

HONDURAS

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October 1, 1977 - September 30, 1978

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Basic Memorandum of Agreement AID/ta-BMF-2
Project No. 931-1134-02-317864

SMALL FARMER CREDIT: PROFITABILITY AND REPAYMENT
AID Project in Cooperation

with

OKLAHOMA STATE UNIVERSITY

and

COLORADO STATE UNIVERSITY

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TABLE OF CONTENTS

	Page No.
History of Project	1
Initial Country Contacts and Trips	1
Development of Initial Work Plan for Honduras	5
Assignment of Long Term Professional	6
Plans for Fiscal Year 1978-79	7

APPENDICES

A: Work Plan	13
B: Monthly reports of Long Term Professional for July-September 1978	22
C: Perelli letter on Research Associate position	33
D: Job Description for Research Associate position	34

HISTORY OF PROJECT

Agricultural Economics personnel at Colorado State University and Oklahoma State University were contacted by staff members in the Economics and Sector Planning Office (ESP) of TAB (now DSB) to determine our interest in working on the project on Small Farmer Credit: Profitability and Repayment. Ron Tinnermeier and Anne Ferguson visited the OSU campus in April 1977. They also made a trip to Honduras in May 1977 to determine the interest of the Rural Development Office personnel in AID, and Agricultural Credit Bank (BNF) personnel in the project. Both of those groups were enthusiastic about the project.

Jay Murray, acting Dept. Head of the OSU Agricultural Economics Dept., Dan Badger of OSU and Ron Tinnermeier and Ken Nobe from Colorado State University met with Virginia Perelli, AID Contracts Officer in Washington on August 22, 1977 to negotiate the budgets for the two Universities for the Cooperative Agreements. Cooperative Agreements between AID and the two Universities were signed by the appropriate parties in September 1977, and the project was officially initiated on October 1, 1977.

INITIAL COUNTRY CONTACTS AND TRIPS

As indicated previously, Ron Tinnermeier and Anne Ferguson went to Honduras in May 1977. Ron Tinnermeier and Odell Walker (OSU) went to the Philippines in August 1977 to initiate contacts with Rural Development Office/AID personnel (Lane Holdcroft) and with Agricultural Credit Institutions (TBAC and FSDC) in that country.

Dan Badger, Erhardt Rupprecht of ESP/DSB/AID Washington,

and Ron Tinnermeier went to Honduras in November 1977 to work with Jim Bleidner's office (RFO/AID) and with Rene Cruz, President of Banco Nacional de Fomento (BNF), and Alfonso Bonilla, Head of the Technical Division of BNF. A format was developed for a Memorandum of Understanding (M/U) between BNF and the two Universities.

We visited with Jack Robinson, AID Mission Director in Honduras, about the feasibility of a Project Agreement (ProAg) between AID/Honduras and BNF covering our project. The ProAg would provide our personnel some protection under provisions of the Bilateral Treaty. We also visited with George Knight, Joint Administrative Officer and Martin Dagata, Deputy Mission Director, on the objectives of the project, and requested AID logistical support for one long term professional in country. We were assured that AID/Honduras would provide that support. Drafts of the M/U and ProAg were developed and left with BNF officials and with the Rural Development Office. Jim Bleidner assured us he would follow through on the two agreements.

An OSU-CSU team traveled to Honduras during the period February 5-18, 1978, to further develop plans for the project. Loren Parks, who was the OSU candidate for the in-country long term professional position, and Dan Badger arrived in Tegucigalpa, February 5, 1978. During the first week, we visited with Jim Bleidner and discussed in some detail the scope of work or objectives of the project, and began to develop a time table for these tasks. We also discussed the project with Rob Thurston, Agricultural Economist in the Rural Development Office. Rob has been designated by Jim Bleidner as the in-country AID project coordinator for our project. Rob appeared to be very interested in the project and the fact that Agricultural Economists from the two Universities would be providing technical assistance to BNF.

Loren and Dan visited with personnel in the General

Services Office (Irene Castell and Jim Leo) as well as with George Knight, the Joint Administrative Officer (for AID and the Embassy). We discussed the type of logistics and administrative support available from AID for the long term professional. Every person we visited was cooperative and offered valuable suggestions on what to bring down, how to ship project and personal vehicles and household effects, etc. Mr. Knight indicated that AID would handle the in-country clearance for all these items. This all depended on the two Universities being covered by umbrella coverage of a Project Agreement (ProAg) between AID/Honduras and the Government of Honduras. The Rural Development Office personnel will help to develop the ProAg.

Productive discussions were held throughout the two-week period with BNF personnel (Roberto Valladares, the new Vice President, Alfonso Bonilla, Director of the Technical Division where the OSU long term professional would work, and with Cristiana de Fletes of the Technical Division). We visited with members of the Farm Planning Advisory Group who are assisting BNF in developing loans to cooperative type groups of farmers.

Odell Walker and Harry Mapp of OSU arrived on February 11 and Ron Tinnermeier of CSU arrived on February 12. Meetings with key personnel in RDO/AID and in BNF helped focus on specific objectives or tasks to be accomplished (areas in which the Bank needed the most help) and a timetable for accomplishing these tasks. This timetable was incorporated into the Scope of Work, mentioned in the ProAg, after our return home.

Ron and Dan worked on the details of the ProAg with personnel in RDO (Al Chable and Jim Bleidner). We also worked with the secretaries in RDO to get a final draft in both Spanish and English of the Memorandum of Understanding (M/U).

Jim Bleidner arranged a meeting for us with BNF on

February 17, 1978 and went with us to BNF where the M/U was signed by BNF personnel. We all agreed that this trip had been most productive from both administrative and technical aspects. It certainly helped in identifying in which areas the Bank needed help and in deciding on the time-table for some specific tasks we hope to accomplish.

