

PROJECT DATA SHEET

1. TRANSACTION CODE

A = Add
 C = Change
 D = Delete

Amendment Number

DOCUMENT CODE
3

2. COUNTRY/ENTITY

HONDURAS

000098

3. PROJECT NUMBER

522-0178

PD-ANS-140

4. BUREAU/OFFICE

LAC

05

5. PROJECT TITLE (maximum 40 characters)

ISA 42210

AGRICULTURAL CREDIT

6. PROJECT ASSISTANCE COMPLETION DATE (PACD)

MM DD YY
09 01 85

7. ESTIMATED DATE OF OBLIGATION
(Under "B" below, enter 1, 2, 3, or 4)

A. Initial FY 82

B. Quarter 4

C. Final FY 83

8. COSTS (\$000 OR EQUIVALENT \$1 = Lps 2.00)

A. FUNDING SOURCE	FIRST FY 82			LIFE OF PROJECT		
	B. FX	C. L/C	D. Total	E. FX	F. L/C	G. Total
AID Appropriated Total						
(Grant)	(-0-)	(-0-)	(-0-)	(1,000)	(-0-)	(1,000)
(Loan)	()	()	()	()	()	()
Other U.S.						
1.						
2.						
Host Country	-0-	-0-	-0-	-0-	362.5	362.5
Other Donor(s)						
TOTALS	-0-	-0-	-0-	1,000	362.5	1,362.5

9. SCHEDULE OF AID FUNDING (\$000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE		D. OBLIGATIONS TO DATE		E. AMOUNT APPROVED THIS ACTION		F. LIFE OF PROJECT	
		1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan	1. Grant	2. Loan
(1) FN	139	040		-0-		500	-0-	1,000	-0-
(2)									
(3)									
(4)									
TOTALS									

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each)

11. SECONDARY PURPOSE CODE

12. SPECIAL CONCERNS CODES (maximum 7 codes of 4 positions each)

A. Code

BF

B. Amount

13. PROJECT PURPOSE (maximum 480 characters)

To increase the knowledge of the overall policy framework affecting the allocation of credit and savings mobilization to promote changes in that policy framework and to assist the financial institutions to adapt to the changing financial environment.

14. SCHEDULED EVALUATIONS

Interim MM YY MM YY Final MM YY
10 8 3 10 8 4 09 8 5

15. SOURCE/ORIGIN OF GOODS AND SERVICES

000 941 Local Other (Specify)

16. AMENDMENTS/NATURE OF CHANGE PROPOSED (This is page 1 of a _____ page PP Amendment.)

17. APPROVED BY

Signature

Ronald L. Nicholson

Title

RONALD L. NICHOLSON
ACTING MISSION DIRECTOR
USAID/HONDURAS

Date Signed

MM DD YY
02 30 82

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION

MM DD YY

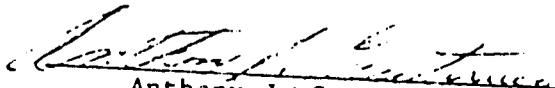
PROJECT AUTHORIZATION

Name of Country: Honduras
Name of Project: Agricultural Credit
Number of Project: 522-0178

1. Pursuant to Section 103 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Agricultural Credit Project for Honduras (the "Cooperating Country") involving planned obligations not to exceed One Million United States Dollars (\$1,000,000) in grant funds ("Grant") over a three year period from the date of authorization subject to the availability of funds in accordance with the AID/OYB allotment process, to help in financing foreign exchange and local currency costs of the project.
2. The project ("Project") will increase the receptivity of the Honduran financial community to changes in the overall policy framework affecting the allocation of credit and savings mobilization in the Honduran banking and financial intermediation system and to assist the financial institutions to adapt to the resulting more competitive environment. The Project consists of the provision of technical assistance to the national agricultural development bank and agricultural and credit cooperatives as well as a series of seminars on monetary policy for representatives of public and private financial institutions.
3. The Project Agreement, which may be negotiated and executed by the officer to whom such authority is delegated in accordance with A.I.D. regulations and Delegations of Authority, shall be subject to the following essential terms and conditions, together with such other terms and conditions as A.I.D. may deem appropriate:

a. Source and Origin of Goods and Services

Goods and services, except for ocean shipping, financed by A.I.D. under the Grant shall have their source and origin in the United States and countries that are members of the Central American Common Market, except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Grant shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States.


