</p> <p>c) Need for long-range coordinated program</p> <p>d) Possible need for new organization</p>	March 74	<p>Organization is reorienting towards municipal development activities and recognizes need to coordinate priorities with other agencies. Has draft of proposed interagency cooperation agreement and list of financeable projects.</p> <p>TA Dept. was initiated in April 1973 with four specialists who have initiated a municipal survey and analysis, design of a credit policy and a loan application and approval policy.</p> <p>First training course for municipalities held in June 1973 and eleven more scheduled. A system of communication with municipalities is being established.</p>	Dec. 74	<p>Actual coordination of projects with GOH Agriculture Department initiated.</p> <p>Completion of surveys and policy formulation initiated.</p> <p>Provision of funds to support present TA staff in future years and for recruitment and training of additional TA staff. In effect, a new development organization will increasingly replace the old commercial one.</p>

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## ANALYSIS OF ACCOMPLISHMENTS

MID-1972 TO MID-1973

REQUIREMENTS PER HOSGOOD/McKEEL  
STRATEGY PAPER (5/15/72) AND  
McKEEL/ADACH REPORT (5/5/72)TARGET DATE  
PER 11/72 PIP

ACCOMPLISHED TO DATE

REVISED DATE  
PER 10/73 PIP

REMAINING TO BE DONE AS OF 10/73

REQUIREMENTS PER HOSGOOD/McKEEL STRATEGY PAPER (5/15/72) AND McKEEL/ADACH REPORT (5/5/72)	TARGET DATE PER 11/72 PIP	ACCOMPLISHED TO DATE	REVISED DATE PER 10/73 PIP	REMAINING TO BE DONE AS OF 10/73
<p>1. Disposal of Commercial Portfolio -</p> <p>a) Stop new loans b) Intensify collection effort c) Establish controls and reports c) Close San Isidro Branch</p>	June 74	<p>New Loans stopped in August 1973 San Isidro closed (9/72) Controls established and working Collected some \$350,000 (9/30/72-9/30/73)</p>	Dec. 76	Remaining portfolio worth an estimated \$650,000 to be collected or sold by 12/76.
<p>2. Disengage from Administrative Control and Financial Responsibility of the San Pedro Sula Airport -</p> <p>a) At 12/31/71 had an estimated \$0.65 million of unreimbursed expenses, \$0.95 million of note debt and almost \$2.0 million of contingent liabilities</p>	Sept. 73	<p>Have received written indication that COH has decided to assume administrative and financial responsibility and that the Honduran Armed Forces have initiated some \$1.0 million in projects to improve site for their purposes. Conversion of all note debt to longer-term bond debt and rescheduling of contingent liability bonds.</p>	Dec. 73	Execution of COH decision including negotiation of actual debt settlement and terms. Unknown at this point if COH will reimburse BANCA for the full amount of unreimbursed expenses.
<p>3. Internal Reorganization and Staff Reductions -</p> <p>a) No clear lines of authority/responsibility b) Personnel cost 60% of gross income in 1971 c) Board of Directors fees 7% of 1971 gross income d) Overstaffed audit section</p>	June 73	<p>Effective organizational chart and position descriptions completed. Staff reduced from 58 to 50 Plan established for gradual move from commercial to development activity.</p>	Dec. 75	<p>Board approval and implementation of new chart and positions. Further net reduction of staff to 37 by 12/75 as commercial activity is replaced by development.</p>

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REQUIREMENTS PER HOSGOOD/McKEEL  
STRATEGY PAPER (8/15/72) AND  
McKEEL/KOPEL REPORT (5/ 5/72)

	TARGET DATE PER 11/72 PIP	ACCOMPLISHED TO DATE	REVISED DATE PER 10/73 PIP	REMAINING TO BE DONE AS OF 10/
6. Provision of GCH Investment/ Capitalization - a) Initial capital was insuffi- cient and BANMA has experienced decapitalization.	June 74	GCH is aware of need for additional capitalization and of AID counter- part requirement.	June 74	Firm commitment for recapitalizati. from GCH.
7. Provision of Dependable Revenue Source - a) The 5% of municipalities' revenue scheme in BANMA's charter has not worked effectively.	Dec. 73	BANMA and AID staffs are working on a new property tax proposal as a substitute source of dependable revenue.	June 74	Complete property tax proposal and obtain GCH approval.
8. Develop Top Management - a) On-the-job training and short courses relative to municipal development	June 75	The President, Manager and Internal Auditor have attended several courses and been extended invita- tional travel for observation pur- poses. On-the-job training has been provided as part of grant- funded technical assistance.	June 75	More of the same as appropriate as function replaces commercial activ

