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ANNUAL REVIEW
SMALL FARMER CREDIT PROJECT
IN
HONDURAS

931134

REPORT OF ACTIVITIES
BY
OKLAHOMA STATE UNIVERSIT

OCTOBER 1, 1978 - SEPTEMBER 30, 1979
(YEAR 2 OF PROJECT)

REPORT PRESENTED
SUNDAY, JULY 29, 1979
WASHINGTON STATE UNIVERSITY
PULLMAN, WASHINGTON

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TABLE 1: AID SMALL FARMER CREDIT PROJECT;
OSU BUDGET & EXPENDITURES, 1977-78 & 1978-79

| | Year 1 10/1/77-09/30/78 | | | Year 2 10/1/78-09/30/79 ¹⁾ | | | Total 10/1/77-09/30/79 | | |
|--|----------------------------|---------------------------|----------------------|--|----------------------------|----------------------|---------------------------|----------------------------|----------------------|
| | Budget | Expenses | Remaining Balance | Budget | Expenses | Remaining Balance | Budget | Expenses | Remaining Balance |
| I. Salary & Fringe Benefits | \$41,019.00 | \$23,266.67 | \$17,752.33 | \$ 61,142.00 | \$62,396.48 | (\$1,254.48) | \$102,161.00 | \$85,663.15 | \$16,497.85 |
| Salaries | \$36,300.00 | \$20,560.49 | \$15,739.51 | \$ 50,100.00 | \$55,361.09 | (\$5,261.09) | \$ 86,400.00 | \$75,921.58 | \$10,478.42 |
| On Campus | \$22,500.00 | \$15,067.49 | \$ 7,432.51 | \$ 22,500.00 | \$22,007.09 | \$ 492.91 | \$ 45,000.00 | \$37,074.58 | \$ 7,925.42 |
| Professional | \$17,500.00 | \$13,336.00 | \$ 4,164.00 | \$ 15,000.00 | \$13,259.00 | \$ 1,741.00 | \$ 32,500.00 | \$26,595.00 | \$ 5,905.00 |
| Non Professional | \$ 5,000.00 | \$ 1,731.49 | \$ 3,268.00 | \$ 7,500.00 | \$ 8,748.09 | (\$1,248.09) | \$ 12,500.00 | \$10,479.58 | \$ 2,020.42 |
| Off Campus | \$13,800.00 | \$ 5,493.00 | \$ 8,307.00 | \$ 27,600.00 | \$33,354.00 | (\$5,754.00) | \$ 41,400.00 | \$38,847.00 | \$ 2,553.00 |
| Fringe Benefits | \$ 4,719.00 | \$ 2,706.18 | \$ 2,012.82 | \$ 6,513.00 | \$ 7,035.39 | (\$ 522.39) | \$ 11,232.00 | \$ 9,741.57 | \$ 1,490.43 |
| Inflation | | | | \$ 4,529.00 | | | \$ 4,529.00 | | |
| II. Overhead | \$12,940.00 | \$ 6,566.25 ²⁾ | \$ 6,373.76 | \$ 15,582.00 | \$14,721.16 ²⁾ | \$ 860.82 | \$ 28,522.00 | \$21,287.42 ²⁾ | \$ 7,234.58 |
| On Campus (45%) | | \$ 6,780.37 | | | \$ 9,903.19 | | | \$16,683.56 | |
| Off Campus (22%) | | \$ 1,208.46 | | | \$ 7,760.83 | | | \$ 8,969.29 | |
| OSU Share (2.52%) | | \$ 1,422.59 | | | \$ 2,942.84 | | | \$ 4,365.43 | |
| III. Travel/transportation | \$12,000.00 | \$ 9,661.94 | \$ 2,338.06 | \$ 5,417.00 | \$ 7,950.53 | (\$2,533.53) | \$ 17,417.00 | \$17,612.47 | (\$ 195.47) |
| IV. Allowances | \$ 9,500.00 | \$ 6,730.53 | \$ 2,769.47 | \$ 20,253.00 | \$17,196.17 | \$3,056.83 | \$ 29,753.00 | \$23,926.70 | \$ 5,826.30 |
| V. Data Collection | \$ 5,000.00 | \$ 690.88 | \$ 4,309.12 | \$ 25,000.00 | \$10,359.05 | \$14,640.95 | \$ 30,000.00 | \$11,049.93 | \$18,950.07 |
| VI. Vehicle, Equipment, Material and Supplies | \$12,500.00 | \$ 9,412.20 | \$ 3,087.80 | \$ 2,500.00 | \$ 8,573.52 | (\$6,073.52) | \$ 15,000.00 | \$17,985.72 | (\$ 2,985.72) |
| VII. Other Direct Costs | \$ 1,000.00 | \$ 4,462.50 | (\$ 3,462.50) | \$ 1,100.00 | \$ 7,869.48 | (\$6,769.48) | \$ 2,100.00 | \$12,331.98 | (\$10,231.98) |
| GRAND TOTAL | \$93,959.00 | \$60,790.96 ²⁾ | \$33,168.04 | \$130,994.00 | \$129,066.41 ²⁾ | \$1,927.59 | \$224,953.00 | \$189,857.37 ²⁾ | \$35,095.63 |

1) Last 3 months of FY 1978-79 Estimated.

2) These totals do not include the OSU cost-share part of the budget.

TABLE 2: AID SMALL FARMER CREDIT PROJECT;
OSU BUDGET & PROJECTED EXPENDITURES, YEAR 3 (1979-1980),
AND GRAND TOTAL FOR ALL 3 YEARS

| | Year 3 10/1/79-09/30/80 | | | Grand Total for all 3 years | | |
|--|----------------------------|----------------------------|----------------------|--------------------------------|----------------------------|----------------------|
| | Budget | Projected Expenses | Remaining Balance | Budget | Projected Expenses | Remaining Balance |
| I. Salary & Fringe Benefits | \$44,300.00 | \$ 36,174.93 | (\$41,874.93) | \$146,461.00 | \$171,838.08 | (\$25,377.08) |
| Salaries | \$36,300.00 | \$ 76,261.00 | (\$39,961.00) | \$122,700.00 | \$152,182.58 | (\$29,482.58) |
| On Campus | \$22,500.00 | \$ 45,948.00 | (\$23,448.00) | \$ 67,500.00 | \$ 83,022.58 | (\$15,522.58) |
| Professional | \$20,000.00 | \$ 36,588.00 | (\$16,588.00) | \$ 52,500.00 | \$ 63,183.00 | (\$10,683.00) |
| Non Professional | \$ 2,500.00 | \$ 9,360.00 | (\$ 6,860.00) | \$ 15,000.00 | \$ 19,839.58 | (\$ 4,839.58) |
| Off Campus | \$13,800.00 | \$ 30,313.00 | (\$16,513.00) | \$ 55,200.00 | \$ 69,160.00 | (\$13,960.00) |
| Fringe Benefits | \$ 4,719.00 | \$ 9,913.93 | (\$ 5,194.93) | \$ 15,951.00 | \$ 19,655.50 | (\$ 3,704.50) |
| Inflation | \$ 3,281.00 | | | \$ 7,810.00 | | |
| II. Overhead | \$13,997.00 | \$ 23,459.18 ¹⁾ | (\$ 9,462.18) | \$ 42,519.00 | \$ 44,746.60 ¹⁾ | (\$ 2,227.60) |
| On Campus (45%) | | \$ 20,676.60 | | | \$ 37,360.16 | |
| Off Campus (22%) | | \$ 6,668.86 | | | \$ 15,638.15 | |
| OSU Share (2.52%) | | \$ 3,886.28 | | | \$ 8,251.71 | |
| III. Travel/transportation | \$12,000.00 | \$ 9,850.00 | \$ 2,150.00 | \$ 29,417.00 | \$ 27,462.47 | \$ 1,954.53 |
| IV. Allowances | \$ 9,000.00 | \$ 14,660.00 | (\$ 5,660.00) | \$ 38,753.00 | \$ 38,586.70 | \$ 166.30 |
| V. Data Collection | \$25,000.00 | \$ 12,737.00 | \$12,263.00 | \$ 55,000.00 | \$ 23,786.93 | \$31,213.07 |
| VI. Vehicle, Equipment, Material and Supplies | \$ 1,500.00 | \$ 1,800.00 | (\$ 300.00) | \$ 16,500.00 | \$ 15,348.43 | \$ 39,651.55 |
| VII. Other Direct Costs | \$ 1,000.00 | \$ 1,650.00 | (\$ 650.00) | \$ 3,100.00 | \$ 13,981.98 | (\$10,881.98) |
| GRAND TOTAL | \$106,797.00 | \$150,331.11 ¹⁾ | (\$43,534.11) | \$331,750.00 | \$340,188.48 ¹⁾ | (\$8,438.48) |

¹⁾These totals do not include the OSU cost-share part of the budget.

* 14,892.63²⁾ (35,045.63)

* 3 31,750.00

TABLE 3: PROFESSIONAL AND NON-PROFESSIONAL TIME SPENT
ON AID PROJECT ON SMALL FARMER CREDIT.
10/1/77-9/30/79 AND PROJECTED

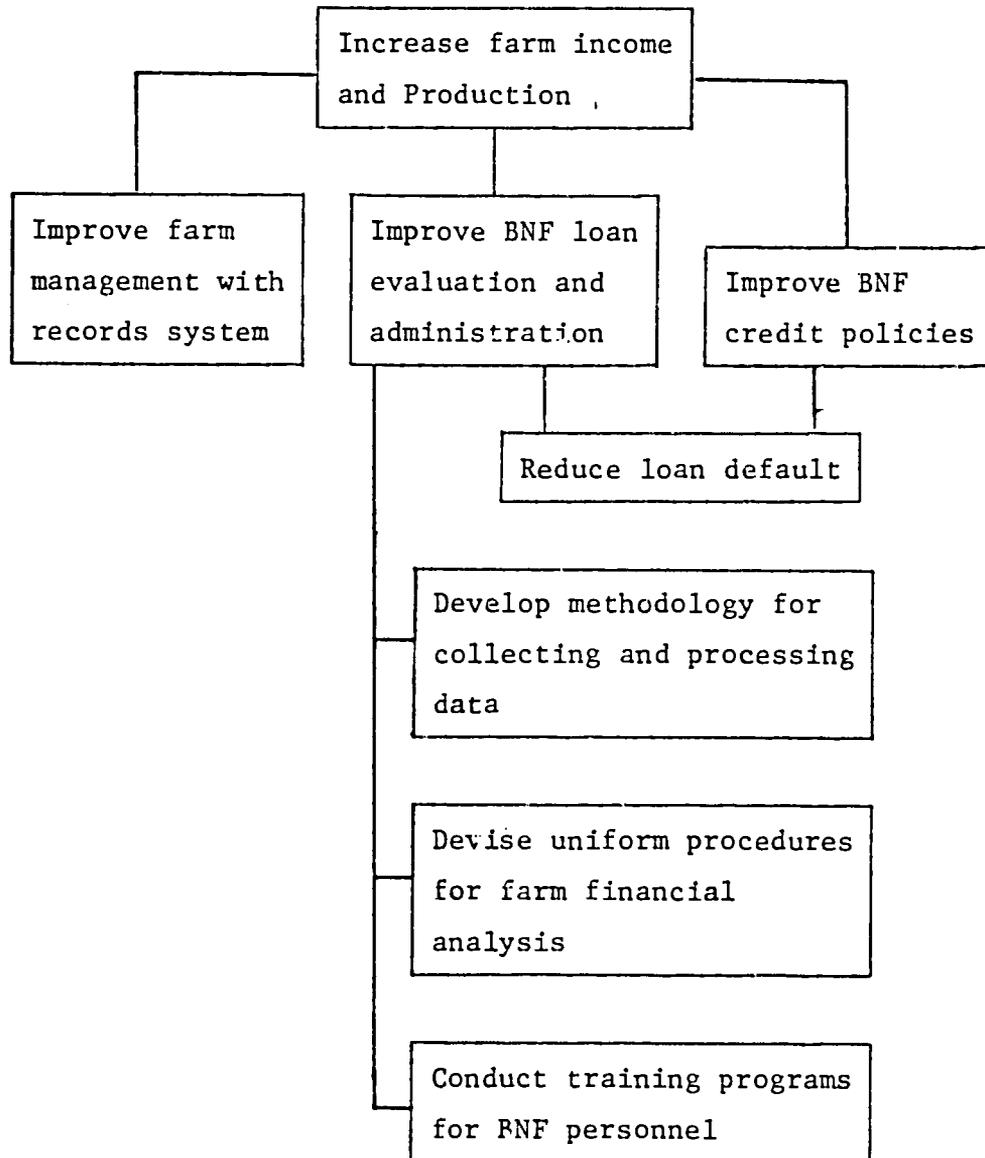
| Personnel | First Two Years | | | Projected 10/1/79-9/30/80 | Total 3 Years |
|--|------------------|---|-------------------|------------------------------|-------------------|
| | On-Campus | In Honduras | 10/1/77-9/30/79 | | |
| Man Months | | | | | |
| Loren Parks | 6/1/78-6/30/78 | 7/1/78-9/30/79 | 16 | 9 | 25 |
| Kurt Rockeman | 11/1/78-11/19/78 | 11/20/78-9/30/79 | 5.5 ^{a)} | 5 ^{a)} | 10.5 |
| James Osborn | --- | 3/10-16/79; 6/12-16/79; 7/20-23/78 | 1.8 | 1.7 | 3.5 |
| Dan Badger | --- | 11/13-18/77; 2/5-18/78; 3/14-15/78; 4/21-22/78; 7/17-23/78; 1/2-13/79 | 2.9 | 2.0 | 4.9 |
| Odell Walker | --- | 2/11-18/78; 3/10-16/79 | 1.9 | 1.8 | 3.7 |
| Harry Mapp | --- | 2/11-18/78; 1/2-13/79 | 1.9 | 1.8 | 3.7 |
| Joe Williams | --- | 1/2-13/79; 6/12-16/79 | .8 | 1.8 | 2.6 |
| Mike Hardin | --- | 3/10-16/79 | .8 | 1.8 | 2.6 |
| Rigoberto Bentancourt (Translator & Graduate Assistant) | 3/1/79-7/31/79 | --- | .1 ^{b)} | --- | .1 ^{b)} |
| Yamile Nasralla (Translator) | 3/1/79-7/31/79 | --- | .1 ^{b)} | --- | .1 ^{b)} |
| Abbie Glenn-Allen (Secretary) | 5/1/78-4/30/79 | --- | 1.2 ^{c)} | --- | 1.2 ^{c)} |
| Kathi Walker (Secretary) | 5/1/79-9/30/80 | --- | .5 ^{c)} | 1.2 ^{c)} | 1.7 ^{c)} |
| Pat Schaeffer (Accountant) | 10/1/77-9/30/80 | --- | 2.0 ^{c)} | .9 ^{c)} | 2.9 ^{c)} |
| TOTAL | | | 35.5 | 27.0 | 62.5 |

a) Kurt Rockman's time converted to professional man-months on basis of 2 for 1.