Anthony J. Cauterucci
Mission Director
USAID/Honduras

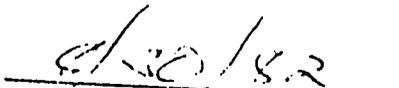

Date

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PROJECT PAPER
AGRICULTURAL CREDIT
Project No. 522-0178

I. Background Summary^{1/}

A. The Macro-Economic Picture

After good progress in the late 1970's, the Honduran economy's real growth rate dropped from an average of 7% during the late 1970's to 2.5% in 1980. Preliminary estimates for 1981 indicate that real GDP growth was about 0.3% and a stagnant economic performance is expected in 1982. The country's limited domestic market and high dependence on a few major exports (coffee, bananas, beef and forest products) pose a serious constraint to its long term development and make its economic growth highly sensitive to external factors.

Four interrelated aspects of the macro-economic situation have particularly negative implications for reversing the present stagnation of the economy. They are the decline in private investment; worsening balance of payments; large government fiscal deficit; and, sizable reduction in loans to the private sector through the banking system (see Tables in Annex F-1).

B. Agricultural Sector

The agricultural sector in Honduras consists mainly of agricultural production operations, agro-industries that transform and market agricultural products, and service operations which support these activities. Despite occasional increases in response to market forces (e.g. coffee boom in 1976/1977), the overall average annual growth rate in agricultural production has declined during the past several years. In general, prices for the major export crops have been low over the last few years, and there has been a decline in the per capita production of most crops over the last decade. In the last few months, weakening demand, raw materials supply problems and a shortage of foreign exchange have caused a significant reduction in the output of agro-industries. The service sector appears to be suffering as a result.

Agricultural credit in Honduras, used to finance crop, livestock and other agricultural sector production, has been disproportionately affected by an overall contraction in credit available through the domestic banking system. In addition to affecting production, this reduction has affected agro-industries and services (e.g. input supply firms) which provide credit to both producers and industries.

The steadily declining availability of credit for the agricultural sector is having serious effects on the rural population, with the poorest rural families facing the twin problems of declining demand for their products and a reduction of employment opportunities.

^{1/} A detailed background analysis is included in Annex F-1

C. Causes of the Credit Crunch

The contraction of credit for the private sector, which in real terms has been underway for at least five years, has been severely aggravated by: a substantial increase in the public sector budgetary deficit in 1980 and 1981; a dramatic increase in the portion of the deficit financed by the banking system; inflation; the low prices for major exports and increased imports; capital flight; and Central Bank monetary policy. Three aspects of monetary policy - low interest rates on loans and savings, a fragmented interest rate structure for loans and Central Bank discounts, and high reserve requirements on time and savings deposits - appear to have retarded the mobilization of savings on which economic recovery would in part depend.

D. The Honduran Financial System

The financial system of Honduras is dominated by the country's 15 private commercial banks and two of the three public development banks. The system includes the following institutions:

1. The Central Bank of Honduras;
2. Fifteen private domestic commercial banks;
3. Three public development banks;
4. One public savings and loan bank;
5. Seven private savings and loan associations; and,
6. Two finance companies.

Credit is also provided through cooperative organizations, most of which are grouped into federations; several private development foundations, which operate on a limited scale in the urban and rural credit markets; and non-institutional, informal sources such as friends, money lenders, and agricultural input suppliers.

II. Project Description

A. Program Goal and Purpose

1. Program Goal

The ultimate goal of the Program is to stimulate agricultural production and increase the incomes of poor rural families.

The sub-goal relating to this particular Project is to strengthen the financial intermediation system, thereby increasing the flow of agricultural credit to rural families.