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## I. OVERVIEW

The Autonomous Municipal Bank of Honduras (Banco Municipal Autónomo -- BANMA) is the chief GOH channel for providing assistance to Honduran municipios in meeting their responsibilities for providing the local infrastructure necessary for the socio-economic development of the rural areas. Although BANMA had for ten years been inefficient in discharging this duty, over the past one to two years it has made significant changes in philosophy and operations that now make it a good candidate for continued AID support. It has stopped all commercial lending operations and has received a commitment from the Central Government that relieves BANMA of the considerable financial and managerial strain of operating the San Pedro Sula airport. It has reorganized its internal operations and overcome a liquidity crisis that threatened to close its doors. Some of the above changes were the direct result of the AID grant supported technical assistance and training the Bank has been receiving under the project. It is the Mission's conviction that continued grant support should be made available to BANMA. This effort is an integral part of the overall Mission rural development assessment.

## II. THE BANMA STRATEGY

Honduras is basically a rural agricultural society, whose economy is operating at a low level of productivity relative to potential resources. This, the central conclusion coming from the assessment of Honduran agriculture recently completed by the Mission, is manifested through six primary constraints that have limited more accelerated development of the rural sector: (a) a land tenure system characterized by many small farms having insecure title; (b) a labor force which is unprepared to manage agricultural concerns, do research and extension work and profitably utilize new information in agricultural production, storage and marketing; (c) an institutional framework that does not have the budgetary or manpower resources to provide effective wide-scale assistance to agriculture; (d) a marketing system that gives little incentive to the farmer to produce and a small internal demand that limits the level and diversification of production; (e) an institutional credit system which dedicates relatively few resources to small farmers; and (f) a climate which limits the use of human and land resources to less than full employment.

The low level of infrastructure development in Honduras is one of the basic determinants of these constraints, especially as it keeps the rural-based portion of the economy isolated from national and regional market forces. A marked geographic dispersion of the rural population makes the provision of infrastructure a very

difficult and costly proposition. Honduras' 262 municipios themselves are expected to provide vital elements of the lacking infrastructure as part of their normal public service operations, but they have insufficient financial, technical and administrative resources to fulfill their mandate. As a result, the Central Government has had to subsidize local governments or carry out projects on its own that are primarily of local interest. Of course, the Central Government is beset by the same resource problems that afflict the municipios and it should concentrate on larger-scale projects. At the same time, the Central Government cannot be expected to provide municipios with local development plans. The need, then, is to find an institution that can channel available financial resources into municipio projects, at the same time aid the development of the technical and administrative bases of local governments and serve as a coordinating agency for efforts at the municipio level. The most appropriate GOH institution to perform these functions is a reformed, recapitalized BANMA.

The Board of Directors of BANMA (composed of the President of BANMA, the Sub-secretaries of Finance, Economy and Government and 2 representatives of the Association of Municipalities) has been trying to convert the once moribund Bank into the institution it should and could be. In a letter to the Chief of State (see Annex A), the President of BANMA has expressed the Board's hopes for BANMA, saying the role of the Bank should be to:

- "1. Act as an intermediate credit institution for external or domestic resource transfers to the municipalities and inter-municipal cooperatives on a responsible, planned basis through the development of projects and the granting of credits that include continued technical supervision;
- "2. Provide technical assistance, directly with its own personnel, or jointly with technicians from other State entities, in such a way that the capital transfers are accompanied by transfers of technical skills;
- "3. Begin a continuous training program on priority subjects such as tax administration, cadaster, budget and accounting, urban planning, environmental health, project design and administration;
- "4. Promote, on the national level, coordination of the efforts of the various Central Government and autonomous agencies to assist the municipalities in such a way

that the Government's agricultural sector strategy can be implemented in a systematic manner."