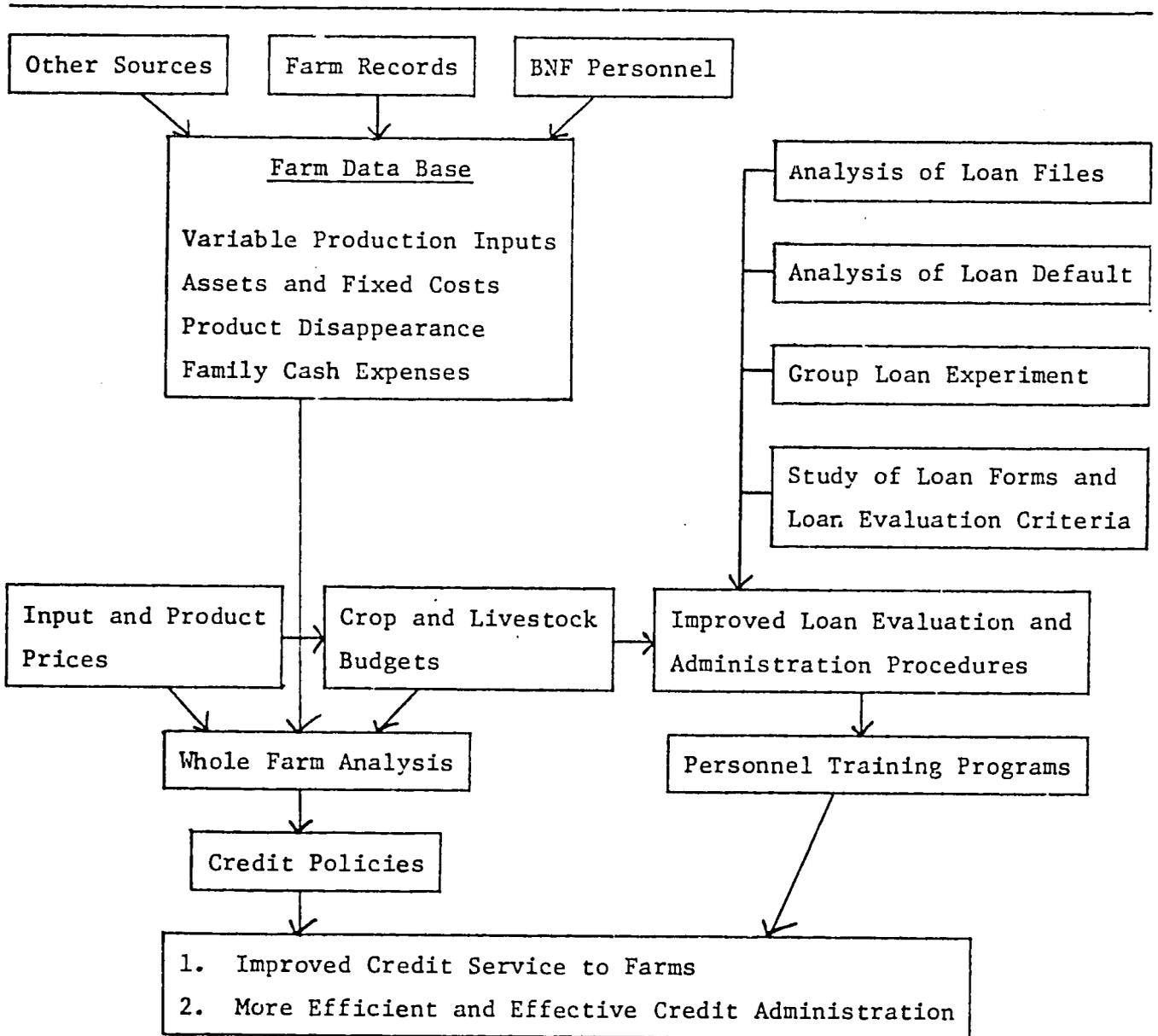
b) Graduate student's time and translator's time converted to professional man-months on basis of 5 for 1.

c) Secretaries' and accountant's time converted to professional man-months on basis of 5 for 1; secretaries on at ½ time only.

HONDURAS SMALL FARM CREDIT
PROJECT OBJECTIVES



HONDURAS SMALL FARM CREDIT PROJECT
DATA FLOWS AND UTILIZATION



TDY VISITS TO HONDURAS

July 1978 - June' 1979

| Date | Names |
|---------------------|-----------------------------|
| July 17-23, 1978 | Tinnermeier, Osborn, Badger |
| December 7-10, 1978 | Wiese, Tinnermeier |
| January 2-13, 1979 | Williams, Mapp, Badger |
| March 10-16, 1979 | Osborn, Walker, Hardin |
| June 12-16, 1979 | Osborn, Williams |

HONDURAS SMALL FARMER CREDIT PROJECT

TDY Visit, January 2-11, 1979
Dr. Dan Badger, Dr. Harry Mapp,
and Dr. Joe Williams

Topics for Discussion

Technical Topics

1. Crop and livestock budgets
2. Cash flow
3. Questionnaire
4. Programming Models
5. Computerization of budget information
6. Analysis of data in credit files
7. Price collection scheme
8. Accounting book
9. Training program for peritos
10. Incentive program for perito
11. Inclusion of farming groups in analysis

Organizational Topics

1. Work plan and timetable
2. Future TDY time
3. Preparation of reports
4. Loren's visit to OSU in August
5. Project extension

Other Topics

1. Relationship with AID
2. BNF perito shortage
3. Presented paper at IAAE, AAEE, Simpsio in El Salvador
4. Recruitment of Honduran students
5. Manuscript expenses
6. Cooperation with new BNF consultants
7. Cooperation with other groups in Honduras

HONDURAS SMALL FARM CREDIT PROJECT

Topics For Discussion

Oklahoma State University TDY Visit, March 10-16, 1979

James Osborn, Odell Walker, Michael Hardin

Technical Topics

1. Final revisions of the farm records book, including cash flow, income statement and balance sheet.
2. Review and revision of the farm questionnaire prepared by Parks.
3. Review and revision of crop and livestock budgets, including possibility of using Budget Generator.
4. Review and revision of loan evaluation forms, including investment plans (budgets), cash flow and financial summary.
5. Detailed planning of training program modules, including resource materials, visual aids, and coordination with Colorado State University and the existing BNF training program.
6. Preliminary specification of linear programming models of representative farms, discussion of policy issues and facilities for computer runs.
7. Planning extension publications in Spanish.

Organizational Topics

1. Review progress to date, objectives of the program, revised work plan.
2. Plan future TDY time.
3. Plan Parks' visit to OSU in July
4. Discuss extension of project and extension of Kurt Rockeman's assignment.
5. Discuss publications and reports concerning the project.

TOPICS FOR DISCUSSION
SMALL FARMER CREDIT PROJECT

TDY Visit June 12-16, 1979

Dr. James Osborn & Dr. Joe Williams

1. Education opportunities for BNF employees at OSU
2. Planning in-country training programs for BNF employees
3. Format and content of the annual project report.
4. Planning for independent project review in August.
5. Planning publications pertaining to the project
6. Feasibility of using Budget Generator in Honduras
7. Extension of Kurt's contract
8. Planning Loren's trip to OSU/CSU in July
9. Research objectives and methodology for investigation of loan default
10. Discussion of data for inclusion in client information printouts.
11. Objectives and methodologies of a group lending scheme
12. Methods of classifying BNF clients according to risk

SUMMARY OF LOREN PARKS' DISCUSSIONS WITH COOPERS-LYBRAND/ATAC
CONSULTANTS TO BNF, MAY - JUNE, 1979

| Date | Participants | Purpose |
|---------|----------------------------------|---|
| May 15 | Bill Rusch Pedro Perez Gabino | Discussion of 45 min. pertaining to records on computer. |
| May 24 | Robert Brown Angel Radiati | Described our efforts in data collection and reforms of loan evaluation process. Time: 1 hr. 15 min. |
| June 7 | Albert "Scaff" Brown | Discussed all aspects of our project. Time: 2 hours |
| June 8 | Jorge Baanante | Described our project in greater detail, described problems we have encountered in the Bank, and gave him some budgets, price lists, and other data samples. Time: 1-1/2 hours |
| June 11 | Jorge Baanante | Discussed budgets. Time: 1/2 hour |
| June 12 | Jorge Baanante Norman Ward | Accompanied me to Danli, where a loan officer took them to the Jamastran Valley. I joined discussions with the Danli branch manager and visited a meat packing plant with them. |
| June 14 | Scaff Brown | Jim Osborn, Joe Williams, and Loren Parks listened to Scaff describe Bank problems and his project objectives. Time: 1 hour |

THE FARM RECORDS PROGRAM

The primary objective of the farm records program is to obtain detailed information from a sample of farms to permit synthesis of representative production, consumption and financial situations. The information can be incorporated in the loan evaluation process of the BNF, as will be described subsequently. The secondary objective of the records program is to teach participating farmers how to maintain and interpret farm records for their own benefit. A more detailed reporting of the farm records program appears in Appendix I.

Organization And Administration

Two sites in each of two valleys were selected for the accounting system to permit inter and intra-valley comparisons. The Jamastran Valley was chosen because of its importance in corn and bean production, and because the Bank has serious loan repayment problems with those crops. The Comayagua Valley was selected because a variety of vegetable and grain crops is produced year-round on small, irrigated farms.

Selection of participants for the farm records system was based primarily on farm size and location. No maximum size limit was set, but most of the participants have less than seven manzanas (12 acres) of cropland. Participants must be located within walking distance of a hired accountant's home because of their need for assistance and frequent contact. Once these criteria were met, both Bank clients and non-clients were enlisted who would cooperate. After initial experience in the Janastrán Valley (started in September, 1978), we expanded to Las Playitas and Ajuterique in the Comayagua Valley. The seven participants in Las Playitas were eventually dropped from the program because

of their lack of interest, because of the poor quality of data they reported, and because the accountant moved to a nearby town. We now have 13 reliable participants in Ajuterique, five in Jutiapa, and one cooperative farm (Asentamiento "El Matazano") in the Jamastrán Valley. The latter was added to the program early in 1979 in response to a request by BNF President Rene Cruz to include the agrarian reform sector. A list of our current participants is attached.

Management of the farm records program is the combined effort of all members of our project team. We have all learned a great deal from conversations with farmers and, when our schedules permit it, each team member visits the field weekly. These visits help us not only to maintain contact with farmers and their problems, but also to discover errors and omissions in the accounts which can be corrected by instructing the accountants. The accountants are Nereyda Vargas (Ajuterique), Paulina Mendez (Jutiapa), and Rigoberto Vallecillo (Asentamiento "El Matazano"). A one-day training program was held for these accountants, as described in Appendix 3, page 67.

Results Of The Records Program

The basic data described in Section 1 are obtained for each of the participants. Some typical examples of ex-post financial summaries and cash flow summaries are included in Appendix 3.

Reception in Honduras of the record book has been very good. Dr. Dan Galt, an American agricultural economist working for the Ministry of Natural Resources has adopted our record book and introduced it on three farms in Lamani, eight in La Paz, eleven in El Rosario, and twelve in San Geronimo. The government institutions responsible for

administration of cooperative farms in the agrarian reform sector have made strong requests for technical assistance in farm records, having seen the results of our work with Asentamiento "El Matazano." We have had to make an effort to contain this program despite demand because of the heavy time requirements in administering accounts. Expansion of the records system is in doubt because of personnel limitations within our project and within the Bank. Our original idea was to have a sample of farms on the accounting book in each of the 14 regions specified, but this is in doubt.

A very positive aspect of the records program has been design and publication of a farm record book in Spanish by Drs. Joe Williams, Mike Hardin, and Loren Parks. The book has received widespread publicity in Honduras, and will no doubt be used by others. The OSU faculty has played a strong role in advising the in-country team on technical matters relating to farm records, and will continue to do so. A copy of the Libro De Contabilidad Para Empresas Agropecuarias accompanies this report.