2. Project Purpose

The immediate objective of the Project is to increase the knowledge of the overall policy framework affecting the allocation of credit and savings mobilization in the Honduran banking and financial intermediation system to promote changes in that framework which may be required to improve credit allocation and savings mobilization incentives, and to assist the financial institutions to adapt to the changing financial environment.

B. Project Outputs

To achieve this purpose, technical assistance will be provided to the Central Bank, private banks, BANADESA and non-bank financial institutions, such as credit unions and cooperatives, that serve primarily smaller borrowers. In addition, a series of seminar/workshops will be conducted with representatives from the GOH, Central Bank, private banks and non-bank financial institutions. These seminar/workshops will be designed to address the issues of policy reforms in Honduras which will lead to financial liberalization.

Non-banking financial institutions such as credit unions and cooperatives will also receive assistance to strengthen their management capabilities in order to help them achieve commercial viability, thereby ensuring better access to credit by smaller borrowers who traditionally have difficulty obtaining bank loans.

The Government of Honduras will be the Grantee. The Project thus consists of three major activities: Increasing Resource Mobilization and Strengthening the various Small Borrower Credit Channels; Research/Seminars for representatives from the Central Bank, private banks, BANADESA and other non-bank financial institutions; and credit wholesaling activities. Additionally, the GOH will provide credit through BANADESA, to cooperatives and credit unions.

Resource Mobilization and Strengthening of Small Borrower Credit Channels

At present, very few small borrowers in Honduras obtain credit from institutional sources. On one hand, commercial banks have traditionally lent to few small borrowers due to high costs and risks. On the other hand, almost all of the financial institutions in Honduras that lend primarily to small borrowers - the public Agricultural Development Bank (BANADESA), the credit unions and cooperatives - have not capitalized at an acceptable rate, attracted significant non-concessional financing, or mobilized significant amounts of lending capital. They too serve only a small percentage of the country's 200,000 to 300,000 potential small agricultural and service sector borrowers. Virtually the only credit readily available to the smallest borrowers is from the informal, non-institutional sources, such as input suppliers, contract buyers, friends, family, and money lenders. These sources are utilized frequently, but the total amount borrowed is usually small and the cost to the borrower is high. For example, interest rates of 4-5% per month are common on short term loans from money lenders.

Some increase in small borrower access to credit could have been expected over the years had credit in the banking system grown in real terms. However, a recently published Agricultural Sector Credit Assessment prepared for the

Mission by a team of experts contracted through Ohio State University (OSU) demonstrated that credit has in fact contracted significantly in real terms over the last 10 years. (Copies of the study are available in USAID/Honduras and LAC/DR AID/W). The study concluded that the major constraint to increased credit availability in the economy has been monetary policies which currently provide Honduran banks little incentive to increase mobilization of domestic resources. With interest rates ceilings on loans, raising the interest rates paid on savings would simply have reduced bank profit margins, with little growth in credit availability. Presently, there is no way in which banks can adequately compensate for the higher costs of lending to smaller borrowers.

The non-bank financial institutions, which are mainly cooperative organizations, have suffered largely self-imposed constraints. In general, they have had weak management, have kept interest rates low to avoid complaints from clients and the appearance of charging higher interest rates than the commercial banks, and have been slow in reacting to the recent rapid changes in money market conditions.

The recently adopted monetary policy reforms have partially removed the disincentives to greater resource mobilization by the banks, and there is a growing awareness in the non-bank financial institutions that they must improve management and significantly expand their services. With greater efforts at resource mobilization and the banks better able to relate the interest rates they charge to real lending costs, including risk, some small borrowers, mainly those who are now bank clients or have sufficient collateral to qualify for loans, will undoubtedly gain increased access to commercial bank credit.

For the majority of Honduras' small farmers, however, direct access to credit will still be constrained by collateral and other bank requirements, even if market rates were completely open. Thus, for the foreseeable future, the question of access to credit for these borrowers would seem to be best addressed by strengthening the credit channels - BANADESA and non-bank financial institutions - which serve them primarily.