Dan Badger stopped by Honduras on March 14, 1978, on the way home from Nicaragua. He worked with Jim Bleidner on making changes in the ProAg that BNF requested. Jim and Dan visited with Rene Cruz, Roberto Valladares and Manuel Amaya of BNF to iron out any other points of concern in the ProAg. The meeting was cordial and productive. Dan stopped over in Honduras again on April 21-22, 1978. He visited with Jim Bleidner in RDO, and with Alfonso Bonilla and Cristiana de Fletes in BNF. Loren Parks of OSU was approved by both BNF and RDO/AID/Honduras for the long term professional position in the BNF. A copy of the tentative draft of the Work Plan was provided to RDO personnel, and a request made for input from them on additions or deletions.

Dan Badger and Ron Tinnermeier met in Nicaragua on July 17-20, 1978 to discuss the feasibility of working with INVIERNO on the Small Farmer Credit Project, since the situation in the Philippines was at a stalemate. We had productive meetings with INVIERNO, RDO and other AID personnel. Jim Bleidner had transferred to RDO/Nicaragua, and helped tremendously in covering needed points to implement the project in Nicaragua. The political situation is the major deterrent.

Ron and Dan traveled on to Tegucigalpa on July 21, 1978 to visit with Loren Parks, who had arrived in-country on July 1, 1978, to work in the Technical Division of BNF. Jim Osborn, Agricultural Economics Department Chairman at OSU, also arrived on July 21. We had meetings with BNF personnel and with Bill Janssen, the new Rural Development Officer in Honduras. We discussed the desirability of using part of the TDY

man-months to send a U.S. trained Research Associate (American) to work in the Technical Division of BNF, to speed up the process of data collection and analysis of farm budget (costs and returns) data. The Research Associate would work with Loren Parks and his BNF counterpart. The personnel of BNF (Cruz, Bonilla, and Valladares) were favorable to the position. Bill Janssen also gave tentative approval of the concept of having a Research Associate in the project, but requested that this be cleared with our AID/Washington project personnel (Erhardt Rupprecht, the AID/Washington Project Manager and Virginia Perelli, the AID/Washington Contract Officer on our project). Dan Badger agreed to make those contacts to obtain their approval. Dan also agreed to write Rene Cruz, President of the BNF and Bill Janssen, RDO/AID/Honduras, officially requesting approval of the Research Associate position and sending resumes or biographical data on Kurt Rockeman, the M.S. candidate at OSU being recommended for the position. Dan telephoned Erhardt Rupprecht and Virginia Perelli to obtain contract approval for this position. He also wrote to Rene Cruz (July 31, 1978) and Bill Janssen (August 1, 1978).

DEVELOPMENT OF INITIAL WORK PLAN FOR HONDURAS

As indicated above, the OSU-CSU team visit to Honduras in February 1978 was most beneficial in developing an initial work plan and tentative time-table. After the team returned from Honduras, several meetings were held in February, March and early April. The farm management and agricultural finance research and extension personnel of the OSU agricultural Economics department attended one or more of these meetings, and made suggestions on both the tasks for the long term professional position, and what the TDY teams from OSU-CSU could accomplish in BNF. Loren Parks drafted a final "tentative" version dated April 12, 1978. This work plan and accompanying time-table will be useful to get the work underway in Honduras. It was to be revised as the need arises. Input was requested

from RDO/AID/Honduras and AID/Washington personnel for any needed modifications to the Work Plan. A copy of this work plan is in the Appendix A): (NOTE: The work plan has been slightly revised as of November 1978, and copies sent to AID/Washington and AID/Honduras).

ASSIGNMENT OF LONG TERM PROFESSIONAL TO BNF IN HONDURAS

Loren Parks, Assistant Professor in Farm Management in the Department of Agricultural Economics at Oklahoma State University, relocated to Tegucigalpa, Honduras, effective July 1, 1978. Due to the previous arrangements made during the February trip to Honduras by Loren Parks, the relocation of his family to a home in Tegucigalpa was accomplished rapidly and with a minimum of "down-time" from his work in the Technical Division of BNF. Rapport and a cooperative working relationship has been established between Loren Parks, his counterpart, and other BNF professionals, particularly those in the Technical Division.

A record-keeping program has been implemented for the rainy-season (invierno) cropping period (July-November) with several farms and these data will be available for analysis after the crop harvest in October and November 1978. *How many?* The counterpart, Reynerio Reyes, has a B.S. degree in Agriculture from Monterrey Institute of Technology in Mexico, and is very enthusiastic to learn about Agricultural Economics as well as to learn English. He appears to be a good prospect *Graduate US training why & when?* for M.S. level graduate training in Agricultural Economics at some future date.

Loren has visited with personnel in the Technical Division of BNF about the training needs of the 26 local banks' personnel. Plans are being made to have one or more workshops for some of these personnel early in calendar year 1979. Some materials are being developed for possible use as

extension leaflets or similar type educational materials for all BNF loan personnel.

For more detail on the activities of the long term professional in Honduras during the first year of the project (actually the period July 1-September 30, 1978), please refer to the monthly reports of his activities in Appendix B of this report.

PLANS FOR FISCAL YEAR 1978-79

As indicated earlier the work plan in Appendix A outlines specific goals and tasks for the project, with a corresponding time table. The overall objective is to assist in developing policy guidelines to improve both the lending of money by BNF (loan portfolios) and the repayment of these loans. It is hoped that the high default rate can be reduced. Also, the loan supervisors in the 26 local offices of BNF as well as in the principal headquarters Bank will be provided training and educational materials to allow them to be more effective in assisting individual and "cooperative" (various types of groups) farm lenders to make more effective utilization of the loan.