Data from the record books will be used in the following ways:

1. To determine the resource restraints in labor, cash, land, and other inputs used in production. This information can be used in representative farm models.
2. To determine average family cash expenditures and consumption of products produced at home. This information can be used to construct guidelines for family living expenditures for use in calculation of loan repayment capacity.
3. To help construct and verify crop and livestock budgets.

Plans For The Second Year

Expansion of the farm records program to other locations is in doubt because of personnel limitations in our project and within the BNF. It is likely, however, that we will be requested to provide training and technical assistance to other organizations. We will continue to maintain the accounts we have until future manpower questions are resolved.

PROYECTO CREDITO AL PEQUEÑO PRODUCTOR

Lista de Participantes

List of Participants in the Farm Records Program

Ajuterique, Comayagua

1. Alfredo Suazo
2. Andres Rivera
3. Angel Augusto Gamez
4. Carlos Suazo
5. Francisco Portillo
6. Hector Alejandro Nuñez
7. Ignacio Arvelio Padilla
8. Jose Alzarzar Mejia
9. Julian Gámez
10. Norberto Villanueva Chavarría
11. Pedro D. Gamez
12. Rodulio Nuñez
13. Tomás Nuñez Gómez

Jutiapa, El Paraíso

1. Magdaleno Bonilla
2. Marcial Mendez Cano
3. Modesto Castellanos
4. Santos de los Reyes Guzman
5. Venancio Rodríguez

Valle de Jamastrán, El Paraíso

1. Grupo Campesino "El Matazano"

ENTERPRISE BUDGETS

An enterprise budget is a statement of the particular set of physical production inputs and their costs associated with production of a specified quantity of a product. Budgets are the basic building blocks of economic analysis in agricultural production, and hence a vital ingredient in BNF operations. Preparation of crop and livestock budgets is a major part of the data collection effort of this project, hence a detailed description of our progress and methodologies is presented in Appendix 2. The principal points are summarized in this section.

Use Of Budgets In The BNF

Each loan application must be accompanied by an estimated budget for each crop and livestock enterprise for which the client wants to borrow money. The budgets are prepared by loan officers who visit the client at his farm. There is no standardized format for preparing budgets in the BNF, hence the budgets prepared vary widely among loan officers. The only guide of any kind is the BNF master budget, which omits physical inputs (Appendix 2, page 49). Only one master budget is prepared for the entire country for each crop, which results in great departures from realism in some regions. The production cost estimates in the master budgets are set at the highest levels found in the country, hence it becomes a de facto upper limit on loan authorizations. Loan officers often simply copy these limits down for loan applications rather than do the work of estimating personalized budgets. The consequences are inflated loan requests and

inability to compare or analyze farm operations. Other consequences are described in Appendix 2.

Given the problems we encountered, an effort was made to find more complete budgets prepared by other institutions in Honduras. The budgets we found also proved to be unsatisfactory for our purposes. We therefore initiated efforts to prepare crop budgets for the Jamestrán Valley with the intention of developing a methodology, format, and organization that would be appropriate for the BNF and our study. Following a period of experimentation, testing, and consultations with visiting faculty from Oklahoma State University, we developed the scheme described below.

Organization And Methodology

The first step in setting up a nationwide program for budget preparation was definition of distinct regions. The experience we had organizing budget preparation in Danlí and Comayagua suggested that repeated meetings with the loan officers who prepare the budgets would be necessary to ensure that the information would be provided in the form that we need it, and to avoid misunderstanding about certain input descriptions and sequences. Our meetings with loan officers are listed in Appendix 2, page 62. The first meeting was always devoted to introduction of the project, preparation of crop lists, and explanation of methodology. Subsequent meetings with the same loan officers were for review, clarification and collection of the budgets they had prepared to date.

Loan officers have been given wide latitude in preparation of crop budgets the first time around. A budget is synthesized by the

loan officer using his knowledge and experience from having prepared 50 to 100 budgets per crop per year for over five years. It must be emphasized that these men are the most experienced and competent loan officers the BNF has, and that their knowledge of agricultural practices is excellent in our opinion. They also draw upon the experience of other loan officers, extension agents and agronomists working with special crop development programs in synthesizing the budgets.

As of June 30 we had 119 budgets in hand from 10 of the 14 regions. Of these, 56 were fully processed and 63 were in process. A list of the budgets is included in this section. These represent approximately half the budgets that must be prepared. Budgets are only prepared for crops which the BNF finances. Livestock budgets have not been attempted yet.

Plans For The Second Year

During the second year of the budget program we will add a section on fixed costs to each of the budgets. Fixed costs have never before been used by the BNF in calculation of production costs. A sample of a budget with fixed costs included is attached. The first formal training course will be devoted to budget preparation and interpretation (Appendix 3). Livestock budgets will be prepared. Extensive use of OSU faculty on TDY time is anticipated to handle technical problems during the second year.

In general, the second year will be required for completion, refinement and institutionalization of the budgets. Response to this program in Honduras has been particularly positive; scarcely a day passes without a request for budgets, either by BNF personnel or other government agencies.

TRAINING PROGRAMS

INTRODUCTION

Training of BNF personnel during the first year was accomplished principally by means of frequent association with BNF loan officers, supervisory personnel, and our hired accountants for the farm records project. Few formal training sessions were conducted, principally because of the time required to understand bank problems, build a data base, develop methodologies, and develop courses. Training involves both teaching of existing methods and institutionalization of reforms, and the reforms that we intend to implement required extensive trial and testing.

INFORMAL TRAINING

The persons who have benefited most from association with this project are as follows:

1. Reynerio Barahona. Park's counterpart has learned well all aspects of the project which we have initiated. He is able to manage routine data collection with minor technical advice.
2. Rolando Medrano. The second BNF counterpart began in June, 1979, and is learning rapidly all aspects of the project.

3. BNF loan officers Roberto Sierra (Danli) and Armando Ramirez (Comayagua) have worked constantly with us on one aspect or another of data collection and analysis. Roberto started three clients on accounting books himself and has continued managing them.
4. Hired accountants, Paulina Mendez, Nereyda Vargas and Rigoberto Vallecillo. They have received continuous guidance and training from members of our group in record-keeping. A formal one-day course was also held for them (described subsequently).
5. Loan officers involved in the data collection schemes, listed in the description of the 14 geographic regions. Frequent meetings with them (listed in Appendix 2, page 62) have resulted in a better understanding on their part about how data and loan evaluations can be improved.

FORMAL TRAINING

Most formal training of BNF personnel will take place during the second year of the project, although some sessions were conducted in 1979.

Formal Training Sessions Conducted

Three formal training sessions were conducted which involved preparation of materials, lecture, and practical applications.

1. Presentation of some budgeting and cash flow concepts at a training session for 55 loan officers and credit analysts, held at the Pan American Agricultural School, El Zamorano, February 13, 1979.

Our presentation (Parks, Barahona) lasted 2-1/2 hours (outline in Spanish appears in Appendix ³~~6~~, page ⁶⁵~~68~~).

2. A half-day session on revised loan forms and cash flow analysis, for four loan officers, Roberto Sierra, Salomé Pavon, Milton Penman, and Julio Rivera, and the branch manager, Rudolfo Vallecillo, was held in Danlí, February 5, 1979.
3. A one-day training session for our three accountants, held in Tegucigalpa on April 9, 1979. Dr. Dan Galt of the Ministry of Natural Resources also attended. An outline is in Appendix 3.

Formal Training Planned

A series of formal training courses are planned for the second year of the project. Tentative outlines of the first two courses are in Appendix 3, page 68. Anticipated dates, locations and participants are mentioned. Approval of these two courses was obtained in a July 9 meeting which included Amaya, Rivera, Murillo, Bonilla, Fletes, Alvarez, Montes, Ferrari, and all four members of our project group. Additional courses have been suggested as follows:

1. Economic Analysis of Investments in Farm Infrastructure

Estimation of costs and returns over time of specific types of investments on the farm. Examples include buildings, silos, irrigation, systems, equipment, vehicles.

2. Economic Evaluation of Livestock Enterprises

Estimation of livestock production, costs and returns over time.

3. Farm Records

Management and use of the farm records system. How to record, process, and analyze the information to improve the loan evaluation process and farmer's managerial ability.

4. Appraisal

Determination of asset values used as loan collateral, including property, cattle and equipment.

Teachers And Materials

The approach we have proposed to the Bank is that our project group conduct the first session of each course, the principal lecturers being Reynerio Barahona and Rolando Medrano. Rockeman and Parks will guide smaller sessions and workshops, and will prepare all course materials, drawing in part upon the materials and assistance provided by TDY visitors. The first group of participants will be selected key persons-- loan officers, credit analysts, and supervisors--who will become teachers in subsequent courses. In this manner a cadre of trained teachers will be prepared who can continue giving these courses after our departure. The first session also will serve as a test, after which revisions will be made.

Training materials will include a syllabus, practical exercises, and visual aids for the overhead projector and slide projector. Some of the latter could be prepared at OSU and CSU where professional assistance is available.

Coordination of Courses

The Bank already runs a busy training schedule, hence we must coordinate times, people and places with Teresa Murillo--the BNF training program coordinator. We also have to avoid giving courses for loan officers and credit analysts during their busiest season--April through August.

SUMMARY OF DATA UTILIZATION

Data generated by the five programs described are used in various ways to improve loan evaluation procedures and as inputs in economic analysis. The flow of data utilization is outlined on page 5, but the following descriptions provide more detail.

The Manual Pericial

The Manual Pericial (Field Manual) is a compendium of data for use by BNF loan officers and credit analysts. Each of those persons will have a vinyl 3-ring binder (already printed) of data for his region which he can take with him on client visits, or for use in the office as a source book. The Manual is organized as indicated in the attached Table of Contents.

The Enterprise Budget Book

A 3-ring binder containing all of the crop and livestock budgets for the country will be provided to strategic departments within the Bank and to selected departments of other government agencies, such as the Sector Planning Division of the Ministry of Natural Resources. Publication of a book of budgets for general distribution is under consideration for 1980.

Revision of Loan Evaluation Criteria

Certain factors should be considered in evaluating a loan application which the Bank currently does not use. We will attempt to institutionalize the following reforms which utilize

the data we are generating.

1. Include fixed costs of production in estimation of total production costs. Only variable costs are currently used, which underestimates total costs.
2. Include expected family living expenses (cash). This item is not currently considered in evaluating the farm financial situation. Using information from our farm record books, reference tables relating family size, age, and income to average family cash expenses can be prepared. Loan officers could refer to these tables if direct estimates were unobtainable or unreliable.
3. Adjust expected gross income to reflect the quantity of product available for sale rather than total production. Since part of grain consumption is used for seeds, family and animal consumption, and storage losses, the quantities should be subtracted from total production before multiplying by expected unit price. If the figures are not obtainable or reliable from the client interview, reference tables based on our farm record book can be consulted.
4. Use historical product price at the farm gate for calculating the expected gross revenue of an enterprise. The government support price for grains (rice, corn, beans and sorghum) is currently used to calculate gross revenue. This price is higher than that which farmers actually receive because few can take their grain to government silos, or hold their grain until the market price exceeds the support price. Our product price collection scheme will serve as the data base for this change.

5. Reduce work of preparing individual production budgets. Currently the loan officer must prepare an estimated production budget for each client. We hope to effect a partial elimination of this time-consuming and often perfunctory practice by simply making reference to, or minor adjustments in, the master budgets already prepared.

6. Reduce work of preparing loan collateral and loan application forms. By preparing a computer printout of client background information and a listing of loan collateral the loan officer will not have to write down every piece of information anew every year.

Whole Farm Analysis

Budgets will be used to define activities in linear programming models of representative farms, which will then be used for computer experiments in credit policy. Farm records will provide basic information for establishing resource constraints in the same models.

Personnel Training Programs

The basic data generation projects will be institutionalized via formal and informal training programs. Real data will therefore be used both in application and in teaching. Training programs are described subsequently.

APPENDIX 1

THE FARM RECORDS PROGRAM

Selection of participants and introduction of the program were made with the assistance of the BNF perito valuador (loan officer) designated to work in the area selected. The perito initially approached the clients with the prospect of keeping records, then accompanied members of our project group on a followup visit to explain the program in detail. On the third visit the hired accountant accompanied members of the project group to deliver the record book and begin entries. Recording of entries was introduced gradually so as not to overwhelm the participant with questions on the first visit. Inventories were usually obtained on the fourth or fifth visit by a project group member.

Management Of Accounts

The accountant visits each participant at least weekly to ensure that information is not forgotten. A few farmers in the Comayagua Valley must be visited twice a week because they have four or five vegetable crops requiring many labor-intensive tasks which are difficult to remember after one week. The accountant often must make return trips to a participant's house to find him, which explains the importance of having an accountant who lives nearby. Furthermore, farmers can only be found at home late in the afternoon or evening, thus restricting the number the accountant can visit on a given day. The number of participants per accountant varies from five to 14, and the average amount of time spent per participant per week ranges from one to two hours depending on the distance between houses and the number of repeat visits. Accountants are paid a fixed sum per participant per

month.

Immediately upon harvest of a crop a complete enterprise budget is prepared from the records. At the end of each year a balance sheet and income statement are prepared.