Under the Project, assistance will be provided to all of these institutions to help them fully analyze and understand the implications of increased resources mobilization and assist them in finding the best possible alternatives. Efforts aimed at increasing resource mobilization and improving small borrower access to credit will be concentrated on achieving three specific and interrelated objectives: assisting the private banks to increase resource mobilization in general and lending to smaller borrowers in particular; helping non-bank financial institutions to simultaneously improve their management capability and carry out a resource mobilization program; and assisting BANADESA to complete its reform program and strengthen their wholesaling operation through which additional resources will be made available to non-bank small borrower financial institutions. The estimated total cost of the services required is \$ 1,000,000 which will be disbursed over a three year period. The assistance to be provided is described below:

a. Private Banks

Some of the private banks need and desire assistance in developing new banking strategies which will enable them to adjust to a financial environment characterized by increased uncertainty and higher than historical rates of inflation. Technical assistance will be contracted to provide specialized assistance to Honduran private bankers. Individuals who have held responsible positions in private banks in Latin America will be contracted to advise the Honduran bankers in techniques used elsewhere to increase private bank lending to smaller farmers, to adjust operations to conditions of high inflation rates and to mobilize increased savings particularly from smaller scale savers. A series of meetings attended by employees of private banking institutions will be offered to provide training in the administrative techniques used by banks outside of Honduras to adjust to more flexible, interest rates. Approximately four person/months of technical assistance will be needed.

b. BANADESA

Despite a sometimes troubled past, BANADESA is still the major supplier of credit to small and medium farmers, especially those who do not meet commercial bank collateral requirements. It has initiated a comprehensive reform program to reestablish its capability to adequately serve this client group. Under the Project, BANADESA will be assisted in completing its reform program and developing its ability to administer a wholesale lending operation. A total of 24 person months of technical assistance from one long term adviser and 14 person months from short term advisers will be needed.

b.(1) Long-term Advisor Credit

This advisor will provide technical assistance to BANADESA and other Honduran intermediate credit institutions to assist with the development and implementation of programs designed to increase the flow of agricultural credit. Advisor will monitor project activities and coordinate all short-term technical assistance. Specifically, the long-term credit advisor will: 1) provide direct technical assistance to BANADESA, private banks and other credit merchandizers with respect to design and implementation of projects which promote the flow of agricultural credit as well as domestic resource mobilization; 2) maintain regular contact with Banco Nacional de Desarrollo Agrícola (BANADESA) and serve as the agricultural credit advisor to them, providing advise on policy and program issues which affect credit disbursal and recovery to small and medium farmers; 3) maintain regular contact and coordinate agricultural credit activities with other international donor agencies; 4) assist BANADESA in compliance with conditions precedent that are contemplated prior to their participation in major new credit projects, with particular emphasis on recoveries of past due loans; and, 5) assist with all project management reporting requirements and other duties assigned.

b.(2) Short-term T.A. to BANADESA

The recent study of BANADESA completed as part of an overall assessment of rural financial markets in Honduras highlighted several problems in portfolio

management and credit policies within BANADESA. Areas that warrant further work to help the institution become better prepared to service future lines of credit are delinquency management and lending organizational structure. It is estimated that approximately 14 person-months of short-term T.A. will be required as follows:

-Credit and Operations Advisors	6	p/m
-Programming, Budget, Accounting Advisors	6	p/m
-Information Advisors	1	p/m
-Organization Methods Advisors	1	p/m

c. Credit Unions and Cooperatives

Credit unions and cooperatives presently provide important credit services to small farmers throughout Honduras, and particularly to those farmers who are not clients of either BANADESA or the private commercial banking sector. The amount of credit provided by these organizations is limited, and they are beset with numerous internal problems. However, the potential does exist for these organizations to become viable small borrower credit channels which would permit them to participate in wholesaling operations for non-bank financial institutions. Under the Project a total of 24 person/months of technical assistance from a long-term advisor will be provided to both the GOH institutions involved in cooperative development activities (e.g., DIFOCOOP, INA, BANADESA, MNR and IHMA) and to cooperative organizations such as FACACH, the Regional Agricultural Cooperatives and FEHCOCAL. This assistance will be aimed at policy development, improved management, increasing rural savings mobilization and financial administration which will permit these cooperative organizations to meet the wholesaler eligibility criteria expected to be forthcoming from BANADESA and other potential lenders. In addition, up to four person/months of short-term technical assistance will be provided to FACACH to assist the Federation in improving its credit portfolio management activities.