The Bank management and Board are fully aware of the steps that must be taken to turn BANMA around. As stated in the same letter, these are:

- A. Recuperation of the investments incompatible with BANMA's purpose and policy;
- B. Administrative restructuring and reduction of BANMA operating costs;
- C. Financial strengthening of BANMA;
- D. Definition of GOH policy on municipio development; and
- E. Execution of BANMA's program of financial and technical assistance to municipios.

While fuller details are presented below in Section III, along with an analysis of progress to date in achieving these and other objectives, resolution of one major impediment to BANMA's viability as an intermediate credit institution for municipio development has already been achieved. The Minister of Finance has officially notified the Mission that the GOH has relieved BANMA of the financial and administrative drain represented by the San Pedro Sula airport. (See Annex B.) This action has since been confirmed orally by the Chief of State. The GOH has also promised to subsidize the cost of the technical assistance department of the Bank.

The GOH objective over the next five years is to develop eight polar towns into well managed hubs of regional development in support of smaller sub-polar rural municipios, in this way partially overcoming the limits to efficiency inherent in geographic dispersion. Tegucigalpa and San Pedro Sula are two of these poles and are classified as urban industrial. La Ceiba and Choluteca, presently agriculture service poles, have the potential to become industrial poles; Santa Rosa de Copán, Comayagua, Juticalpa and Danlí are agriculture service poles. While Tegucigalpa and San Pedro Sula will not be subjects for BANMA credits, the other six will receive preferential consideration. Major investments are planned to improve polar and sub-polar municipal centers as marketing service centers, for both inputs and outputs, for their rural districts. These investments will include markets, slaughter houses, water and sewerage systems, and electrical energy at rates low enough to attract processing industries. In areas where municipally owned land includes forest resources, the means of their exploitation will

be improved with national government technical and capital assistance. Linkages between urban markets and rural producers will be strengthened with access roads to reduce the transport costs and to encourage the production and sale of farm surpluses. In addition, BANMA plans to finance cadasters in some 25 municipios under technical guidance from the national cadaster program to strengthen their revenue collection efforts and to provide a resources inventory basis for developing local development plans.

The USAID supports the overall strategy of developing regional marketing centers more fully since the Mission's target group for direct action, the transitional farmer, will be the primary beneficiaries. In addition to helping him increase his real income due to lower input prices and higher output prices, this strategy will spur the establishment of industries processing agricultural products for internal and external markets.

The USAID also fully endorses the use of BANMA as the main vehicle for improving that local infrastructure. If rural development is to proceed, the major constraints facing agriculture must be addressed, and the majority of resources must be internally generated. Continuation of grant financing will enable BANMA to prepare itself to perform as a source of capital resources to support agricultural development efforts. When the new administration took office less than a year ago, it was not convinced that municipal level improvements -- especially in marketing infrastructure -- were necessary to rural development. Now it is. The Mission is confident that the GOH is also convinced that BANMA is the logical channel for financing these improvements and for providing the technical assistance and training that should accompany them. Written confirmation of GOH conviction will be received by the Mission before it submits an IRR on BANMA.

### III. Summary

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

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

"In our opinion the Bank has been unable to perform the basic function as an instrument for municipal development... the basic reason appears to be ambiguity as to its reasons for existence... BAMA is an organization in desperate need of major reform. Forgetting development goals, Bank officials must immediately address the liquidity crises and begin to manage cash and liquid assets in an efficient manner... Internal reform should be the goal for the immediate future... BAMA officials must decide to concentrate exclusively on either municipal or commercial banking, but not both."

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

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

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

The special reports were done analyzing the financial and technical situation of the San Pedro Sula airport, the first by Mr. Al Mullins, (AID/Woods), and the second by the C&D team of Mr. Frank McBerrett and Mr. Lou Stizinski.

After the McKeel/Roach report, BARRA's management decided that the Bank needed to be reformed along the lines recommended and requested technical assistance to assist it in accomplishing the reforms. A PROP was submitted 11/1/72, AID/W approval was received 12/15/72, and a PROAG was signed 2/28/73.