Some of these tasks will be accomplished in the 1978-79 time periods; others will be implemented in Fiscal Year 1979-80. Some of these tasks, e.g. cash flow analysis and whole farm records, will be the primary responsibility of the long term professional in country (Loren Parks). Other tasks will be jointly worked on by both the in-country staff (Parks and Rockeman from OSU with the BNF counterpart personnel) and by the OSU-CSU short term (TDY) teams. Some of the specific issues to be addressed in Fiscal Year 1978-79 are:

- 1) What is the level of profitability (return to land, unpaid operator and family labor, overhead, management and risk) for the basic crop and livestock activities for small farms in the area?

- 2) For a given set of farm resources and organization of production, what does a whole farm cash flow analysis suggest regarding repayment potential for an operating loan?
- 3) What is the potential impact of changes in organization of production on annual cash flows and repayment capacity?
- 4) What proportion of the operating loan funds are diverted to family living and what is the impact on repayment capacity?
- 5) What is the potential impact of available, but unadopted technology on the organization of production, profitability and cash flow of small farms in the area?
- 6) How can these data be organized to present a meaningful picture of profitability and cash flow potential to loan evaluation officers in BNF?
- 7) Which information is likely to be most useful in organizing training sessions for BNF personnel involved in financial analysis at the farm level?

Long Term Professional

Loren Parks will continue to obtain costs and returns data for analysis and to assist in developing policy guidelines on loan portfolios (how much to lend per crop, when is money needed, when should repayment be expected, etc). The specific tasks listed in the original (and revised) work plan will be accomplished during the period October 1, 1978 to September 1, 1979.

Loren Parks will work with and through BNF Technical Division personnel to develop materials for presentation at one or more workshops or seminars planned for early 1979 (possibly March). These workshops will provide training and educational materials for at least some of the loan supervisors (Peritos) in the 26 local BNF Banks (loan offices). Since not all these peritos will be able to attend the workshops, development of extension-type (applied) educational materials in Spanish is a key element or task to be accomplished in the 1978-79 period. These materials would be made available

to the loan personnel in all the Banks.

Research Associate

Approval has been requested from both BNF and AID/Honduras for both the Research Associate position. This is a request for 12 person months in-country initially, which will approximate about six (6) of the 27 short term on campus professional TDY person months in the three year budget for October 1, 1977-September 30, 1980. The conversion is based on salary equivalents, which obviously relates to level of professional training and experience. Resumes for Kurt Rockeman, a M.S. trained Agricultural Economist from Oklahoma State University have been submitted to BNF, AID/Washington and AID/Honduras, requesting simultaneous approval of Kurt as the Research Associate. Virginia Perelli, the Contracts Officer for AID/Washington, has cleared the internal transfer of funds in the current three year budget to support the Research Associate position in Honduras. (See Perelli letter dated August 23, 1978 in Appendix C). AID/Washington approval is of course contingent on approval of the position and person by BNF and AID/Honduras.

The need for this position was discussed at meetings with BNF and RDO, AID/Honduras personnel in July 1978, and subsequently certain arrangements were agreed upon by Erhardt Rupperecht, AID/Washington, Ron Tinnermeier, of CSU and overall Project Coordinator for both Universities, and Dan Badger of OSU. One of the major stipulations was that the Research Associate position would be considered a short term position, and OSU would provide all logistic and administrative support for the position from the existing budget funds of the cooperative agreement. In other words, if the position is approved by AID/Honduras, AID/Honduras would not be requested to provide such support for that position.

It is planned for the Research Associate to make contacts

with selected BNF "local" banks (3 or 4 of the 26), obtain budget data from those banks' loan portfolios, and attempt to verify that data through interviews with local farmers with current BNF loans. The Research Associate also will assist Loren Parks and Reynerio Reyes with other data collection and analysis activities, and assist in the development of materials for workshops or short courses for BNF loan personnel. The person recommended for this position (Rockeman) is fluent in Spanish. A description for the Research Associate position is in Appendix D of this report.

Employment of Secretary for AID Contract

In May 1978, Ms. Abbie Glenn-Allen, a sophomore student in Economics at Oklahoma State University, was employed to work one-half time (20 hours a week) on the Small Farmer Credit Project. Ms. Glenn-Allen will be the coordinating link between the OSU campus and the OSU personnel located in Honduras. Handling of mail to be forwarded, purchasing and mailing items needed for the project, typing correspondence and reports, and maintaining the publications and correspondence files are some of the responsibilities of this position. Ms. Glenn-Allen will maintain office hours from 1:00 p.m. to 5:00 p.m. each day during both the Fall Semester 1978 and Spring Semester 1979. The telephone number in Abbie's office is 405-624-6555.

OSU and CSU Based Professionals for TDY Assignments

Selected personnel from both OSU and CSU have been designated to "back-stop" or support the work of the long term professional in Honduras. Dan Badger, OSU Project Coordinator and Ron Tinnermeier, CSU Project Coordinator and overall project Coordinator, will maintain periodic contact with professionals in AID/Washington, AID/Honduras (specifically the Rural Development Office) and BNF. Ron and Dan will handle and resolve administrative and logistical matters as well as provide technical expertise on selected aspects of the project.

The Department of Agricultural Economics has an excellent program in the areas of farm management and farm finance, as evidenced by national reputation and recognition of its efforts in research, teaching and extension. The OSU team in this area which has been designated to support the project in Honduras (and wherever CSU selects to locate its part of the project) is composed of the following professional faculty members:

SUPPORT TEAM - OSU

1. Odell Walker, farm management (teaching and research)
2. Harry Mapp, farm management, particularly agricultural finance (teaching and research)
3. Joe Williams, farm management, particularly farm records, (teaching and research)
4. Mike Hardin, farm management and farm finance, particularly records (extension)
5. Clint Roush, farm finance and farm records (teaching and extension)

OSU has ongoing programs in farm record keeping (COST-FINDER), crop and livestock enterprise analysis (BUDGET GENERATOR), and farm financial analysis programs (FARM FINANCE INSTITUTES with Oklahoma Bankers Association and FARM TAX INSTITUTES, sponsored in conjunction with State and Federal IRS agency personnel). It should be noted also that the National Budget Generator Program for Crop and Livestock enterprise budgets for the entire United States is headquartered in the Agricultural Economics Department at OSU. Thus other Departmental and USDA personnel not previously identified (e.g. Ted Nelson, Cecil Maynard and the USDA group under Ron Krenz) are also available for consultation and to help develop materials needed to accomplish the objectives of the program in Honduras.