c.(1) Long-term Advisor-Cooperatives

The long-term cooperative advisor will be responsible for providing technical guidance and advice to all cooperative organizations possessing the potential to become intermediate credit channels providing services to small farmers throughout Honduras. Emphasis will be placed upon the Federation of Savings and Credit Cooperative Associations (FACACH); the Regional Agricultural Cooperatives operating the agrarian reform sector; and the Federation of Coffee Cooperatives (FEHCOCAL). In addition to the strengthening of the cooperative credit channels, the advisor will also monitor the development of the Operational Program Grant support for the FACACH domestic resource mobilization program expected to begin operation in September 1982. Finally, this advisor will coordinate all technical assistance activities with the Directorate for Cooperative Development (DIFOCOOP), BANADESA, and other entities involved in cooperative development activities throughout Honduras.

The specific duties of the long-term cooperative advisor will include:
1) design, planning, monitoring and evaluation activities relating to the strengthening of the small farmer credit channels using the cooperative

channel; 2) provide direct technical assistance to both private cooperative organizations and to GOH institutions in the design and control of cooperative financing mechanisms, management, agricultural investment programs and domestic resource mobilization; 3) maintain regular contact and serve as the cooperative advisor to the National Directorate for Cooperative Development (DIFOCOOP), providing advice on policy and program issues and assisting the Directorate in establishing effective cooperative extension programs geared to the application of guidelines and the supervision of agricultural credit activities; 4) maintain regular contact with the major national campesino organizations promoting cooperatives among their members, assisting these groups with programs for small farmers; and, 5) monitor the FACACH domestic resource mobilization program, providing advice in the areas of capitalization programs, credit policies, delinquency controls and financing mechanisms.

d. FACACH Short-term Technical Assistance

Approximately 3 to 4 person/months of short-term technical assistance will be provided to FACACH to assist the Federation in improving its credit portfolio management activities. Emphasis will be placed upon credit analyses, financial planning and capitalization programs.

Research/Seminars

The major objectives of the Research/Seminars for representatives from the various public and private financial institutions are to promote efforts for more effective savings mobilization and more efficient credit allocation in Honduras. These initiatives will be directed to encourage policy changes that will enhance savings mobilization efforts and develop more efficient credit allocation in the rural financial markets of Honduras. To accomplish these objectives, periodic workshops/seminars will be conducted with selected Honduran government officials and private sector bankers to explain and discuss the wisdom of policy changes in the Honduran setting. To make these workshop/seminars meaningful and convincing to the high level Honduran participants, field research at the institutional and the farm level will be necessary. The results from this research will serve as the basis for and provide content of the workshop/seminars. Finally, efforts will be made to incorporate into the research effort competent Honduran professionals from the Economic Studies Division of the Central Bank, BANADESA and key private banks. Their participation in the research will help to ensure effective data collection, add insights into organizational structure peculiar to Honduras and increase cooperation in all aspects of the Project. A detailed description of the assistance to be provided through the seminar/workshops is presented in Annex H-3

C. Inputs

1. Summary Budget of A.I.D. Input

ACTIVITY	Calendar Years				Total
	1982	1983	1984	1985	
Long term credit Advisor		80,000	92,000	45,000	217,000
Long term Coop. Advisor		80,000	92,000		172,000
Short term T.A. to BANADESA	85,000	85,000			170,000
Other short term T.A.	25,000	20,000			45,000
Research/Seminars	146,000	120,000	100,000		366,000
Short term T A. to FACACH		15,000	15,000		30,000
	256,000	400,000	299,000	45,000	1,000,000

A three year disbursement period is planned from the date of first disbursement of AID funds. Detailed budgets for the Project may be found in Section III-C.