At the time the PROAG was signed, some eight months ago, there had already been some progress on the reform program recommended in the McKeel/Roach report. For example, the Bank had ceased granting commercial loans in the Tegucigalpa office in September 1972. Parts of the new accounting system had been designed and installed and certain improvements in straightening out the internal accounts had been made. More aggressive collection efforts had been initiated, as well as some tentative attempts to renegotiate outstanding debt obligations. A group of four young professionals had been selected and sent for participant training in the U.S. and other Latin American countries.

Since the signing of the PROAG, the reform process has been speeded up; new commercial lending in San Pedro Sula, as well as Tegucigalpa has been stopped and attempts have been made to sell the commercial portfolio. The COH has given assurances that it will assume the administration and the financial obligations of the San Pedro Sula airport, evidence of which may be seen in the Finance Minister's letter of 9/5/73 (Annex B). BARRA's long term debts have been renegotiated. Once the COH takes over the airport, BARRA's only long term debts will be \$350,000 in general bonds (payable from 1974 to 1981) and \$1,500,000 to the Port Authority (payable from 1973 to 1980). Operating costs of the Bank have been reduced further. Perhaps most importantly, BARRA's activities have been oriented towards developing a sound financial and technical assistance program for municipalities.

The new Technical Services Department, with help from AID advisors, has been particularly active in this area. For example, they have carried out a survey in the poles and sub-poles and have completed a tentative list of projects that BARRA could finance when appropriately recapitalized. Regulations for pre-qualification of engineering, architectural, and construction firms have been prepared by the Department and approved by the Board of Directors. A proposed lending policy is being prepared by the Department which will clearly illustrate the Bank's intentions to be an integral part of agricultural sector development. It is planned that polar and sub-polar rural centers which perform rural service functions will receive the bulk of BARRA's lending. The proportion of lending destined for the poles and sub-poles in each of the 10 regions defined by the National Planning Council, will be updated on a yearly basis to take into account plans formulated at the national level.

The projects most necessary for agriculture sector development will receive highest priority under the lending policy being prepared. Finally, BARRA's staff, taking the initiative in attempting to develop a suitable continuing

Best Available Document

source of capital, has prepared a draft of a new property tax law in which BANMA along with the municipalities would be beneficiaries of the increased tax rate proposed.

Additional indications could be mentioned as evidence that BANMA staff and management have been making extensive preparations to reorient BANMA to function as a municipal development bank. As the projected balance sheet and income statement (Annexes C and D) indicate, assuming a recapitalization loan, BANMA could be an effective instrument of municipal/rural development.

A description of achievements compared to the originally recommended reform program will be found in the PAR (Annex E), revised PIP (Annex F), and detailed discussion of progress on PROSP outputs (Annex G). These documents show that sufficient progress has been made to justify continuing the project.

Mr. Tom Bebout, ROCAP Financial Analyst, has prepared an independent review of BANMA progress to date and actions remaining to be completed. In summary, this shows BANMA has made significant progress during the last year in implementing internal reforms. The degree of progress is indicative of a capable and motivated management. Important additional actions are still required, however, and their realization appears to depend on firm GOH support to BANMA. (See Annex H).

#### IV. USAID Request

##### Extension of Grant Financing

In light of progress made, USAID/H requests that AID/W approve FY 74 funding for Municipal Development project No. 522-15-310-039.10. The costs are estimated at \$144,000 as shown in the breakdown below. Continued funding approval is needed now to permit extension of on-board advisers whose contracts expire over the next two and a half months.

It is possible that grant funding for FY 75 might be requested in the future after appropriate review of progress. If, as expected, current program continues and the GOH requests a loan during FY 74, the Mission will consider loan funding of TA during FY 75. This issue will be considered when an IER is submitted.