Specifically, the designated support team will hold periodic (bi-weekly or more frequently as needed) meetings on campus to discuss how to support Loren, including the development of materials for use in Honduras. Members of

the team will make at least four trips to Honduras in the coming year (October 1, 1978 - September 30, 1979) in sub-teams of two or three members. Occasionally, only one member of the team may travel to Honduras at any given time. It is the consensus of our group that the first such visit to Honduras to work with Loren and BNF personnel should occur after the Research Associate has been in-country for awhile and has obtained some budget information in a region of the country in addition to the area where farm records are being maintained (Danli). Thus, the next trip by OSU TDY team members is tentatively planned for early January 1979, with a second team to go down in March 1979. The progress made on these two TDY team trips will assist in determining the timing (length and dates) of additional trips in the FY 1979 period. It is probable that CSU farm management personnel may join one or more of these TDY team trips to Honduras in FY 1979.

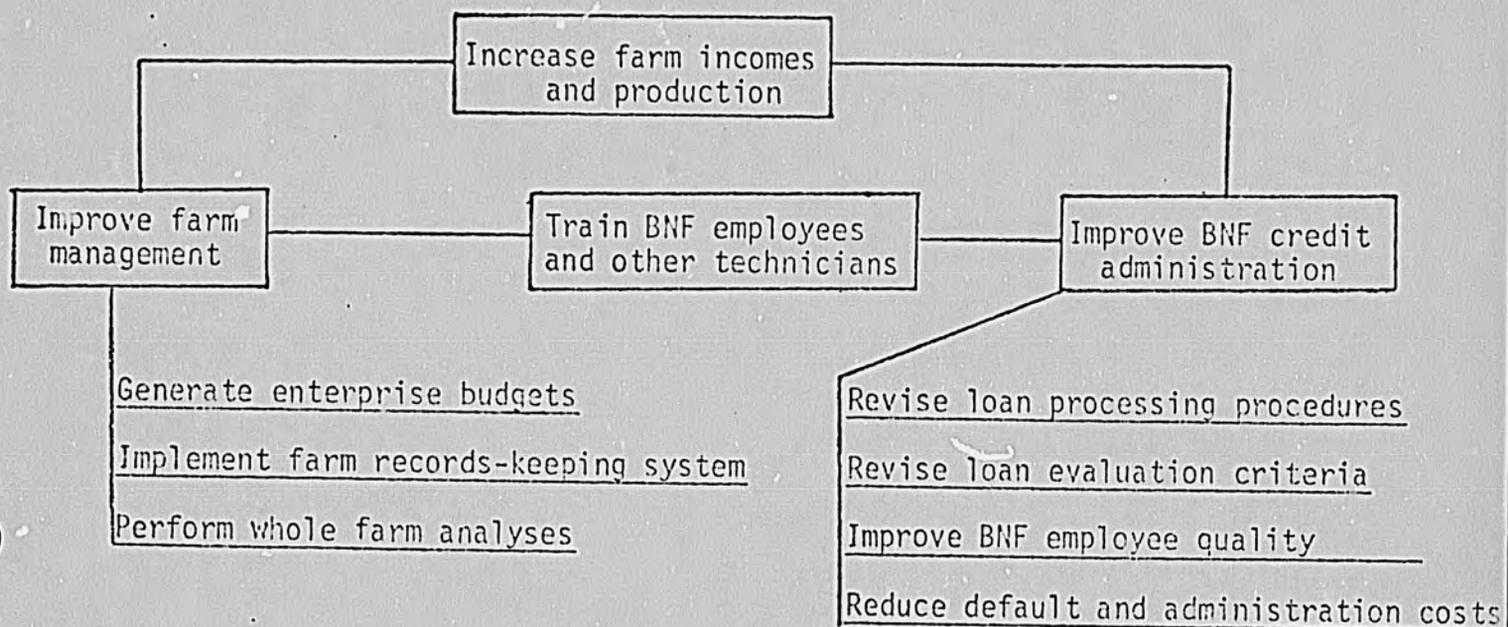
Literature review of research and technical assistance projects in the agricultural credit and farm management areas is another on-going activity of the OSU on-campus team. One such literature review has been prepared, and another will be ready in early 1979. Results of projects similar to ours, and awareness of some of the difficulties faced in implementing needed changes in agricultural lending institutions should assist us in our efforts to improve the loan performance of BNF.

The OSU TDY team members also are available to "backstop" or to assist the CSU part of the cooperative agreement, once a suitable country and agricultural credit institution has been identified for technical assistance through this project.

APPENDIX A

HONDURAS PROJECT
Tentative Work Plan
April 12, 1978

HONDURAS PROJECT OBJECTIVES
(what we intend to do)



HONDURAS PROJECT WORK PLAN

I. PLANNING

The planning phase is the time prior to arrival of the principal investigator (PI) in Honduras. OSU personnel involved in the project will pursue the following objectives:

- A. Prepare a tentative work plan for the project;
- B. Discuss project objectives and methods to achieve them;
- C. Develop a draft of a farmer questionnaire form;
- D. Prepare a basic farm record-keeping system which can be adapted to the Honduran situation;
- E. Review material about the Banco Nacional de Fomento (BNF) to familiarize ourselves with operations and problems;
- F. Handle administration associated with contracts and moving the PI to Honduras.