Farmers participate in the record-keeping system because they want to improve farm profitability. The project group must therefore analyze each participant's situation with the intention of making suggestions for improvement. Suggestions could include changes in crops, input utilization, or marketing strategy. We have not yet entered this phase of the program.

Special Problems

Many problems have been encountered in managing the record books. The first problem is that of convincing potential participants that the records will not be used against them by the Bank or any other government agency -- particularly those dealing with taxation. The participant must be convinced that although the project is sponsored by the Bank the data obtained will be kept confidential and anonymous. Despite our efforts some farmers declined to participate in the program for fear of revealing their finances. Our rapport with the participants was severely tested at one location in the Jamastran Valley when a rumor circulated that the records system was communistic. The logic of the argument was that farm records are a form of control, that the program is sponsored by a government agency, and that the ultimate objective of the program will be to usurp the farmers' freedom in the interest of the state. Our participants questioned us about these issues, but all who had begun making entries remained with the program.

As soon as the records system was introduced we discovered that farmers are hard to find at home. Repeated failures to find participants after a two-hour drive quickly forced development of the "cell" concept -- a group of participants assisted by an accountant who lives in the community. Women accountants are employed because they have the time, interest, and few other rural job opportunities. Men who are literate and mature enough to handle the records are rarely available for employment.

Some of the participants operate enterprises on the side. These include the sale of beer to passers-by, pool halls, a butcher shop, and very small markets. In several cases we have had to forfeit family consumption data because the sideline enterprise is hopelessly intermixed, and because they do not want to reveal income and expenses from these enterprises. Participants have also been included who were not desired, but who could not be refused because of family or friendship ties with the accountant or another participant. A related problem is that some families' consumption is intermixed with that of relatives nearby. In these cases we enter all consumption and note the number of people being supported. Sometimes neighbors trade field labor, in which case total labor used and actual cash expenses are entered in the record book.

Additional problems have occurred in recording labor utilization and costs. Variation in the length of a work day forced a change from "work days" to "hours" as the standard measure of labor time. A work day (jornal) is six hours in the Jamastran Valley and eight hours in the Comayagua Valley. Secondly, there is a tendency for farmers to round

off reported labor use to the nearest whole day. Differences in reported hired labor utilization also occur because some workers are paid by the day and some by the task. Record book entries are made exactly as reported, but interpretation of the information must take these differences into account. A third problem is that of determining the adult equivalent of a child's labor. We have not yet developed a satisfactory method of handling this problem. Usually we record child labor use as equivalent to an adult, or do not record it at all. For example, children from age four and over help shell corn by hand, but we do not record it. If an adult or hired labor shells corn we do record it. Further work on this problem is needed. A final problem is that of separating the cost of food given to hired labor from family consumption. The normal wage for hired labor is \$1.50 per day without a meal or \$1.00 per day with one meal provided. The meal typically consists entirely of tortillas, beans and rice which come from family stocks. At present we enter all hired labor at \$1.50 per day and make an effort to separate hired laborers' consumption from family consumption.

Allocation of stored grains (corn, beans, and sometimes rice) among family consumption, animal consumption, and spoilage is a constant problem. Keeping track of family consumption every week proved to be a nuisance for them, so now we ask for one week of careful measurement and assume a constant rate of consumption. The contents of the container used by the housewife to keep track of grain consumption were weighed. This spot check is conducted twice a year.

Animals (principally pigs and chickens) are often fed haphazardly. Handfuls of corn grain or unshelled ears are dumped on the ground. We

have tried to obtain spot checks as in the case of family consumption. We have not solved the problem of how to value grain fed to animals which is not in satisfactory condition for human consumption.

It is sometimes very difficult to estimate crop production. Corn is left on the stalk for months to dry, during which time some is lost to straying animals, pests, and spoilage. A little is harvested each day for family consumption until the time finally comes to store or sell. The problem is further complicated by the practice of storing corn on the ear. We have set up two experiments to find the conversion factor between volume of stacked ears of corn and volume of grain. Given these practices, it might take a year to find out how much corn grain was produced on a farm. Even then the estimate will be crude because of unmeasured variation in family and animal consumption over time, and because of unknown field losses.

Bean and rice production is sometimes difficult to determine because of the practice of storing in the pod or hull with chaff until needed for consumption. Production of bananas, citrus, and miscellaneous other products for home consumption is unknown. Our participants have no idea how many oranges a tree produces, for example. We try to estimate production of these items but have little confidence in the results.

Asset valuation has proven to be an intransigent problem. To date we have abandoned most attempts to value perennial crops because of the complete absence of information on tree age, expected life, and production. Livestock values are easier to estimate, but even then the reported value of a particular animal might vary 50% either way depending on how we ask the farmer. Market values of structures such as

houses, storage sheds, and fences are inseparable from land values, but rarely is a farm purchased.

REPRESENTATIVE FARM RECORDS

A substantial amount of information is generated for each of our farm records participants. We have only included a sample for perusal.

Santos De Los Reyes Guzman

Santos is one of our participants in the Jamastran Valley. A summary of his bean crop for 1978 plus a cash flow are included. The cash flow is from August, 1978 through June of 1979. This spans the last portion of the 1978 crop year and the first portion of the 1979 crop year. Santos had to buy a bull in October because his was killed, which adversely affected his cash flow status. The yields of his bean crop may have been overestimated since inventory does not agree with yield estimates. Santos is currently in default to the BNF on his 1977 crop.

Asentamiento "El Matazano"

This cooperative farm began keeping records in January of 1979. A summary of their vegetable crops during the dry season and a cash flow for the first 6 months of 1979 are included. The cash flow is deceptive because most of the corn crop was sold in November and December, the proceeds from which do not appear. Vegetable crops are grown on 6 irrigated manzanas, providing a steady source of income and work for the group. The loan for the irrigation system was paid off, one year ahead of schedule:

Andrés Rivera

Andrés is one of the participants in Ajuterique, Comayagua Valley. He grows primarily vegetable crops, and transports them to San Pedro Sula for sale. Summaries of his onion and cucumber crops are included, as well as a cash flow for the first five months of 1979. A vegetable farmer has a much more complex operation, as indicated by the copies of actual entries for Andrés which are included. Andrés is primarily a manager, spending almost all his time overseeing men he employs. He is one of the few farmers who contracts trucks to market his produce. As a result of this, he made a profit while his neighbors were losing money on their vegetables. Andrés is not a BNF client, and has never been.

FARM PROFILE
Santos De Los Reyes Guzman
Jamastran Valley

| <u>Family</u> | <u>Age</u> | <u>Formal Education</u> | <u>Situation</u> |
|---------------|------------|-------------------------|-------------------|
| Santos | 40 | 0 | Head of Household |
| Spouse | 30 | 0 | |
| Daughter | 8 | Attending School | |
| Son | 5 | - | |

Living Conditions

This family lives in a wooden house with a dirt floor. They have recently constructed a latrine, and have a well approximately 100 feet from the house. The family consumes 80 lbs of corn and 24 lbs of beans each month.

Land and Crops

Santos works his father's land. He does not have title to land of his own. He and his father have 10 manzanas of fairly level cropland and 3.25 manzanas of hilly cropland. They also have 20 manzanas of pasture land. They double crop corn and beans and last year grew some rice. The family has more cattle than normal for small producers, but are a little short of pasture in the dry season.

Livestock

- 19 cows, 5 heifers, 12 calves, 1 bull

Equipment

- Bullock cart
- Miscellaneous hand tools

Comments

Santos is a hard worker trying to improve his lot. He is a BNF client, and is currently in default on a bean loan.

SANTOS DE LOS REYES

Summary Of 3.25 Manzanas Of Beans Under Corn

| | | |
|-------------------------------------|-----------|------------------|
| Income: 3.000 lbs. a L. 60.00/carga | | L. 700.00 |
| Expenses: | | |
| Salaries | L. 384.00 | |
| Herbicide | 64.00 | |
| Gramazone | 21.50 | |
| Total Cash Expense | | <u>469.50</u> |
| Net Income | | <u>L. 221.50</u> |
| Own seed (100 lbs.) | 32.00 | |
| Family Labor: 12 days at 3.00/day | 36.00 | <u>68.00</u> |
| Return to Land and Management | | <u>L. 153.50</u> |

26-1-79

FLUJO DE CAJA

Año: 1978

| INGRESOS | | Julio | Agosto | Sept. | Octubre | Nov. | Dic. | TOTALES |
|----------|---------------------------------------|-------|---------|----------|----------|----------|-----------|-----------|
| 1 | Cultivos | | | | 6.00 | 8.00 | 2.00 | 16.00 |
| 2 | | | | | | | | |
| 3 | | | | | | | | |
| 4 | | | | | | | | |
| 5 | | | | | | | | |
| 6 | Ganado Vacuno | | | | 10.00 | | | 10.00 |
| 7 | Ganado Porcino | | | | | | | |
| 8 | Aves | | | | | | | |
| 9 | Ganado Equino | | | | | | | |
| 10 | Otros | | | | | | | |
| 11 | Ventas Misceláneas | | | | | | | |
| A | TOTAL VENTAS FINCA (líneas 1 al 11) | | | | 110.00 | 8.00 | 2.00 | 120.00 |
| 12 | Otros Ingresos | | | | | | | |
| 13 | Préstamos | | | | | | | |
| B | TOTAL DISPONIBLE (líneas A + 12 + 13) | | | | 110.00 | 8.00 | 2.00 | 120.00 |
| GASTOS | | | | | | | | |
| 14 | Cultivos Maíz | | | | | 6.00 | | 6.00 |
| 15 | - Frijoles | | | 3.20 | 2.50 | | | 5.70 |
| 16 | | | | | | | | |
| 17 | | | | | | | | |
| 18 | | | | | | | | |
| 19 | Ganado Vacuno | | | 2.00 | 10.25 | 6.00 | 1.00 | 19.25 |
| 20 | Ganado Porcino | | | | | | | |
| 21 | Aves | | | | | | | |
| 22 | Ganado Equino | | | | | | | |
| 23 | Otros | | | | | | | |
| 24 | Reparaciones | | | 9.00 | | | 6.50 | 15.50 |
| 25 | Otros Gastos | | 4.50 | 7.50 | 132.00 | 1.00 | 732.00 | 757.00 |
| 26 | Mejoras | | | | | | | |
| C | TOTAL GASTOS FINCA (líneas 14 al 26) | | 4.50 | 16.70 | 132.00 | 7.00 | 340.50 | 500.70 |
| 27 | Pago de Préstamos | | | | | | | |
| 28 | Gastos de Casa | | | 126.80 | 79.90 | 62.50 | 89.20 | 358.40 |
| D | GASTO TOTAL (líneas C + 27 + 28) | | 4.50 | 293.50 | 1508.90 | 232.50 | 439.70 | 2579.10 |
| E | Diferencia de Caja (líneas B-D) | | (45.00) | (293.50) | (208.90) | (186.50) | (388.00) | (1122.90) |
| F | Balance - Principio | | | (45.00) | (388.80) | (577.70) | (734.20) | |
| G | Balance - Final (líneas E ± F) | | (45.00) | (338.80) | (577.70) | (734.20) | (1122.90) | |

FLUJO DE CAJA

Año: 1979

| INGRESOS | | Enero | Febrero | Marzo | Abril | Mayo | Junio | TOTALES |
|----------|---------------------------------------|---------|---------|---------|---------|---------|---------|---------|
| 1 | Cultivos <i>Huerc</i> | | 6000 | 500 | | | | 6500 |
| 2 | <i>Frutas</i> | | | | | 5000 | | 5000 |
| 3 | | | | | | | | |
| 4 | | | | | | | | |
| 5 | | | | | | | | |
| 6 | Ganado Vacuno | | | 5350 | 6000 | | | 11350 |
| 7 | Ganado Porcino | | | | | | | |
| 8 | Aves | | | | | | | |
| 9 | Ganado Equino | | | | | | | |
| 10 | Otros | | | | | | | |
| 11 | Ventas Misceláneas | | | | | | | |
| A | TOTAL VENTAS FINCA (líneas 1 al 11) | | 6000 | 5400 | 6000 | 5000 | | 12500 |
| 12 | Otros Ingresos | | | | | | | |
| 13 | Préstamos | | | | | | | |
| B | TOTAL DISPONIBLE (líneas A + 12 + 13) | | 6000 | 5400 | 6000 | 5000 | | 12500 |
| GASTOS | | | | | | | | |
| 14 | Cultivos <i>Huerc</i> | 1000 | | | | 1820 | 1800 | 3000 |
| 15 | | | | | | | | |
| 16 | | | | | | | | |
| 17 | | | | | | | | |
| 18 | | | | | | | | |
| 19 | Ganado Vacuno | | | | 600 | | | 600 |
| 20 | Ganado Porcino | | | | | | | |
| 21 | Aves | | | | | | | |
| 22 | Ganado Equino | | | | | | | |
| 23 | Otros | | | | | | | |
| 24 | Reparaciones | | | | | 1500 | | 1500 |
| 25 | Otros Gastos | 3000 | 8300 | 10475 | 6000 | 5000 | 15000 | 49175 |
| 26 | Mejoras | | | | | | | |
| C | TOTAL GASTOS FINCA (líneas 14 al 26) | 12000 | 8300 | 10475 | 6000 | 25200 | 15000 | 49175 |
| 27 | Pago de Préstamos | | | | | | | |
| 28 | Gastos de Casa | 2000 | 29200 | 13000 | 9000 | 6000 | 7000 | 49200 |
| D | GASTO TOTAL (líneas C + 27 + 28) | 35000 | 31500 | 24275 | 16000 | 31200 | 22000 | 163200 |
| E | Diferencia de Caja (líneas B-D) | (35000) | (25500) | 21725 | 43300 | (25800) | (24000) | (37800) |
| F | Balance - Principio | | (35000) | (60000) | (30900) | 12300 | (13000) | |
| G | Balance - Final (líneas E + F) | (35000) | (60000) | (30900) | 12300 | (13000) | (24000) | |

PARTIAL CASH FLOW--SANTOS DE LOS REYES

37-

FARM PROFILE
Asentamiento "El Matazano"
Jamastran Valley

Membership

This group consists of 17 members who each work 24 to 26 days monthly.