2. Description of Inputs

The AID input will consist of a \$1 million grant. The Government of Honduras will act the Project's Grantee. The counterpart contribution of \$ 362.500 thousand in resources from the Central Bank, private banks and BANADESA amounts to approximately 27% of the total Project Cost.

III. Project Analyses

A. Administrative and Financial Feasibility

In this analysis, the country's banking and institutional credit system is described, and the project's administrative and financial feasibility is discussed from the point of view of the Grantee (GOH), the Central Bank, BANADESA, private banks and the various non-bank financial institutions are:

1. The Government of Honduras

Although the GOH will be the grantee under the project, the GOH will have no responsibility for the administration of project activities. A.I.D. will directly contract for all technical services under the project.

2. Central Bank

a. Creation and Functions

The Central Bank of Honduras was created in 1950. The Bank's objectives are to:

- Preserve the value and acceptance of the currency (Lempira) in international markets;
- Maintain monetary equilibrium in the economy;
- Control credit availability and cost;
- Orient the banking sector to the productive sectors that contribute most to the country's economy; and,
- Promote a securities market

In order to maintain monetary equilibrium in the economy, the Central Bank has traditionally implemented the country's monetary policy through bank reserve requirements on checking, savings and time deposits; maximum interest rates on savings and loans; and administration of discount lines for specific kinds of credit to the private banks and BANADESA. Through the Office of Bank Superintendency, is responsible for overall supervision of bank operations.

b. Operations

Over its 32 years of operations the Bank has become a profitable financial organization and, in general, has provided for adequate regulation of the banking sector. Recently, the Bank has come under increasing pressure as a result of rapid changes in world money markets and the deteriorating economic situation in Honduras and the region.

In the last two years, it has taken on an additional difficult task - financing increasing GOH budget deficits. Until 1980, the amount of financing the Bank provided to the Central Government was relatively small in comparison to the GOH budget and Central Bank resources. The GOH budget for 1982 includes planned Central Bank financing of \$70 million. However, given that \$40 million was drawn down in January, 1982, the total is likely to be much higher. Up until now these deficits have been financed largely from the reserves deposited by the members of the national banking system. The result has been to drain the private sector of much needed credit. In an attempt to resolve this situation, the Bank is now considering issuance of direct debt instruments to the public. The Central Bank is aware of the difficulties and limitations inherent in this type of financing, and of the implications for the economy of allowing credit availability for the private sector to continue decreasing. The recent partial liberalization of monetary policy is good evidence of the Bank's intention to confront the situation in a sensible way.

3. Private Banks

a. Organization, Importance and coverage

The 15 commercial private banks eligible to receive technical assistance in the Project are largely family or closely held corporations. The exceptions are the three foreign owned banks - Bank of America, Banco de Honduras (Citibank), and the Bank of London and Montreal. Taken together the private banks provide a wide range of banking services and provide extensive coverage of banking services throughout the country. Each has a central office, most of which are located in Tegucigalpa, and 14 have one or more branch offices. The largest has 57 branches located in 33 towns and cities. Of the 213 total central and branch offices, 108 are located in the urban areas of Tegucigalpa, San Pedro Sula and La Ceiba and 105 are located in 61 rural towns and villages.

The banking system is by far the country's predominant vehicle for mobilizing resources for economic development. This predominance is reflected both in terms of the share of the banking system's total portfolio of outstanding loans and with respect to the annual amounts of credit granted (see Tables in Annex I.2.). The commercial banks' share of the loans outstanding at the end of each year in the banking system increased from 60% around 1960, to 75% in 1977. During the last three years (1978-1980), however, the relative importance of the commercial banks has declined, mostly as a consequence of the credit contraction and more limited access to foreign loans and Central Bank funds since 1978. The year end portfolio of the banks and the new loans made annually from 1970 to 1980 is included in Annex I.2.

b. Operations

During the course of Project development a survey covering almost all of the private banks was carried out by Mission personnel and consultants. The objective of the survey was to gain a clear understanding of how private banks operate and of the relationship between bank and client. The results of the survey are summarized in the following paragraphs.