II. INITIATION OF IN-COUNTRY WORK

The objectives of this phase are to establish the PI in Honduras, review and revise project objectives, and initiate studies leading to farm analysis. Specific objectives of the OSU group include the following:

- A. Set up administrative procedures in Honduras with the BNF such as office space, secretary, etc.
- B. Become familiar with BNF operations including responsibilities, policies, performance and problems.
- C. Work with BNF personnel to review and adopt project goals, priorities and methods.
- D. Contact other foreign and domestic project leaders involved in agricultural development to learn what they are doing, how we might assist each other, and how duplication of effort can be avoided.

- E. Visit different areas of the country with personnel from BNF, AID, or others to learn about Honduran agriculture with the intention of selecting several areas for concentrated study.
- F. Gather macro-statistics, maps, and other secondary data about Honduran agriculture, including prior studies.
- G. Begin a review of the literature pertaining to small farm credit.
- H. Work with BNF personnel to prepare a comprehensive work plan for submittal to AID three months after arrival of the PI.

III. FARM ANALYSIS

The farm analysis phase is intended to obtain and analyze basic data about resource availability and management on small farms. Data obtained will be used to generate enterprise budgets, cash flow analyses, and programming models of farms. The results of farm analyses will be used to help improve BNF loan policies and procedures, and to help agricultural extension agents increase farm production and profitability.

A. Selection of Study Areas and Farms

Selection of areas for concentrated study will be based on the following criteria:

1. BNF credit problems in the area;
2. Crops grown;
3. accessibility and convenience;
4. variety of farm organizations (cooperative, private, plantation, etc.);
5. potential for improvement in farm productivity and financial management;
6. cooperation of local BNF offices, agricultural extension agents, etc.;
7. availability of data.

BNF records can be examined to help select farms on which to (1) initiate a record-keeping system, (2) obtain detailed resource inventory,

and (3) obtain farm operation information for preparation of enterprise budgets. Selection of farms will be made according with respect to

1. size;
2. non-land resource base;
3. crop and livestock enterprises;
4. level of technology employed;
5. cooperativeness and ability of the farmer;
6. land tenure form.

Farms should be selected which represent the spectrum of profitability, resource endowment and managerial ability.

B. Farm Data Collection

The following information will be obtained from selected farms by personal interview:

1. Complete inventory of resources available—land soils, labor, water, machinery, etc.—with monthly variation where appropriate.
2. Valuation of all assets—buildings, machinery, livestock, etc.
3. Determination of all fixed and variable costs associated with the farm which were not covered in (1) or (2);
4. Adaptation of production function data gathered in the regional analysis to the farm level, including enterprises and technologies not used on the farms under study;
5. Information on cultural and institutional factors that influence the decision about which products are grown, how products are marketed, and how resources are allocated.
6. All aspects of credit use, financial management and cash flow at the farm level. This includes real or perceived obstacles to obtaining credit from BNF, risk of default due to crop failure or unfavorable market prices.

C. Farm Records System

A record-keeping system will be started on small farms. The purpose of keeping records is to improve understanding of how the farms are operated, what are their credit needs, and how management can be improved.

The BNF can use these records to help evaluate credit needs and repayment ability.

The records system will be initiated on a small scale and expanded as experience is attained and as supervisory personnel are available. Someone from the local BNF office should take a leading role in assisting farmers and integrating farm records with loan evaluation.

D. Farm Analysis Using Programming Models

Information obtained from the "intensive farm analysis" will be used to construct programming models of representative farms. This appears to be the most flexible, powerful, and economic method of analyzing farm incomes, returns, and resource use. Some of the issues that can be analyzed are differences in:

- | | |
|-----------------------------|------------------------------------------------|
| 1. farm size | 6. credit supply |
| 2. resource availability | 7. credit cost |
| 3. technology | 8. family consumption/production relationships |
| 4. product and input prices | 9. risk and uncertainty |
| 5. land tenure | |

The results of these computer experiments can be used to help establish criteria and priorities for use in granting loans. For example, investment in an irrigation project that relieves a water constraint in two months of the crop season could permit a change in a farm's crop mix or yield, resulting in greater profitability and loan repayment capacity.

IV. ANALYSIS OF BANK OPERATIONS

Analysis of BNF operations begins in the planning phase, but as the farm analysis proceeds more attention will be devoted to the local offices and their direct relationships with borrowers. The OSU team and BNF counterparts will work closely with local BNF managers to accomplish four principal

objectives:

A. Improve Loan Processing Procedures

The process of filling out forms, interviewing prospective borrowers, evaluating the request, obtaining approval, issuing a check, and securing repayment will be investigated and criticized from both points of view—lender and borrower.

B. Improve Loan Evaluation Procedures

Criteria for loan evaluation will be established based on enterprise budgets, cash flow analysis, and other information generated from farm analyses.

C. Improve BNF Employee Quality

Salaries, promotion potential, and incentives will be examined to determine how employee quality can be improved. Performance indicators for local offices will be developed which would serve as the basis for an incentive program.

D. Reduce Loan Default and Maintain Service to Small Farms

The critical problem of reducing the cost of small loans without disenfranchising small farmers will be examined.

Items A, B, and C are institutional problems to be analyzed by means of extensive interviews with BNF personnel and borrowers. Item D—perhaps the single most important problem as far as the BNF is concerned—will require more thought as to methodology.

V. IMPLEMENTATION OF BNF REFORMS
AND FORMAL PERSONNEL TRAINING

Once BNF operations have been analyzed, and once a set of feasible reforms has been determined by BNF management and the OSU team, implementation of reforms should commence in a few local BNF offices. Formalized

training should also begin. Examples of reforms and training might include:

A. Reforms

1. Simplification of paperwork and legal steps required to process a loan;
2. Change in the nature of the client—Bank relationship so that one BNF loan officer maintains complete responsibility for a loan until repayment;
3. Introduction of a performance-based employee incentive program;
4. Increased cooperation between agricultural technicians and BNF loan officers;
5. Changes in form of collateral used;
6. Reduced dependence of local BNF offices on the central office;
7. Improved loan collection procedures.