Land And Crops

El Matazano has 77 manzanas of land; 46 manzanas of relatively level crop land and 21 manzanas which can be farmed with bullocks, 6 manzanas of this land are under irrigation. The group had 43 manzanas of corn and 5 manzanas of vegetable crops last year.

Equipment And Buildings

1 storage shed, 1 house, 1 small storage shed for irrigation equipment, 1 irrigation pump (diesel)-4 inch, 320 meters of irrigation canal, 1 cable bridge over the river, 2 back-pack sprayers, 1 motorized sprayer, 17 hoes, 17 shovels, 17 machetes.

Comments

The group does not own houses or livestock in common. They are the best group financed by the BNF in their area, having stayed on schedule or better with loan repayment.

ASENTAMIENTO EL MATAZANO

Summary Of 3 manzanas Of Vegetables

| | | |
|--------------------------------|----------|--------------------|
| Income | | L. 2,516.00 |
| Expenses | | |
| Land Preparation | L. 72.00 | |
| Seed | 150.00 | |
| Fertilizer | 115.42 | |
| Pesticides | 75.00 | |
| Fungicides | 70.00 | |
| Materials | 145.54 | |
| Crop Transport | 904.56 | |
| Total Cash Expense | | <u>L. 1,533.00</u> |
| Net Income | | 983.00 |
| Value Of Labor | | <u>- 471.00</u> |
| 157 days at L. 3.00/day | | |
| Returns To Land And Management | | L. 502.00 |

FLUJO DE CAJA El Matazano 1970

| INGRESOS | | Enero | Febrero | Marzo | Abril | Mayo | Junio | TOTALES |
|----------|---------------------------------------|-------|---------|--------|-------|--------|--------|---------|
| 1 | Cultivos : Maiz | - | - | 486 | - | - | - | 486 |
| 2 | Hortalizas | - | - | 26 | 864 | 1626 | - | 2516 |
| 3 | | | | | | | | |
| 4 | | | | | | | | |
| 5 | | | | | | | | |
| 6 | Ganado Vacuno | | | | | | | |
| 7 | Ganado Porcino | | | | | | | |
| 8 | Aves | | | | | | | |
| 9 | Ganado Equino | | | | | | | |
| 10 | Otros | | | | | | | |
| 11 | Ventas Misceláneas | - | - | - | - | - | 90 | 90 |
| A | TOTAL VENTAS FINCA (líneas 1 al 11) | - | - | 512 | 864 | 1626 | 90 | 3092 |
| 12 | Otros Ingresos | | | | | | | |
| 13 | Préstamos | | | | | | 1122 | 1122 |
| B | TOTAL DISPONIBLE (líneas A + 12 + 13) | - | - | 512 | 864 | 1626 | 1212 | 4714 |
| GASTOS | | | | | | | | |
| 14 | Cultivos : Maiz | - | - | - | 60 | - | 5638 | 5698 |
| 15 | Hortalizas | 115 | 127 | 90 | 119 | - | - | 451 |
| 16 | | | | | | | | |
| 17 | | | | | | | | |
| 18 | | | | | | | | |
| 19 | Ganado Vacuno | | | | | | | |
| 20 | Ganado Porcino | | | | | | | |
| 21 | Aves | | | | | | | |
| 22 | Ganado Equino | | | | | | | |
| 23 | Otros | | | | | | | |
| 24 | Reparaciones | 36 | - | - | - | - | - | 36 |
| 25 | Otros Gastos | 55 | 7 | 21 | 287 | 726 | 79 | 1175 |
| 26 | Mejoras | | | | | | | |
| C | TOTAL GASTOS FINCA (líneas 14 al 26) | 206 | 134 | 111 | 466 | 726 | 5717 | 7300 |
| 27 | Pago de Préstamos | - | 1000 | - | - | 1525 | - | 2525 |
| 28 | Gastos de Casa | | | | | | | |
| D | GASTO TOTAL (líneas C + 27 + 28) | 206 | 1134 | 111 | 466 | 2251 | 5717 | 9885 |
| E | Diferencia de Caja (líneas B-D) | (206) | (1134) | 401 | 398 | (625) | (4505) | (5671) |
| F | Balance - Principio | - | (206) | (1340) | (937) | (541) | (1166) | |
| G | Balance - Final (líneas E + F) | (206) | (1240) | (939) | (539) | (1171) | (1517) | (5671) |

PARTIAL CASH FLOW--EL MATAZANO

FARM PROFILE
Andrés Rivera
Ajuterique, Comayagua Valley

| <u>Family</u> | <u>Age</u> | <u>Formal Education</u> | <u>Situation</u> |
|---------------|------------|-------------------------|-------------------|
| Andrés | 27 | 6th Grade | Head of Household |
| Spouse | 18 | 5th Grade | - |
| Daughter | 3 | - | - |
| Daughter | 1 | - | - |

Living Conditions

Good adobe house in Ajuterique with electricity, drinking water, and indoor latrine. The family has good living conditions, and also runs a small pool hall and sells refreshments from the house. They consume approximately 70 lbs of corn and 30 lbs of beans per month.

Land And Crops

Andrés has 10 manzanas of fenced pasture land that are his. He also manages his father's cropland with his brothers. His share of that land is 4 manzanas which he uses to grow vegetable crops, primarily tomatoes, onions, cucumbers and peppers. The family cropland is all under irrigation.

Livestock

4 cows, 1 bullock

Equipment

3 back-pack sprayers
1 motorized sprayer
miscellaneous hand tools

Comments

Andrés is an ambitious young man with good managerial ability. Most of his working time is spent overseeing men who are working for him. He would like to get into the dairy business, and is trying to arrange the resources necessary. He is not and has never been a BNF client though he is considering trying to borrow money to purchase dairy cattle.

ANDRES RIVERA

 Summary Of 1/2 Manzana Of Cucumbers

| | | |
|-------------------------------------|---------------|---------------|
| Income | 74 sacks | L. 1,324.00 |
| Expenses | | |
| Land Preparation | L. 16.00 | |
| Seed | 55.00 | |
| Irrigation Water | 14.00 | |
| Fertilizer | 42.50 | |
| Pesticides | 98.65 | |
| Salaries | 206.00 | |
| Crop Transport to San Pedro Sula | <u>222.00</u> | |
| Total Cash Expense | | <u>654.15</u> |
| Net Income* | | L. 669.85 |

*The labor contributed by Andrés was strictly managerial, therefore net income is the return to land management.

5/24/79

ANDRES RIVERA

 Summary Of 1/2 Manzana Of Onions

| | | | |
|--------------------------------|--|-----------------|------------------|
| Income | 5 (Lots In The Field) | 3,000 (Bunches) | L. 1,140.00 |
| Expenses | | | |
| Land Preparation | | L. 30.00 | |
| Irrigation Water | | 24.00 | |
| Fertilizer | | 47.00 | |
| Seed | | 47.50 | |
| Pesticides | | 198.20 | |
| Salaries | | <u>412.00</u> | |
| Total Cash Expenses | | | <u>758.70</u> |
| Net Income | | | <u>L. 381.30</u> |
| | Value Of Family Labor - 5 Days @ L. 3.00/Day | | 15.00 |
| Returns To Land And Management | | | <u>L. 366.30</u> |

5/7/79

FLUJO DE CAJA Andrés Rivera 1977

| INGRESOS | | Enero | Febrero | Marzo | Abril | Mayo | Junio | TOTALES |
|----------|---------------------------------------|-------|---------|-------|-------|------|-------|---------|
| 1 | Cultivos: Chile | 735 | 560 | 890 | 150 | 357 | - | 2292 |
| 2 | Tomate (i) | 72 | 819 | - | - | - | - | 891 |
| 3 | Cebolla | - | - | - | 1140 | - | - | 1140 |
| 4 | Pepino | - | - | - | - | 1324 | - | 1324 |
| 5 | Tomate (j) | - | - | - | - | 1263 | - | 1263 |
| 6 | Ganado Vacuno | | | | | | | |
| 7 | Ganado Porcino | | | | | | | |
| 8 | Aves | | | | | | | |
| 9 | Ganado Equino | | | | | | | |
| 10 | Otros | | | | | | | |
| 11 | Ventas Misceláneas | | | | | | | |
| A | TOTAL VENTAS FINCA (líneas 1 al 11) | 907 | 1379 | 890 | 1290 | 2944 | - | 7310 |
| 12 | Otros Ingresos | | | | | | | |
| 13 | Préstamos | | | | | | | |
| B | TOTAL DISPONIBLE (líneas A + 12 + 13) | 907 | 1379 | 890 | 1290 | 2944 | - | 7310 |
| GASTOS | | | | | | | | |
| 14 | Cultivos: Chile | 373 | 28 | 13 | 5 | 53 | - | 472 |
| 15 | Tomate (i) | 235 | 37 | - | - | - | - | 272 |
| 16 | Cebolla | 167 | 20 | 72 | 21 | - | - | 280 |
| 17 | Pepino | - | - | 80 | 111 | 257 | - | 448 |
| 18 | Tomate (j) | - | 212 | 106 | 79 | 283 | - | 680 |
| 19 | Ganado Vacuno | | | | | | | |
| 20 | Ganado Porcino | | | | | | | |
| 21 | Aves | | | | | | | |
| 22 | Ganado Equino | | | | | | | |
| 23 | Otros | | | | | | | |
| 24 | Reparaciones | | | | | | | |
| 25 | Otros Gastos | 328 | 250 | 441 | 240 | 262 | - | 1521 |
| 26 | Mejoras | | | | | | | |
| C | TOTAL GASTOS FINCA (líneas 14 al 26) | 1103 | 547 | 712 | 462 | 855 | - | 3679 |
| 27 | Pago de Préstamos | | | | | | | |
| 28 | Gastos de Casa | 371 | 147 | 410 | 177 | 145 | - | 1250 |
| D | GASTO TOTAL (líneas C + 27 + 28) | 1474 | 694 | 1122 | 639 | 1000 | - | 4935 |
| E | Diferencia de Caja (líneas B-D) | (667) | 685 | (232) | 651 | 1944 | - | - |
| F | Balance - Principio | - | (667) | 18 | (220) | 431 | - | - |

ENTRADAS EN EFECTIVO DE CULTIVOS

| línea | FECHA | DESCRIPCION | UNIDAD | % | CULTIVOS | | | | |
|---------|-------|-------------|---------|-------|-------------------|-------------------|-------------------|--|--|
| | | | | | Dopino | chile | Tomate | | |
| 1 | 2 | Ventas | Sacos* | 6 | | 120 ⁰⁰ | | | |
| 2 | 2 | " | " | 10 | 180 ⁰⁰ | | | | |
| 3 | 3 | " | " | 5 | | 85 ⁰⁰ | | | |
| 4 | 3 | " | " | 8 | 160 ⁰⁰ | | | | |
| 5 | 4 | " | " | 6 1/2 | | 97.50 | | | |
| 6 | 7 | " | " | 17 | 306 ⁰⁰ | | | | |
| 7 | 10 | " | " | 17 | 323 ⁰⁰ | | | | |
| 8 | 10 | " | Cajas** | 7.5 | | | 225 ⁰⁰ | | |
| 9 | 17 | " | Sacos | 4 1/2 | | 54 ⁰⁰ | | | |
| 10 | 17 | " | Cajas | 80 | | | 240 ⁰⁰ | | |
| 11 | 17 | " | Sacos | 17 | 255 ⁰⁰ | | | | |
| 12 | 23 | " | " | 5 | 100 ⁰⁰ | | | | |
| 13 | 23 | " | Cajas | 102 | | | 510 ⁰⁰ | | |
| 14 | 27 | " | " | 96 | | | 258 | | |
| 15 | | | | | | | | | |
| 16 | | | | | | | | | |
| 17 | | | | | | | | | |
| 18 | | | | | | | | | |
| 19 | | | | | | | | | |
| 20 | | | | | | | | | |
| 21 | | | | | | | | | |
| 22 | | | | | | | | | |
| TOTALES | | | | | | | | | |