The following details the grant request:

	<u>FY 73</u>	<u>FY 74</u>	<u>FY 75</u>
<u>Personnel</u>	<u>\$84.2</u>	<u>\$95.0</u>	<u>\$47.0</u>
Banking Systems Adv.	25.5/12M	27/12M	-
Economist	22.5/12M	-	-
Municipal Cap. Projects Adv.	20.2/6M	50/15M	20/6M
Training Advisors	16.0/6M	18/6M	27/6M
Equipment Advisor <sup>/1</sup>	(33.3/15M)	(28/12M)	-
<u>Commodities</u>	-	-	-
<u>Participant Training</u>	<u>1.2</u>	<u>20.0</u>	<u>20.0</u>
Management Personnel <sup>/2</sup>	1.2	12/10M	10/9M
Technical Operations Staff	-	8/8M	10/9M
<u>Other Costs</u>	<u>24.6</u>	<u>20.0</u>	<u>23.0</u>
In-country Training (inclu FAIGH Seminars)	12.3	29.0	15.0
Municipal Survey	6.0	-	-
Short-term Advisors	<u>6.3</u>	<u>-</u>	<u>3.0</u>
<b>Total</b>	<b>\$ 110.0</b>	<b>\$ 144.0</b>	<b>\$ 90.0</b>

<sup>/1</sup> Non-add: funded from USAID Tech Support

<sup>/2</sup> Participant training \$13,000/10M from prior year funds.

### IRR Schedule

The GOR is expected to officially indicate its intention to apply for an AID loan before December, 1973. The Mission will submit an IRR at such time as:

1. Additional progress is shown on relieving BANCA of the administrative and financial obligations of the San Pedro Sula airport;
2. Preliminary GOR commitment to provide loan counterpart funds is given;
3. Sufficient evidence exists of GOR intention to establish an effective continuing capitalization source for BANCA;
4. Appropriate GOR policy is in effect to ensure that BANCA will be the only source for loan funds for all municipios (except Tegucigalpa and San Pedro Sula);
5. BANCA justifies on a preliminary basis the amount of loan funds that are requested, and gives evidence of continued significant progress on all aspects of its reform program;
6. GOR and BANCA present alternative plans showing how they intend to recover past municipal debts to BANCA and ensure sub-loan repayment in the future.

It is expected that the Mission will forward an IRR to AID/W in February or March of 1974 requesting a loan of \$5,000,000 for BANCA.

### Possible Issues To Be Resolved During Intensive Review

1. Transfer of San Pedro Sula airport to GOR finalized;
2. Loan counterpart commitments -- source, amount, and guarantee of availability;
3. Borrower (GOR or BANCA), terms and amount;
4. Guarantees of continuing capitalization source;
5. Adequacy of financial plan; if BANCA is borrower, will it continue to capitalize after loan repayment begins?
6. Adequacy of BANCA organizational, financial and administrative capability;
7. Adequacy of interagency coordinating mechanisms;
8. Adequacy of BANCA's loan and TA programming, lending, and credit policy, project approval procedures and other procedures;
9. Adequacy of plans for recovery of past municipal debts and guarantees of future sub-loan repayment;
10. Disbursement period and preconditions to disbursement;
11. Grant funding of technical assistance.

INDUSTRIAL FINANCING

His Excellency  
Chief of State  
Brigadier General  
Mr. Oswaldo López Arellano

Mr. Chief of State:

Municipal governments are responsible for providing infrastructure and services that promote rural development; however, historically, the municipalities have been too weak to adequately satisfy such demands. This weakness can be attributed to a series of factors, the most important being the lack of solid sources of self financing, municipal officials and employees without sufficient skills and training, plus a lack of initiative for solving municipal problems.

In order to increase local resources, the Central Government has traditionally granted direct subsidies and other types of assistance which have fostered greater dependence on the Central Government and have ignored the development of financial and human resources that municipalities need to improve their own administrative and financial capacities. Diverse government entities have granted such assistance without coordinated planning and implementation --- a necessary requisite for achieving integral, logical, orderly development; nor has such implementation of assistance efforts been linked with national and regional plans for the rural sector.

In order to convert the municipalities into development instruments, the Central Government must be able to rely on an adequate institutional means to strengthen the administrative and financial capacity of the municipalities.

The Central Government has adopted as a priority policy, the development of the agricultural sector. Consistent with that policy, I believe that the municipalities will have to implement infrastructure and services projects which are indispensable for developing that sector, i.e.:

1. Sewage and potable water systems,
2. Rural electrification,
3. Markets,
4. Public slaughterhouses,
5. Access roads to agricultural production areas,
6. Storage facilities for agricultural products.