B. Formalized Training

1. Preparation and use of enterprise budgets;
2. Whole-farm financial analysis including cash flow concepts;
3. Investment analysis (project evaluation);
4. Asset valuation techniques.

HONDURAS PROJECT

Proposed Calendar of Work

Month	<u>Planning</u> I	<u>Implementation</u> II	<u>Farm Analysis</u> III	<u>Farm Records System</u> III C	<u>Farm Models</u> III D	<u>DNF Operations</u> IV	<u>DNF Reforms Training</u> V	Reports
Jan-June '78								
1 July '78								
2 Aug								
3 Sept								Work Plan-AID Mission
4 Oct								Annual Report-AID
5 Nov								Washington 10/1/78
6 Dec								
7 Jan '79								
8 Feb								
9 Mar								
10 Apr								Semi-Annual Progress
11 May								Report 4/1/79
12 June								
13 July								
14 Aug								
15 Sept								Annual Report AID
16 Oct								Washington 10/1/79
17 Nov								
18 Dec								
19 Jan '80								
20 Feb								
21 Mar								
22 Apr								Semi-Annual Progress
23 May								Report 4/1
24 June								Final Report 10/1/80

MONTHLY REPORT
Small Farmer Credit Project - Honduras
July 1978

My first month in Honduras has been essentially a settling-in period. We moved into our house July 9 after only one week in the hotel - an unusually rapid adjustment according to AID personnel. The key item has been having a house ready on arrival. Numerous problems were encountered with respect to privileges that we are due under our contract, but George Knight has resolved most of them in our favor. He is unquestionably the key man in these matters.

The Bronco suffered minor damage in shipment, but it doesn't warrant filing a claim. The BNF operates a complete workshop which precludes having to use the Ford Agency. In retrospect, it didn't matter what brand of vehicle we brought, and we should have ordered a 6 cylinder engine because of gasoline expense. Getting BNF vouchers to purchase premium gasoline here in the city has been a constant problem, and in fact has caused postponement of trips on two occasions. I have submitted a memorandum to Alfonso Bonilla suggesting that I purchase the gasoline and submit receipts at the end of each month for reimbursement.

My BNF counterpart is Reynerio Barahona, who just completed his Ingeniero Agronomo degree at the Monterrey Institute of Technology in Mexico. We do not yet have a secretary or driver, but this problem should be resolved in August. There is some question as to whether a full-time driver is necessary, and I want to discuss the matter with Alfonso Bonilla.

Reynerio and I made two trips to the Comayagua Valley this month - once to set up a visit for Dr. Osborn and Dr. Badger and again for the visit itself. We visited the Danlí area July 27 and decided to begin our work there. We have set up a three-day visit (July 31-August 2) to tour the area with BNF loan officers,

extension agents, and agronomists.

Some data are available in Danlí, but much of it is brought back to offices in Tegucigalpa. It takes patience and persistence to find things--most data are in some technician's file cabinet or in a closet at home. Many studies have been done on agriculture only to be hidden away. We are finding crop budgets of one form or another in various offices, but there has never been any coordination of effort.

I am satisfied with the progress made this month. Next month I will write a description of the Danlí area and its problems. I will also send a draft of the work plan that must be submitted to AID.

APPENDIX B

Monthly Report
Small Farmer Credit Project-Honduras
August 1978
Project Area Description

The Jamastrán Valley is located east of Danli near the Nicaragua border. Conditions are primitive despite the fact that this valley has a reputation for being a "granary" for Honduras. A dirt road from Danli is the only access. The Valley floor is so hilly that one has the impression of travelling from one small valley to another.

According to the census there are approximately 25,000 people in the Jamastrán. The nearest doctor is in Danli. Schools are few and many children do not attend for lack of transportation. The only school I visited had 62 children in one room with one teacher. The small towns usually run a generator from 6 to 10 p.m. to provide electricity, and television antennas can be seen occasionally. Some of the more prosperous residents operate televisions using car batteries. There is bus service. A new agricultural experiment station is operating but no usable results have been generated for our project.

Aside from management the principle limiting production resources are water and capital. Little is known about irrigation potential, but George Hargreaves (Utah State U.) tells me that prospects are not good for either ground or surface water. Alluvial fill which holds ground water is not adequate, and dam sites are very limited. A few farms irrigate vegetables by pumping river water.

Corn and beans are the principal crops, but sorghum, rice and tobacco are also present in sizeable amounts. Most of the small farms double-crop

corn and beans. Each small farm has several cows, pigs, chickens, etc, but beef and dairy production do not appear to be very significant commercially. There is a meat packing plant at Danli which must draw on the local market. An extraordinarily good first crop is expected this year because of favorable weather, although farmers have been adversely affected by a creepy, slimy slug called "babosa." Spraying is only partially successful because the plots are small and the slug moves right back in from adjacent unsprayed fields.

The typical farmer has eight to twelve acres of land, six to ten children living in one shack and perhaps a crude storage building. They own no machinery, but usually hire plowing and disking done by tractor. Most hire "mozos" (landless laborers) for \$1.50 per day in times of peak labor need. A workday is approximately six hours, so field work ends at about noon. Each family stores corn and beans for consumption, but none we spoke to know how much they consume.

If production problems are bad, marketing problems are worse. The Government pays a minimum guaranteed price until storage is full, then farmers take what they can get in the market. Farmers are particularly worried this year with a bumper crop expected. Speculators are now forward contracting corn for \$4.00/100 lbs. to cash-desperate producers who can't hold out until harvest. The BNF is considering making these "consumption loans" but is reluctant to do so: these are the producers most likely to default. Since the Government can only buy about 10% of total production, the farmers who are excluded often sell to middlemen who prowl the valley with trucks and pay a low-cash price. These buyers (appropriately called "coyotes") prosper from large price fluctuations which are characteristic of Honduras.