Actual Accounting Book Entries - Andres Rivera

GASTOS EN EFECTIVO DE CULTIVOS

| Línea | FECHA | DESCRIPCION | UNIDAD | CANTIDAD | CULTIVOS | | | |
|-------|----------|--------------------------|---------------|----------|----------|-------------------------------|----------------------------|---------------------------|
| | | | | | MAIZ | 1/2 M ² Cebolla | 1 M ² Tomate | 1 M ² Chile |
| 1 | 18 - Ene | Pago boleto de agua | | | | 2 ⁰⁰ | | |
| 2 | 20 - " | Compra de Dithane M-45 | Libra | 1 | | 4.60 | | |
| 3 | 22 - " | " " Parathion | Litro | 1 | | 6. ⁰⁰ | | |
| 4 | 22 - " | Compra fertiliz. 12-24-2 | gr | 2 | | 47. ⁰⁰ | | |
| 5 | 22 - " | Pago boleto de agua | | | | 2 ⁰⁰ | | |
| 6 | 24 - " | Compra de Tamaron | Litro | 1 | | | | 30 ⁰⁰ |
| 7 | 24 - " | " " Antracol | Libras | 4 | | | | 18 ⁰⁰ |
| 8 | 30 - " | Pago boleto de agua | | | | 2 ⁰⁰ | | |
| 9 | 30 - " | " " " " | | | | | 2 ⁰⁰ | |
| 10 | 21 - " | Compra de Daconil | Kgs | 1 | | | 35 ⁰⁰ | |
| 11 | 21 - " | " " Tamaron | Litro | 1 | | | 30 ⁰⁰ | |
| 12 | | | | | | | | |
| 13 | Febrero | | | | | | | |
| 14 | 6 - Feb | Compra Dithane M-45 | Lbs | 2 | | | 9.20 | |
| 15 | 5 - Feb | " Malothion | Botellas | 2 | | | 24 ⁰⁰ | |
| 16 | 6 - Feb | " Dithane M-45 | Lbs | 4 | | | | 18.40 |
| 17 | 6 - " | " Hormonas | Onzas | 2 | | | | 6. ⁰⁰ |
| 18 | 9 - Feb | " Parathion | Botella | 1 | | 6 ⁰⁰ | | |
| 19 | 9 - " | " Molos | Lbs | 2 | | 9.60 | | |
| 20 | 12 - " | Pago boleto de Agua | | | | 2 ⁰⁰ | | |
| 21 | 13 - " | " " " " | | | | | 2 ⁰⁰ | |
| 22 | 13 - " | " " " " | | | | | | 2 ⁰⁰ |

Actual Record Book Entries - Andres Rivera

| Linea | FECHA | DESCRIPCION ACTIVIDAD | Cultivo o Ganado | HORAS DE TRABAJO | | | | |
|-------|---------|--|------------------------|-------------------------|----------------|------------------|------------------|---------------------|
| | | | | Mano de Obra Contratada | | | Trabajo Familiar | |
| | | | | Nº horas | No. Comidas | Lps. | Teje Familia | Otros Familiäres |
| 1 | 18- Ene | Fumigación Lonmate manate | chile | 16 | | 8 ⁰⁰ | | |
| 2 | 18- " | " Metasystox, " | Tomate | 8 | | 4 ⁰⁰ | 8 | |
| 3 | 18- " | Riego | Cebolla | 8 | | 3 ⁰⁰ | | |
| 4 | 20- " | Fumigación Parathion Dithane | " | 8 | | 4 ⁰⁰ | | |
| 5 | 22- " | Pico de tierra y fertilizac 2 ^{da} 12-24-12 | " | 40 | | 15 ⁰⁰ | 16 | |
| 6 | 22- " | Riego | " | 8 | | 3 ⁰⁰ | | |
| 7 | 24- " | Fumigación Tamaron antracol | chile | 16 | | 8 ⁰⁰ | | |
| 8 | 25- " | Riego | " | 16 | | 6 ⁰⁰ | | |
| 9 | 27- " | Desarbo | Tomate | 40 | | 15 ⁰⁰ | | |
| 10 | 27- " | " | " | 40 | | 15 ⁰⁰ | | |
| 11 | 30- " | Riego | " | 8 | | 3 ⁰⁰ | | |
| 12 | 30- " | Riego | Cebolla | 8 | | 3 ⁰⁰ | | |
| 13 | 31- " | Fumigación Daconil Tamaron | Tomate | 16 | | 8 ⁰⁰ | | |
| 14 | | | | | | | | |
| 15 | Febrero | | | | | | | |
| 16 | 6- Feb | Fumigación Dithane Metasystox | chile | 16 | | 8 ⁰⁰ | | |
| 17 | 6- " | Pico de tierra, | " | 32 | | 12 ⁰⁰ | | |
| 18 | 7- " | Pico de tierra | " | 24 | | 9 ⁰⁰ | | |
| 19 | 7- " | Fumigación Daconil Metasystox | Tomate | 16 | | 8 ⁰⁰ | | |
| 20 | 7- " | Cosecha, | " | 48 | | 18 ⁰⁰ | | |
| 21 | 7- " | Cosecha, | chile | 24 | | 9 ⁰⁰ | | |

Andrés Rivera - Record Book Entries

APPENDIX 2

ENTERPRISE BUDGETS

by Kurt Rockeman

Enterprise budgets provide the basic information required for the major types of analyses such as cash flow analysis, whole farm analysis, comparison of alternative enterprise profitability, and loan repayment capacity. The Enterprise Budget is a statement of the particular set of physical production inputs used to obtain a specified quantity of production. It also includes the expected revenues and expenses associated with the production of a particular product.

Budget Uses In The Banco Nacional De Fomento (BNF)

The BNF uses enterprise budgets to provide the basic client information required in the loan application process. When a prospective client applies for a loan, the loan officer estimates an "investment plan" (budget) for each crop the client intends to finance. To facilitate this procedure the BNF División Agropecuaria estimates master budgets for the country's major crops and production levels. These "master budgets" serve as guides in the estimation and analysis of individual client enterprise budgets. Two examples of standard BNF master budgets are included (pages 70 and 71).

Typically, only one master budget is prepared for each crop for the entire country. Master budgets generally contain estimated

STANDARD BNF MASTER BUDGET FOR CORN

PLAN DE INVERSION PARA UNA MANZANA DE MAIZ (RUSTICO)

| | | |
|----|------------------------------------|--------------|
| A- | PREPARACION DE TIERRAS | 1 MANZANA |
| | Desmonte y quema | L. 40.00 |
| B- | PRACTICAS AGRONOMICAS | |
| | Siembra | L. 12.00 |
| | Limpia (primera) | 30.00 |
| | Limpia (segunda) | 15.00 |
| | Fumigación | 6.00 |
| | Gastos de recolección y transporte | 42.00 |
| C- | INSUMOS | |
| | Semilla mejorada (25 lbs.) | 9.00 |
| | Insecticidas | 10.00 |
| | Imprevistos | <u>10.00</u> |
| | Costos Directos | L. 174.00 |
| | Intereses | 10.00 |
| | Gastos de Administración | <u>9.00</u> |
| | TOTAL | L. 193.00 |

La producción se estima en 25 qqs./mza. a L. 10.00 c/u = L. 250.00

Relación Beneficio-Costo $\frac{\text{L. } 250.00}{\text{L. } 193.00} = 1.30\%$

Rentabilidad: 30%

STANDARD BNF MASTER BUDGET FOR BEANS

PLAN DE INVERSION PARA UNA MANZANA DE FRIJOL (TECNIFICADO)

| | | |
|----|------------------------------------|-------------------------|
| A- | PREPARACION DE TIERRAS | 1 MANZANA |
| | Arado | L. 40.00 |
| | Rastreado | " 20.00 |
| B- | PRACTICAS AGRONOMICAS | |
| | Siembra y fertilización | L. 23.00 |
| | Limpia | 36.00 |
| | Fumigación | 6.00 |
| | Gastos de recolección y transporte | 50.00 |
| C- | INSUMOS | |
| | Semilla mejorada | 36.00 |
| | Fertilizante (2 qqs) | 40.00 |
| | Insecticidas y fungicidas | 30.00 |
| | Imprevistos | <u>15.00</u> |
| | Costos Directos | <u>L. 296.00</u> |
| | Intereses (11%) | 17.00 |
| | Gastos de Administración | <u>15.00</u> |
| | TOTAL | <u>L. 328.00</u> |

La producción se estima en 20 qqs. a L. 24.00 c/u = L. 480.00

Relación Beneficio-Costo: $\frac{L. 480.00}{L. 328.00} = 1.46\%$

expenses, expected yield, and expected price. In the case of basic grains, the expected price is simply the government support price offered by the Instituto Hondureño de Mercadeo Agrícola (IHMA). Master budgets are also used by the BNF to determine support prices for basic grains, as a basis for economic evaluation of special projects dealing with specialty crops, to estimate demand for credit, and to make various policy decisions. Master budgets are estimated in coordination with the Ministry of Natural Resources and the Instituto Nacional Agrario (land reform agency) as well as other groups which have interests in certain specialty crops and development programs. For example, the Honduras Coffee Institute assists in budget preparation for coffee production enterprises.

Problems In The Use Of BNF Master Budgets

The general format of BNF master budgets leads to certain problems which have a direct influence on BNF operations and policies. First, within Honduras wide variations in climatic and soil conditions, production practices, and input and product prices are encountered. Crop yields and production costs therefore vary widely from region to region. Since master budgets are estimated on a country-wide basis, the particular cost and return data expressed in a budget can be far removed from reality in any given region. Thus, the reliability of the master budget as a guide in loan evaluation is questionable in any given situation.

A second problem is that a master budget generally does not contain information on the time used, physical amount, or price of inputs used. It usually indicates only money amounts for certain

job and input categories. In fact, due to the format, physical input quantities and prices usually cannot be determined. As a consequence, the impact of input price changes cannot be evaluated. The problem of identifying input quantities and prices precluded simple adjustments of budgets for use in our project.

A third problem is that a master budget is designated as the upper limit of loan authorization--i.e., an amount which cannot be surpassed. It must therefore be set high enough so that the highest production costs in the country will not exceed it. Unfortunately, loan officers simply use these inflated upper limits in budget estimates instead of actually investigating the client's costs. This not only causes inflation of loan authorizations above actual necessities, but also can cause a wide gap between loan authorizations and actual disbursements. This practice conceals the actual production practices employed by, and the needs of, the small farmer. Comparison of individual enterprise budgets from BNF files is consequently impossible; they do not reflect reality.

Sources Of Enterprise Budget Information For Crop Budgets

Efforts were begun early in our project to gather existing enterprise budget information. BNF master budgets and budget information on a variety of crops were obtained from the División Agropecuaria of the BNF. Crop budgets were also obtained from the Ministerio de Recursos Naturales and the Instituto Nacional Agrario. Additional information was also obtained from PROMYFSA, PROTECPA, IICA, the Pan American Agricultural School, and the Centro Nacional de Agricola

Ganaderia. As a result of these efforts a large amount of budget information was obtained. But the same problems encountered in BNF master budgets were also encountered in these other budgets. The failure to identify physical inputs and prices is a consistent problem. Large variations in yield estimates for similar sets of inputs, in job descriptions, and in labor requirements for the same area were also encountered. Available experimental data did little to clarify these problem areas.

With the addition of Kurt Rockeman to the project in November, a general ordering and classification of available budget information was begun. Due to the extensive work already done in the Danli area by Loren Parks and Reynerio Barahona, additional efforts were concentrated in that area. Budgets for corn and beans were initially synthesized, then discussed with Luis Alonso Gomez (BNF Loan Analyst), Roberto Sierra (BNF Loan Officer), and Mario Torres, (MRN extension agent in Jutiapa). As a result of these discussions the budgets were improved.

We initiated a nationwide effort in late March. Because of varying conditions throughout the country, regionalization was required (Section 2A). With the help of Joaquín Tomé the country was partitioned into 14 regions. A series of meetings began on March 26 with loan officers from the regions to introduce the project and to begin gathering budget information. This process is still underway. A list of all meetings held, where they were held, and personnel attending is included in page 83.

As of June 30 we had 119 budgets from ten of the 14 regions. Of these, 56 were fully processed and 63 were in process.

The Information Gathering Process

The first requirement is separation and identification of physical inputs and prices. Problems were initially anticipated because the loan officers were not accustomed to this format. But, because of the general good capacity and understanding of the loan officers contacted, most of the problems failed to materialize.

The second requirement is that physical input information and cropping procedures be estimated in accordance with what is actually being done in the field, and not according to what is being recommended by other groups and agencies. In the course of his work a loan officer might estimate from 50 to 200 individual budgets for major crops in one year. A loan officer therefore has a large current information base in addition to years of experience, which gives him reasonably accurate insight into what is actually taking place in the field.

Input-output coefficients are synthesized averages based on the loan officer's experience and judgement. Most of the contributing loan officers have supervisory responsibilities, participate in special budgeting projects, and have extensive contacts outside the BNF which contribute to the budget synthesis process.

Identification of different technology levels in crop production presented a problem. The BNF procedure has been to identify a level of technology according to the inputs used, if at all. But, numerous combinations of inputs can be identified with one or more

"technology levels". We also attempted to identify certain inputs with certain technology levels, but it was unsuccessful due to the producers' propensity to combine inputs from two or three hypothesized technologies. Instead, we identified different yield levels as the discriminating characteristic. Loan officers were asked to identify low yields and high yields for their zones, then to estimate an average intermediate yield. These yields could be expressed as single figures or as a range. Having identified three yield levels, the loan officers were asked to estimate a set of production inputs that producers currently use which could be expected to produce those yields under "normal" conditions.

The Budget Format

As work progressed the budget format changed. Taking into account suggestions by loan officers, the format was simplified.

The budget title indicates crop name, yield level, and any further detail required for clarification or definition of the crop area or production level.

The budget number is located on the upper left of the format. It is a five digit code, the first two digits of which indicate the region of the country. The second two digits indicate the crop, and the last digit indicates production level (low, intermediate, high).

On the upper right appears the agency(ies) within the region to which the particular budget pertains. There are occasions when significant production cost differences exist between agencies or within agencies in the same region for certain crops.