The Municipal Governments will have the responsibility for executing or participating in the execution of these projects, maintaining and operating them, and in addition, providing other services to municipal residents such as: garbage collection and disposal, street betterment and maintenance, etc.

Increasingly execution and administration of these services requires technical skills and methods which are unknown to the majority of municipal officials and employees. In order for the municipal investments to have the desired impact and be effective, it is indispensable that the capital transfers be accompanied by training for the municipal officials and employees. If not, the Central Government would have so many projects and services, that it could not effectively maintain and administer them.

Thus, as an integral part of the Agricultural Sector development program, I believe that the institutional means to offer this financial assistance is the Autonomous Municipal Bank. The functions BANMA must perform are:

1. Act as an intermediate credit institution for external or domestic resource transfers to the municipalities and inter-municipal cooperatives on a responsible, planned basis through the development of projects and the granting of credits that include continued technical supervision;
2. Provide technical assistance, directly with its own personnel, or jointly with technicians from other State entities, in such a way that the capital transfers are accompanied by transfers of technical skills;
3. Begin a continuous training program on priority subjects such as tax administration, cadaster, budget and accounting, urban planning, environmental health, project design and administration;
4. Promote, on the national level, coordination of the efforts of the various Central Government and autonomous agencies to assist the municipalities in such a way that the Government's agricultural sector strategy can be implemented in a systematic manner.

The current BANMA administration during the 24 months of its term has made strenuous efforts to reorient the institution to accomplish the above-mentioned functions. Among its principal achievements has been the substantial improvement of the institution's operating and financial situation. Also a 3 year program of financial assistance for the municipalities subject to the availability of funds, has been developed. Also in an advanced state of preparation is a request to AID for a loan of Lps. 10,000,000, which we expect to complete before October 31. As part of this task, a credit policy has been developed, in which it is established that BANMA will grant loans on a priority basis to the municipalities which are poles and sub-poles of development as defined by the Superior Planning Council.

Annex C includes a summary of the Bank's recapitalization plan. This document indicates BANMA's objectives and activities and includes decisions which must be adopted by the Central Government to support BANMA.

- 3 -

If BANMA does not receive the Central Government's firm support, BANMA will never achieve a level of operations that will permit it to provide the financial and technical assistance needed by the municipalities. The Central Government would then find itself with more administrative and financial responsibilities for the rural population which will divert resources that could be better utilized in other programs.

In the hope that you are in accord with the above, I respectfully request that you indicate to me at your earliest convenience, your agreement that BANMA request from AID the aforementioned loan.

Very truly yours,

ARMANDO BLANCO PANIAGUA  
President, BANMA

INFORMAL TRANSLATION

Tegucigalpa, D. C., September 5, 1973

No. SH-384

Dear Mr. Director:

In confirmation of the results of our August 31 conversation in reference to administration by the Government of Honduras of the San Pedro Sula International Airport, I am pleased to reiterate the following:

1. The Government has now taken the decision to assume administration and operations of the San Pedro Sula International Airport. Based on this, the Ministry of Communications, Public Works and Transportation made repairs of the landing strip and also recently began a 300 meter extension of the strip. Also the Armed Forces Engineering Battalion is working on the construction of dikes and drains to protect the strip. Investments underway are on the order of Lps. 2,000,000.
2. The Government fully understands that it will assume the San Pedro Sula International Airport's duly confirmed debt. Regarding the latter, the Attorney General of the Republic for some time has been studying legal aspects of the documents that support such obligations in order to permit the Government to have a precise and clear picture which will at the same time facilitate the formulation of a reasonable amortization program. The Government proposes that within a reasonable time period it will initiate negotiations with the various creditors for the purpose of confirming these obligations and agree on methods of payment.

Yours very truly,

MANUEL ACOSTA BONILLA  
Minister of Finance and Public Credit

TO MR. EDWARD MARASCIULO, DIRECTOR  
AGENCY FOR INTERNATIONAL DEVELOPMENT (AID)  
AMERICAN EMBASSY  
TEGUCIGALPA, D. C.