RESEARCH PROGRESS

After a considerable amount of detective work we have found the following data for the Jamastrán valley:

1. A list of all farmers in the valley by name, farm size, and area devoted to each crop or activity in 1975. A map accompanies the list showing each farm (numbered to correspond to the list). The form of tenancy is also included, but this seems to be a moot issue now that land rental is prohibited by law.
2. The technicians at PROMYF (program for improvement of corn and bean production) have filled out two questionnaires per year (one each crop) for approximately 200 participating farmers for two years. Only part of these are located in the Jamastrán. PROMYF doesn't know what to do with these questionnaires so I have offered to help analyze the data if they will put them on coding sheets. We might get some useful production functions out of this, but I can't tell yet. (Questionnaire form enclosed). I have also proposed that they use a modified questionnaire in conjunction with our project wherein we would interview an equal number of non-participants. I have tried to impress upon them the importance of having a set of "control" data--i.e., those who did not participate--in the same year in order to have a comparison. In that way they could prove the effectiveness of their project.
3. We have some population statistics for the valley. At least production of children has been wildly successful.
4. Census data on numbers of animals, tractors, etc. are available for the entire Departamento of El Paraíso, but it will take some perseverance to get the data for the valley alone. We'll pursue it if we need it.

5. Monthly precipitation probabilities (based on only 7 years of observations) have been furnished by George Hargreaves.
6. Soil information is available, but we haven't tried to get it yet. I don't know how much good it will do; there are no data linking soil types to crop yields.
7. Input prices are all available for several years back.
8. Market prices of commodities are available for Danli and other regional markets. These are reported monthly for the past two years. Unfortunately, there are no records of prices received by producers, which are vastly different than market prices. We will have to get spot checks this season.

The basic questions the BIF needs answered are well-suited to linear programming models. Our problem is that of finding more than one point on a production function for any crop or livestock enterprise. You can imagine having one corn budget and one bean budget to work with. Crop and livestock response to variable inputs just aren't available. Since we have inadequate information to permit synthesis of production coefficients, we'll probably have to go the questionnaire route and estimate production functions using cross-section data. Getting reliable information that way will be very difficult given the level of management found on small farms. I am working on a questionnaire form now and will give some more thought as to when, how, and why.

A copy of our first record book is enclosed. Reynerio has taken great interest in this, and since he liked the graphic layout presented by Dick Maxon from Iowa, we decided to modify it to suit our needs. We are also

about half-way through a Spanish version of the OSU book modified by Williams/Hardin/Casey, but it is much too long and complicated for our farmers right now. We would like to use it initially on some of the cooperative farms that the Small Farm Technology Group is assisting. Collaboration with the Small Farm Technology Group will not be as productive as I had imagined. We can certainly use their crop budgets, but each farm plan is tailor-made to fit a particular resource situation. They have expressed interest in introducing our farm records system to their planned cooperative farms and to set up plans for the individual farms on which we are starting the records system. Unfortunately they can't start in the Danli area until October or November.

The training segment of our project is threatened by the tenuous situation of BNF peritos. They are undoubtedly the key men in this operation--the ones who prepare farm budgets, determine credit needs, supervise and collect the loans. The problem is that they are so poorly paid that they are leaving the BNF. Danli is short 3 men; Comayagua is short 4. Those who stay are the youngest, least experienced and least qualified. BNF management is cognizant of the problem and is considering steps to mitigate it, but I predict that the effort will be too little and too late.

We have started ten BNF clients keeping records. Since only one household has a person capable of making ledger entries I hired Juan Cruz (18 years) to work part-time helping them. Reynerio and I will make weekly visits until Juan and the farmers learn how to make entries. Ten farmers doesn't sound like much, but we have found it difficult to visit one for less than an hour. Since they are only home in the afternoon it takes two days a week in the valley to run this phase of the project.

MONTHLY REPORT

HONDURAS SMALL FARM CREDIT PROJECT

September, 1978

September was characterized primarily by consolidation of the farm accounting project, a trip to the Bajo Aguan, and deep thoughts about what to do next.

One farmer dropped out of our accounting project (he never really started) and we added two more. We now have nine participants and will pick up another one next week. We fired our helper after one incompetent month and plan to replace him with the 16 year-old daughter of one of our participants. We showed her how to keep the records in her father's book and she has done an excellent job.

The perito valuadores in Danli gathered producer's product prices for September. I am modifying the list and will include the Comayagua Valley in October. It's too early to assess our results.

The BNF has to administer a questionnaire as part of an agreement with BID to provide evidence that credit has improved the plight of the farmers. We may join forces; I will figure out how to do it with the assistance of Manuel Cambar, formerly head of the defunct BNF cereal grains division. We will hire experienced helpers from the Statistics Division of the Ministry of Natural Resources and sample clients and non-clients nationwide. The BNF pays all the costs of the survey, and I suppose our project can pay for computer time and card-punching. This has yet to be worked out. I'll call OSU for approval.

The administrators of the Corn and Bean Improvement Project

(PROMMYF) declined to cooperate with us. This is unfortunate because one of the reasons we chose Danli for our pilot study was based on the PROMMYF project.

David Hughes (fish biologist) and Dr. Ed McCoy (Ag Economist-Auburn U.) visited us. They would like to use our record book on 22 farms on which they expect to have fish ponds in the Comayagua Valley. They also want to do a baseline economic study in the valley in order to assess the impact of their aquaculture project at a later date. They want to join forces with us on the questionnaire, but unfortunately they have few resources to spare. This will be worked out in time.

Reynerio Barahona and I travelled to the Aguan Valley in the north coast area to view the government's major effort in land reform and colonization, and to see how the Small Farm Technology Group financed by AID operates.