The first section includes an estimate of production quantity expressed in the appropriate measure. Expected revenue is not included because adequate information on expected prices at the farm level is not yet available. A "break-even price" was initially included, but was eliminated due to the confusion it caused.

The second section of the budget contains estimated production costs. These costs are broken down into four subsections.

1. Labor (Mano de Obra) expressed in terms of man-days (jornales) because the average number of hours in a work day varies from region to region. (The hours in an average work day in the region are defined in a footnote.) Each job to be performed is listed according to the month the work is done and the number of work days necessary. The total work days required for the job are listed under the column heading Total Unid. Prices are included under the column heading L/Unid. (Lempiras per unit). Total cost is entered under the column heading Costo Total.

2. Other contracted services (Otros Servicios Contratados). This section includes machinery and animal rental, and labor which is hired on a contract basis. After the job name comes the type of power utilized and the appropriate unit of work. These units are summed under Total Unid. For contract work, notation is made to indicate whether the work is performed on a charge-per-unit of production or per-unit-of-land. The unit price and total cost are again entered in their respective columns.

3. Materials (Materiales). This section includes variable physical inputs such as seeds, fertilizers and chemicals according to the timing of their use. The unit of measure used for each input is entered under a sub-column, Unid. The number of units utilized, the price per unit and total cost are entered in the appropriate columns.

4. All other cost (Otros). In all budgets this includes interest charges on the operating capital required, calculated at a market interest rate of 12% annually. Interest is calculated on the assumption that the capital required for the month's operation is borrowed at the beginning of the month. Interest is charged on a 1% per month basis until the month of harvest. It is assumed that upon harvest capital can be made available to repay the loan plus interest. Thus, total interest charges from the month that cultivation begins until the month of harvest are summed to provide total interest cost. This figure is a measure of the minimum possible interest to be charged. Also, appearing in this sub-section are certain capital expenditures necessary for specialty crops, interest charges on the average investment, and depreciaton. When all fixed costs are calculated for the budgets they will also appear in this sub-section.

All costs are totalled at the bottom. Sub-totals have not been included due to space limitations and the confusion they have caused. Also appearing at the bottom are footnotes, the name of the loan officer who prepared the budget, and the date of estimation.

Existing Problems

Within the current budget information and format several factors remain to be dealt with. They specifically pertain to the identification of levels of technology, verification of coefficients, uniformity, and the absence of fixed costs.

Technology levels have been identified according to levels of production, as discussed earlier. Due to variation in loan officer thinking and understanding, it is doubtful that the definition is consistent from one region to another. The procedure for identifying these levels needs to be clearly defined to eliminate such inconsistencies.

Verification of coefficients presents a problem. As earlier mentioned, the lack of experimental data complicates this process. Further meetings with agronomists from other agencies are necessary, as well as farmer interviews to cross-check the information. This information will still be based on experience, since the agricultural research data needed to verify input and production coefficients are not available.

Different terminology from different regions continues to present a problem. Popular names for production practices, and the practices themselves vary widely from region to region. Efforts are being made to standardize job descriptions while maintaining clarity on the regional level. The elimination of irregularities will be a continuing process.

The largest area to be dealt with in the the current budgets is the inclusion of fixed costs. There are several factors which

directly influence this problem. First, the machinery and equipment costs for small farmers are minimal. Machine use is almost always on a rental basis. Some large farmers own their machinery, but they are the exception. Those who own machinery tend to hire it out to small farmers when they are not using it. A small farmer might own a yoke of oxen, but the ownership costs are extremely difficult to calculate. Oxen can be worked for 10 years, but since salvage value is the slaughter price there might be no depreciation involved. The equipment used with oxen consists of wooden plows, wooden carts, and yokes. All of these items have a low initial cost (they are often made by the farmer) and an indeterminate useful life. The small farmer will also own several machetes, hoes, an axe, and perhaps a small backpack sprayer for applying insecticide. He commonly has a small shed for storing his crop, also. Fields are always fenced to keep livestock out of the crops, making fence repair and upkeep part of ownership costs. Ownership costs for land are very small. Land taxes take the form of a municipal tax, and are not usually assigned according to land value or size of land holdings. There are some taxes involved though.

A sample corn budget with estimated fixed and ownership costs was presented earlier in the report. Even these costs might be inflated since hired laborers supply their own machetes and hoes.

Gathering fixed and ownership costs from loan officers also creates problems, for although they have a great deal of experience with variable crop production costs, they have very little in estimating fixed costs. This indicates a need for careful supervision.

The process of developing livestock enterprise budgets has barely begun. Some production information has been gathered, but the biggest obstacle is lack of production cost data. Preparation of budgets under conditions of limited information will be a major objective during the second year of the project.

Projected Activities

The next stage of the budgeting process will encompass several improvements. Irregularities and inconsistencies in the definition of levels of technology, technical coefficients, and terminology will be dealt with in loan officer training sessions about standard methodology for estimating budgets. The budget information currently being collected will serve as a basis for the further work.

A standard review procedure involving BNF personnel, farm interviews, OSU faculty and farm records (where available) will be used to verify the budget information.

Fixed and ownership costs will be estimated and included in the following round of budget preparation.

Summary

Due to the importance of and need for detailed budget information in the research and applications underway, and to the problems encountered in the current information available, revision of the BNF master budget system was undertaken. It is seen as an important step in improving the quality of production information available to the BNF, thus forming a base for improvement of loan evaluation and policy analysis.

The attempt to establish a standardized set of enterprise budgets for bank use has encountered problems in format, information available, and habit. The budgets now being developed are far from perfect, yet represent an important advance in the areas of factor and price identification and cost analysis of the factors of production.

MEETINGS PERTAINING TO ENTERPRISE BUDGETS AND PRODUCT AND INPUT PRICES

| <u>PLACE</u> | <u>PARTICIPANTS</u> | <u>JOB TITLE AND AGENCY</u> |
|-----------------------------------|---------------------------------------|--|
| Tegucigalpa 3/26/79 | Loren Parks | PROCAPP |
| | Kurt Rockeman | PROCAPP |
| | Reynerio Barahona | PROCAPP |
| | Rodolfo Ferrari | Head of Division of Valuation and Inspection - Central Office |
| | Joaquin Tome | Supervisor of Loan Officers - Central Office |
| | Reynaldo Munoz | Supervisor of Loan Officers - Central Office |
| | Carlos Martel | Loan Officer II - Central Office |
| | Armando Ramirez | Loan Officer II - Comayagua |
| | Clemente Meraz | Supervisor of Loan Officers - Choluteca |
| | Domingo Murillo | Loan Officer II - Juticalpa |
| Roberto Sierra | Loan Officer II - Danli | |
| Tegucigalpa 4/10/79 | Loren Parks | PROCAPP |
| | Kurt Rockeman | PROCAPP |
| | Armando Ramirez | Loan Officer II - Comayagua |
| | Clemente Meraz | Supervisor of Loan Officers - Choluteca |
| | Domingo Murillo | Loan Officer II - Juticalpa |
| Roberto Sierra | Loan Officer II - Danli | |
| Choluteca 4/27/79 | Loren Parks | PROCAPP |
| | Kurt Rockeman | PROCAPP |
| | Rosendo Castillo | Branch Manager - Choluteca |
| | Clemente Meraz | Supervisor of Loan Officers - Choluteca |
| San Pedro Sula 5/03/79 | Loren Parks | PROCAPP |
| | Kurt Rockeman | PROCAPP |
| | Reynerio Barahona | PROCAPP |
| | Hector Caceres Pineda | Branch Manager - San Pedro Sula |
| | Jorge Alvarado | Supervisor of Loan Officers - San Pedro Sula |
| | Enrique Fiallos | Agronomist II - San Pedro Sula |
| | Luis Serrano | Loan Officer II - El Progreso |
| | Abraham Molina | Loan Officer II - Puerto Cortes |
| Jose Hector Munoz | Loan Officer II - Santo Rosa de Copan | |
| Comayagua 5/03/79 | Kurt Rockeman | PROCAPP |
| | Armando Ramirez | Loan Officer II - Comayagua |
| Santa Rosa de Copan 5/14/79 | Loren Parks | PROCAPP |
| | Manuel Amaya | Head of Credit Division - Central Office |
| | Antonio Calix | Branch Manager - Santa Rosa de Copan |
| | Jose Hector Munoz | Loan Officer II - Santa Rosa de Copan |
| | Sara Glenda de Leon | Loan Analyst - Santa Rosa de Copan |
| | Jose Francisco Bustillo | Loan Officer I - Santa Rosa de Copan |

| | | |
|-----------------------------------|--------------------------------|---|
| | Carlos Regalado | Loan Officer I - Santa Rosa de Copan |
| | Jorge A. Palma | Loan Officer I - Santa Rosa de Copan |
| | Rodolfo Morales | Loan Officer I - Santa Rosa de Copan |
| La Ceiba 5/17/79 | Loren Parks | PROCAPP |
| | Kurt Rockeman | PROCAPP |
| | Reynerio Barahona | PROCAPP |
| | Julio Cesar Duenas | Branch Manager - La Ceiba |
| | Rosel Aguilar Montes de Oro | Loan Analyst - La Ceiba |
| | Carlos Mayorga | Loan Officer II - La Ceiba |
| | Cesar Augusto Membreno | Loan Officer I - La Ceiba |
| | Jorge Menjivas | Loan Officer I - La Ceiba |
| | Miguel Angel Leiva | Loan Officer II - Tocoa |
| | Juan Francisco Molina | Loan Officer II - Olanchito |
| | Narcisco Mejia Sierra | Loan Officer II - Tela |
| San Pedro Sula 5/18/79 | Loren Parks | PROCAPP |
| | Kurt Rockeman | PROCAPP |
| | Reynerio Barahona | PROCAPP |
| | Jorge Alvarado | Supervisor of Loan Officers - San Pedro Sula |
| | Luis Serrano | Loan Officer II - El Progreso |
| | Abraham Molina | Loan Officer II - Puerto Cortes |
| La Ceiba 6/07/79 | Reynerio Barahona | PROCAPP |
| | Rolando Medrano | PROCAPP |
| | Carlos Mayorga | Loan Officer II - La Ceiba |
| | Juan Francisco Molina | Loan Officer II - Olanchito |
| | Miguel Angel Leiva | Loan Officer II - Tocoa |
| | Narciso Mejia Sierra | Loan Officer II - Tela |
| San Pedro Sula 6/08/79 | Kurt Rockeman | PROCAPP |
| | Jorge Alvarado | Supervisor of Loan Officers - San Pedro Sula |
| | Rivaldo Lopez | Agronomist II - San Pedro Sula |
| | Guillermo Solorzano | Loan Officer II - Yoro |
| Marcala 6/25/79 | Reynerio Barahona | PROCAPP |
| | Rolando Medrano | PROCAPP |
| | Rafael Diaz | Branch Manager - Marcala |
| | Rolando Tome | Loan Officer - Marcala |
| Santa Rosa de Copan 6/26/79 | Kurt Rockeman | PROCAPP |
| | Jose Hector Munoz | Loan Officer II - Santa Rosa de Copan |
| San Pedro Sula 6/29/79 | Kurt Rockeman | PROCAPP |
| | Reynerio Barahona | PROCAPP |
| | Rolando Medrano | PROCAPP |
| | Jorge Alvarado | Supervisor of Loan Officers - San Pedro Sula |
| | Luis Serrano | Loan Officer II - El Progreso |

APPENDIX 3

TRAINING PROGRAM

1. Sesion de Entrenamiento BNF Realizado En El Zamorano
(Training session held at El Zamorano)
2. Sesion de Entrenamiento Sobre el Manejo de los Libros
de Contabilidad
(Training session held for farm records)
3. Course Outline: Collection and Use of Data for
Loan Evaluation
4. Course Outline: Financial Analysis of the Farm Firm

SESION DE ENTRENAMIENTO BNF REALIZADA EN
EL ZAMORANO

PRESENTACION

13 de febrero de 1979

1. Análisis de solicitudes de crédito

Antecedentes: Ejemplo de 50 clientes de la agencia Danlf
productores de maíz y/o frijol, años 1974-1978.

a. Inflación en montos otorgados por manzana:

- (1) En parte debido a cambios efectuados en los precios.
- (2) Influencia de PROMYFSA e inclusión del rubro "Imprevistos"
- (3) Disminución en porcentaje actual sobre "Valor Retirado"
- (4) Problema para el BNF: Dificultad para planificar demanda y disponibilidad de fondos.

b. Grandes variaciones en montos otorgados, por manzana, para el mismo trabajo. Ej: "Preparación de Tierras" para el maíz, varía entre L.20.00 por manzana y L. 60.00 por manzana en el año de 1978.

Observación: Las solicitudes indican necesidad de recursos monetarios, pero no muestran necesidades de producción.

Además se observa también:

- (1) Omisión de insumos físicos en los planes de inversión preparados por peritos.
- (2) Omisión de insumos en categorías como "Semilla"

c. Otros problemas en Planes de Inversión preparados por Peritos:

1. Grandes variaciones en la descripción de trabajos de campo;
2. Variaciones en la especificación del tiempo requerido para determinado trabajo.
3. Variación en las estimaciones sobre los rendimientos, dado un grupo de insumos.
4. La tendencia a mantener constante, año por año, el monto otorgado sin considerar cambios en los gastos ni cantidad del préstamo actualmente retirado.

d. Problemas del sistema

- (1) Uso de los precios de granos básicos en garantía, para cálculo de los ingresos por finca.
- (2) Se incluye el consumo familiar de granos en el cálculo de ingresos en efectivo.