PROJECTED BALANCE SHEET, AUTONOMOUS MUNICIPAL BANK

ANNEX "C"

(000's OF US\$)

	<u>1971</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1980</u>	<u>1985</u>
<b><u>Assets</u></b>	5260.0	5075.0	6473.0	9125.5	11998.5	14445.0	19779.5
<b><u>Cash and Convertible Assets</u></b>	532.5	1285.0	485.0	608.5	593.5	1294.5	1580.0
<b><u>Investments</u></b>	3657.5	2040.0	3988.0	6752.5	9835.0	12175.0	17617.0
Commercial	1489.0	700.0	350.0	50.0	0.0	0.0	0.0
Municipal	769.0	430.0	3228.0	6702.5	9835.0	12175.0	17617.0
Airport	1399.5	910.0	410.0	0.0	0.0	0.0	0.0
Other Assets	190.0	195.0	195.0	195.0	195.0	195.0	195.0
Unsubscribed Capital Receivable	880.0	1555.0	1805.0	1569.5	1365.0	780.5	387.5
<b><u>Liabilities</u></b>	2919.5	2770.0	3645.0	5524.0	7393.5	6671.0	5717.5
Current	1531.0	575.0	550.0	550.0	583.0	736.0	984.0
Long-term	350.0	1870.0	1845.0	1774.0	1660.5	785.0	0.0
Others	1038.5	325.0	250.0	200.0	150.0	150.0	150.0
AID Loan			1000.0	3000.0	5000.0	5000.0	4583.5
<b><u>Capital</u></b>	2340.5	2305.0	2828.0	3601.5	4595.0	7774.0	14062.0
Paid Capital	1764.5	1822.5	2147.5	3033.0	3887.5	5748.5	8578.0
Retained Earning (Accum. Deficits)	(304.0)	(1072.5)	(1124.5)	(1001.0)	(657.5)	1245.0	5596.5
Unsubscribed Capital	880.0	1555.0	1805.0	1569.5	1365.0	780.5	387.5

**Assumptions:**

1. \$5.0 million AID loan disbursed 1974-1976; GOH \$1.0 million counterpart
2. Permanent capital source estimated \$125,000 1974, \$250,000 in 1975 and 1976, 6% yearly increase thereafter
3. 15% yearly reduction in unsubscribed capital
4. 6% yearly increase in municipal deposits
5. \$350,000 of commercial portfolio written off
6. No allowance for municipal bad debts; 8% return on municipal portfolio
7. Figures as of 12/31 for each year

PROJECTED INCOME STATEMENT, AUTONOMOUS MUNICIPAL BANK(000's OF U.S.\$)

<u>INCOME</u>	<u>1971</u>	<u>1973</u>	<u>1974</u>	<u>1975</u>	<u>1976</u>	<u>1982</u>	<u>1985</u>
Loan Interest	N.A.	N.A.	243.0	449.5	693.5	990.5	1304.5
New Loan Commissions	N.A.	N.A.	22.5	40.5	75.0	45.0	62.5
Commissions on Outstanding Bonds	N.A.	N.A.	80.0	65.0	32.5	0.0	0.0
Total Income	248.0	243.0	345.5	555.0	801.0	1025.5	1367.0
<u>EXPENSES</u>							
Interest Paid	50.5	75.0	123.5	165.5	207.0	188.0	129.5
Personnel Compensation	163.5	125.0	169.5	161.0	150.0	192.5	232.5
Indirect Personnel Costs	-	-	17.0	16.0	15.0	18.5	23.5
Director's Fees	18.0	19.0	12.5	12.5	12.5	12.5	12.5
Building Rental and Maintenance	15.0	10.0	15.0	15.0	10.0	10.0	10.0
Equipment Replacement and Depreciation	12.0	9.5	10.0	10.0	10.0	10.0	10.0
Operating Expenses	33.0	44.0	50.0	51.5	53.0	59.5	69.0
Total Expenses	292.0	282.5	397.5	431.5	457.5	481.0	487.0
Profit (Loss)	(44.0)	(39.5)	(51.5)	123.5	343.5	541.5	880.0

(NOTE: See Assumptions in Balance Sheet)