The Aguan Valley is reminiscent of a frontier town in the old USA—ramshackle buildings, no paved roads, few services and gun-toting hombres. The valley is also characterized by a torrid climate, mosquitos, poverty, and a sizeable collection of government workers. The patriarch of the valley is the Instituto Nacional Agrario (INA), otherwise known as the land reform agency. INA controls 12,000 hectares obtained from banana companies who never were satisfied with growing conditions there. INA employs approximately 500 people directly. The total cost of program is budgeted at \$52 million, \$40 of which is a loan from the International Development Bank.

The main thrust of the project is to divide the land into farming units and form cooperative farms with families brought in from other parts of the country. Some cooperatives are obligated to plant African palm and citrus to meet INA's long-term goals, whereas others are newer and grow traditional crops like corn and beans. African palm seems to make good sense from the point of view of import substitution; Honduras currently imports vegetable oils. Citrus (principally grapefruit and oranges) will have to be exported --probably to Europe. Citrus is a gamble, and Neftalí Castillo--The BID's representative--thinks it will fail.

Time and time again I have found marketing infrastructure to be the principal limiting factor in Honduras agriculture, and the Aguan is a severe case. It is isolated; products just can't be moved in time at a reasonable cost to the principal markets.

If this statement is paradoxical it is also true: INA is determined to achieve economies of scale regardless of the cost. As Castillo puts it,

the project is moving along by force of gravity; so much money has been spent that something is bound to happen. Problems abound, most of which can be summed up in a word: management. About 40% of the modern farm machinery is down at any given time due to lack of parts or mechanics. The farm laborers are allowed to get away with working two or three hours a day while receiving full wages. The food in the INA cafeteria is dismal--beans, rice, tortillas, and cooked bananas for every meal--and there is virtually no other place to eat.

INA at one time had 3,100 families located here, but approximately 500 have departed. The reason is obvious; they are no better off and perhaps worse off. Once the families arrive (usually from the Choluteca area) they find poor living conditions and a group of people thrown together at random with no accounting of skills. INA does not give them enough help in most cases, and these people are hardly prepared to run a large operation. They are plunged deep into debt to INA and the BNF to get started, and they earn three lempiras a day for each day worked. All net farm income (if any) goes to pay off debts, which will take at least five years. There is no incentive to maximize profits in the short run. The Small Farm Technology Group has to set up farm plans to maximize labor use so that each worker can earn 3 lemps a day. One who works 300 days a year will therefore earn 900 lempiras, or \$450.

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

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Rec'd 28 Aug 78

Dr. Daniel D. Badger
Department of Agricultural Economics
Oklahoma State University
Stillwater, Oklahoma 74074

23 AUG 1978

Subject: Cooperative Agreement AID/ta-
CA-1 pursuant to Basic
Memorandum of Agreement No.
AID/ta-BMA-2

Dear Dan,

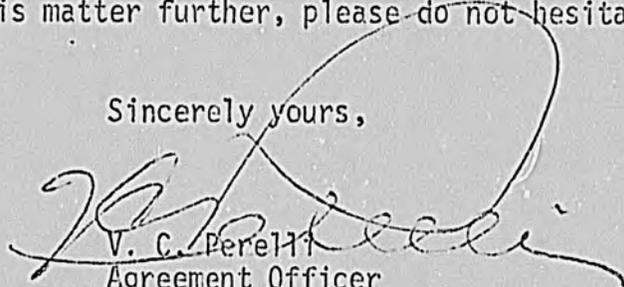
This letter confirms our several telephone discussions regarding the assignment of a research associate from Oklahoma State University (OSU) to assist in the data collection efforts under the subject Cooperative Agreement.

DS/AGR/ESP of AID has consented to the assignment of Mr. Kurt Rockeman provided that approval from the Banco Nacional de Fomento (BNF) is obtained. However, A.I.D. feels very strongly that the assignment of Mr. Rockeman to this position should not be for a period in excess of one year. Any extension to this period MUST be approved, in advance, by the AID project manager and myself.

We consent to the use of project funds in the subject agreement to provide housing and other related costs which will be incurred in connection with this assignment. However, it is with the understanding that such funds are available in the agreement and that additional funding is not required nor will it be requested.

If you need to discuss this matter further, please do not hesitate to contact me.

Sincerely yours,



V. C. Perelli
Agreement Officer
Special Assistant for Contract
Planning and Special Negotiations
Central Operations Division
Office of Contract Management

RESEARCH ASSOCIATE POSITION

FOR

CSU-OSU-AID SMALL FARMER CREDIT PROJECT IN HONDURAS

The person who fills this position should have a M.S. degree in Agricultural Economics from a U.S. University, as well as speaking, reading and writing competence in the Spanish language. This position is to be considered a short run position (up to 12 months) located in Tegucigalpa, Honduras. The Research Associate will work under the supervision of the OSU long term professional in Honduras, Dr. Loren Parks.

It is proposed that he will work in the Banco Nacional de Fomento (BNF), in office space provided in the Division Tecnico (Technical Division).

Specific tasks of the Research Associate are to assist the long term professional and the BNF counterpart (Reynerio Barahona) to:

1. Collect data for selected crop and livestock enterprises and alternative farm situations in Honduras.
2. Make comparisons of existing budget data from BNF local office records and other sources (AID, BID, contract studies, Small Farm Technology project, other) with the data obtained.
3. Develop typical budgets, possibly showing ranges of inputs and outputs.
4. Analyze cash flow needs of selected groups of farmers who have loans with BNF. Determine family income flows for all farm and off-farm sources, timing of income, and timing of purchase requirements for both production and household consumption needs.
5. Develop farm management materials for use in seminars with "peritos" and other loan officials of BNF, in serving farmer clients and developing loan policies and programs.