2. Resumen de Problemas

- a. Dificultad para planificar demanda y disponibilidad de fondos.
- b. Falta de uniformidad en la preparación de planes de inversión.
 - (1) Dificultad para la elaboración de patrones
 - (2) Dificultad para establecer comparación entre fincas
 - (3) Dificultad para estimar la rentabilidad de la empresa.
- c. Escasez de datos requeridos para análisis financiero.
- d. Uso de prácticas no de acuerdo con la realidad.

3. Introducción de nuevas formas y métodos para la evaluación de préstamos

- a. Insumos físicos
- b. Insumos Monetarios
- c. Flujo de Caja
- d. Resumen financiero

4. Ejemplo:

Finca de 7 manzanas, Maíz/Frijol en el Valle de Jamastrán

PROYECTO CREDITO AL PEQUEÑO PRODUCTOR

Sesión de Entrenamiento

Sobre el manejo de los libros de contabilidad

LUGAR : División Técnica
Banco Nacional de Fomento

FECHA : Lunes 9 de abril de 1979

| | |
|-------------------|---|
| 8:30 a 9:00 a.m. | Llegada de los participantes |
| 9:00 " 12:00 m. | Inicio de la sesión |
| | - Introducción |
| | - Objetivos del proyecto |
| | - Revisión de cada una de las secciones del libro |
| | - Principales problemas encontrados en el manejo de los libros |
| | - Ejemplos utilizando todas las formas del libro |
| 12:00 a 1:00 p.m. | Almuerzo |
| 1:00 en adelante | Análisis de los datos de los ejemplos |

PARTICIPANTES

| | | | |
|--------|----------------------|---|--------------------|
| Profa. | Nereyda Vargas | - | Ajuterique |
| Srta. | Paulina Méndez | - | Jutiapa |
| Sr. | Rigoberto Vallecillo | | Valle de Jamastrán |
| Sr. | David Hughes | | |
| Sr. | Claudius Rollins | | |
| Sr. | Dan Galt | | |

COURSE 1: COLLECTION AND USE OF DATA FOR LOAN EVALUATION

TENTATIVE OUTLINE

- I. Enterprise Budgets
 - A. Estimation of variable production costs
 - 1. Technical coefficients
 - a. Labor
 - b. Animal power
 - c. Machinery
 - d. Insecticides
 - e. Fertilizer
 - 2. Contracted services
 - a. Soil preparation
 - b. Harvesting
 - c. Other
 - B. Estimation of fixed costs and unassignable costs
 - 1. Maintenance
 - a. Structure
 - b. Fences
 - c. Equipment
 - 2. Depreciation
 - C. Estimation of Gross Income
 - 1. Determination of sale price
 - 2. Estimation of total production
 - 3. Estimation of production available for sale, accounting for family and animal consumption, storage losses, and seed storage.
 - D. Estimation of Net Income of the Enterprise
 - 1. Consideration of family cash expenses
 - 2. Consideration of other income and expenditures
- II. Determination of Farm Level Product Prices
 - A. The importance and use of prices
 - B. Crops
 - 1. Methodology for determining the average price
 - 2. Locational differences

3. Quality and size differences
 4. Separation of marketing expenses
- C. Livestock Products
1. through 4. (above)

III. Determination of Input Prices

- A. The importance and use of prices
- B. Methodology for determining input prices

SCHEDULE

Participants: All BNF loan officers and credit analysts in the country, plus selected personnel from the Credit Division and the Crop and Livestock Division (Agropecuaria). Total number will be approximately 180, taught in six groups of 30 each.

Dates/Locations:* Training sessions are 3 days each.

| | |
|-----------------|-----------------------|
| Tegucigalpa: | 2nd week in September |
| | 4th week in September |
| | 1st week in October |
| San Pedro Sula: | 2nd week in October |
| | 3rd week in October |
| La Ceiba: | 4th week in October |

*Subject to change because of ongoing BNF training programs and activities.

COURSE 2: FINANCIAL ANALYSIS OF THE FARM FIRM

TENTATIVE OUTLINE

- I. Analysis of Crop and Livestock Budgets
 - A. Communication between loan officer and credit analyst
 - B. Review of variable costs
 - 1. Comparison with master budget with respect to expected yields, input requirements and prices
 - 2. Check for inconsistencies and errors
 - 3. Separation and consideration of hired and family labor
 - C. Review of fixed costs

- II. Whole Farm Analysis
 - A. Consideration of non-production expenses and incomes
 - 1. Family living
 - 2. Previous obligations
 - B. Examination of legal status with respect to tenure
 - C. Calculation of repayment capacity
 - D. Cash flow
 - E. Financial indicators - net worth, financial ratios
 - F. Examination of loan collateral

- III. Maintenance of Records
 - A. Maintenance of client files
 - B. Transfer of information to central computer records
 - C. Value and use of historical client records

Schedule:

Six sessions will be held like those described for Course 1. The first will start in the first week of November, proceeding at the rate of one per week.

APPENDIX 4

ANALYSIS OF CLIENT LOAN FILES

1. Loan Forms Used By The Perito Valuador
2. Loan Processing Steps
3. The Process Of Loan Default

LOAN FORMS USED BY THE PERITO VALUADOR

1. Solicitud de Crédito Agropecuario - Forma BNF-7044

This form summarizes basic general and credit information about the client and the purpose of the loan. Credit information includes the amount of the loan requested, purpose, references, collateral and balance sheet. This information is obtained by the analista when the client first visits the bank or by the perito in the field.

2. Informe Pericial

This form is a detailed elaboration of the information on the Solicitud. It includes a detailed budget plan (usually attached because of lack of space), client's previous experience with the crop, summary of resources the client can use for the crop, check of the client's references, summary of collateral offered, and a summary of the clients expected income and expenses. The perito fills this out when he visits the client, and adds any pertinent comments.

Attached Forms for Loan Collateral

- A. Crop Collateral. Crop production is the base collateral for all crop loans. There are three forms; one each for basic grains, coffee (BNF-7016) and sugar cane (BNF-7023). General information includes estimated production,

technology level of the cropping practices, and an assessment of land quality and value. There is also a space to include a map of the land occupied by the crop.

- B. Livestock Collateral. This is a detailed inventory form (BNF-7028) for livestock offered as collateral.
- C. Machinery Collateral. This is a detailed inventory form (BNF-7041) for machinery offered as collateral.
- D. Property Collateral. There are two forms for inventory and value of property -- one for residential and one for rural land holdings. The information required includes a detailed inventory of the property, possible use and current use, estimation of capitalized value, and comparable sales data.

3. Analisis de Capacidad de Pago

This form has been recently introduced to be filled out by the perito valuador. It consists of an ordering of income and expenses associated strictly with the enterprise for which money is being borrowed. A second section is a summary of the producers total repayment capacity including all income and expenses for the operation. There is one form for short term crop loans, and one form for medium term loans.

4. Informe de Control

This form is used to control loan disbursements. It is filled out by the perito after he visits the client to confirm that the

money withdrawn has been used for its intended purpose.

5. Informe de Control de Préstamos en Mora

When a client goes into mora (default) this form is used to summarize the collateral remaining, unpaid loan amount, possible resources for loan repayment, and the cause of mora. The perito keeps a record of further activities associated with the loan.

6. Informe de Actividades

This is a simple diary form to record the activities of the perito during a given time period.

LOAN PROCESSING STEPS

1. The loan procedure begins when the client visits the local BNF office to request a loan for a specific purpose. The client usually has only a rough idea of the amount he wishes to borrow. He talks to the analista, who fills out a solicitud with general biographical, financial and other pertinent information about the client.
2. The perito visits the client to confirm the information obtained about the client which is contained in the solicitud. He also prepares a detailed budget plan, complete with relevant comments and the actual loan amount requested. He also fills out evaluation forms on any assets offered as collateral. On this visit the perito has with him the solicitud prepared at the local BNF office. But if the perito meets a client in the field who for some reason has been unable to visit the bank, the perito can fill out a solicitud in the field; thus by passing step 1.
3. The perito delivers all of the prepared forms and material to the Credit Division at the local BNF agency for analysis. The information is reviewed by the analyst, and the loan is either authorized or rejected.
4. The BNF office notifies the client of approval or rejection by telegram or letter delivered to the client at a specified address. Often the notice is sent in care of a friend or someone who lives in town.

5. The client goes to the local BNF office to sign the local contract in the presence of the bank lawyer. A minimum of three signatures (the clients plus two witnesses) is required at a cost of L5 per signature. This is a legal fee, somewhat equivalent to Notary Public service. Most of the legal fee goes to the government.
6. The loan contract and official forms are passed to the Office of Loan Administration within the same agency, where the paperwork is set up for loan disbursements. The time required for this can vary from 30 minutes to 3 days, depending on the current volume of loans in process. More time is required when land, machinery, cattle or houses are pledged for collateral since title must be legally verified.
7. Once the disbursement mechanism is set up the client can begin withdrawing loan money. The bank will not deliver all of the money at one time for crops. Instead, it must be withdrawn in stages corresponding to the purposes for which it is authorized. A minimum of three separate withdrawals are required for basic grains, corresponding to the following categories:
 - (a) Land preparation, seed, fertilizer, etc.
 - (b) Crop seeding and cultivation, weeding, purchase and application of insecticide, fungicide, fertilizer, etc.
 - (c) Harvest and transportation costs.
8. After the first major loan withdrawals, the perito begins his control of the clients. He is supposed to visit the clients farm to verify that the money withdrawn has been used for its intended purpose. For example, if the client has been unable to seed all the planned

area for some reason, or if infestations or disease destroy part of the crop, the control is the basis for adjusting future disbursements to coincide with what has taken place. Although the perito is responsible for controlling all disbursements, his client load makes this practically impossible. Reasons for not completing a control must be noted.

9. The established loan repayment deadline for basic grains and coffee is April 30. If the client is unable to repay in full he can visit the bank office to request a prórroga (postponement) for up to three months. For this extension to be granted, another control by the perito is required.

10. If the loan is not repaid the client goes into mora (default). The Legal Division of the Bank then takes over if guarantees of assets have been given, and further controls by the perito or lawyer may be authorized to try to collect.

Comments

Basic information must be filled out each year, which means excessive duplication of the same data over a period of years. It would be more efficient to simply record changes.

The perito has no concise loan history of the clients he visits. The bank has the information in the files, but there is no format to record such information in one place. In the present system, the perito needs the information, but it is tedium incarnate to extract it.

Credit rating classification of borrowers would offer a certain increase in efficiency of personnel use and allow concentration of loan supervision efforts on higher risk loans.

THE PROCESS OF LOAN DEFAULT (MORA)

A BNF client enters the default process when he fails to make full payment by the date specified in the loan contract. He is then considered to be in default, and the balance in default is the amount remaining to be paid plus interest.

When the loan due date has passed, the BNF sends the client a notice that payment is past due and asks him to present himself and take care of the matter. If within 15 days from the sending of the notice no action has been taken, a second notice is sent. If no response has been received 15 days after sending the second notice, a third notice is sent. If no answer is received within 15 days of the third notification, the matter is turned over to the BNF legal division.

During this minimum 60 day period, or even before the loan falls due, a producer can present himself to the BNF local office to offer reason for his inability to pay. In some instances he can receive a short term extension when, after an inspection by the loan officer, it is deemed that payment is forthcoming. If payment cannot be made the loan officer will still perform an inspection and report on the reasons for default. There is a special form used to record inspections and visits dealing with default.

The BNF tries to keep the producer in business as long as possible. The de facto policy is to avoid foreclosure of a production unit and to keep it working. Some cases of default do not pass to the BNF legal

division immediately because the producer continues to act in good faith attempting to repay the loan. This occurs most often when the reason for default is an 'act of God' (i.e. crop failure due to insects, drought, disease, or other acts of nature) over which the individual has no control.

When the client does not take any action and the matter is passed on to the legal division, there are two possible courses of action. The most common action is for the legal division to send a loan officer to the client to inspect the situation and/or exert pressure on the client to make payment. These visits are effective to a certain point, but the loan officer cannot actually collect money. He can only exert pressure and inform the local BNF office what is happening. He does not have the authority to force payment. Frequently the loan officer makes a series of such visits. There is a definite cost, and diminishing returns to these visits because the loan officer often spends a large amount of time attempting to locate clients, some of which do not want to be found.

The second possible action is initiation of formal legal action against the client. The BNF lawyer must present the appropriate papers before the officials of the municipio where the client resides. A legal order is then processed and delivered to the client by the proper legal authority. In effect it is a summons, wherein the recipient is required to appear before the municipal judge on a certain date to answer for having breached the contract. Depending upon the situation, repossession of goods offered as loan guarantee could then be initiated or payment could be made by the client.

In practice, legal action is only taken as a last resort. Although the notification process can be completed in 60 days, due to lack of

personnel it might last for months. The bank also has a tendency to use loan officer pressure on small clients instead of legal action due to the costs of pursuing legal action. Bank lawyers receive a percentage of the value of goods repossessed, giving them an incentive to concentrate their efforts on larger clients near Tegucigalpa. Legal action to recover large loan default could also become stalled within the bank for personal or political reasons.

In summary, the BNF's handling of default is influenced strongly by their general reluctance to take legal action against small producers and the tendency for the recuperation process to move slowly at best.

Kurt Rockeman