In general, commercial banks approve loans based on their knowledge of the applicant, the guarantees offered, and payment capacity of the borrower. The person's entrepreneurial experience and reputation in the community and a previous banking relationship (checking or savings account) are the key factors that enter into knowledge of an applicant. The guarantees vary depending on the type of loan, and usually include machinery financed, crop mortgages, land, and urban real property with clear title. Payment capacity may be evidenced by income from a salaried job or from the business venture to be financed or from other investments. Projected cash flow statements are required at times for larger loans. Except for those loans that will be financed with World Bank funds, none of the banks requires a feasibility study or demonstration of a minimum expected financial/economic return to the investment.

There is some specialization in the banking community. The foreign owned banks and one or two of the larger Honduran owned banks invest most of their funds in loans to larger borrowers (\$50,000 and over), including GOH autonomous institutions. The remainder deal largely with medium sized borrowers (\$10,000 to \$50,000). Three or four are basically small loan banks. In general, managers in the smallest rural branch offices are authorized to approve loans of between \$2,500 and \$5,000. Larger loan sizes are approved by either branch office credit committees or regional managers. Specialization was also noted in the lending to economic sectors. Some banks make loans in a number of sectors, some concentrate in two or three sectors of the economy and one or two (for example, the Coffee Bank) lend only in one area. In general, the banking system is considered quite competitive by the bankers and outside observers.

Most banks indicated an interest in expanding lending to the agricultural sector. They indicated that the higher risks inherent in crop production had caused them to decrease lending in that area under the recent tight money conditions. Most cited the problem of obtaining adequate guarantees from clients, and the uncertainty introduced by the Agrarian Reform in making the guarantees effective.

None of the banks has a special program of lending to very small entrepreneurs at present. One plans to initiate such a program during 1982. Each of the banks could cite examples of loans that were made to large borrowers who in turn made credit available to smaller borrowers. However, this data does not provide an adequate base on which to estimate overall flows of credit to small borrowers through larger borrowers. Most of the banks have lent to individual cooperatives at one time or another. They noted that such loans required a great deal of supervision and were very risky because of the lack of stable and consistent management. Two banks noted that they have made loans to a

cooperative federation (e.g. FACACH or FEHCOCAL). The Coffee Bank (BANHCAFE) continues to lend to FEHCOCAL. The technical assistance provided through the project will attempt to promote special programs to address the needs of small borrower individuals and groups.

Two of the banks have tried special programs to mobilize resources and promote use of the banking system by "marginated" clients. In these programs, savings promoters were sent into slum communities of Tegucigalpa to obtain pledges of savings from the residents. The funds collected went to a savings account for the resident, a commission to the savings promoter for the first ten payments collected, and a lottery fund. In one case, the program has been quite successful and profitable and the bank has significantly increased its lending resources. In the other case, the effort was initially successful but was discontinued reportedly because the savings promoters unionized and made the operation unprofitable for the bank. These experiences provide dramatic evidence of the degree to which additional resources can be mobilized when the banks make the effort.

All of the banks participating in the World Bank Agricultural and Livestock Program maintain a staff of agronomists and agricultural economists who provide technical assistance to potential clients and borrowers under the program. Most of them indicated their desire to expand these services to their clients, but only one indicated that it would continue were it not required to do so by the World Bank. It is quite possible that the recent monetary policy changes will enable some of the banks to profitably provide this service to its clients.

When asked how the proposed change in Central Bank monetary policies would affect their banking strategy, most responded that they would raise interest rates by a few points. Curiously, not one mentioned that they would make stronger efforts to mobilize resources. This problem will be addressed by providing technical assistance in savings mobilization to the banks.

c. Conclusion

The private banking system provides good coverage throughout the country and is used by Hondurans to a greater degree than private banking systems in many other less developed countries.

4. BANADESA

a. Organization and Functions

The National Development Bank, BANAFOM, was reorganized into the Agricultural Development Bank (BANADESA) in March of 1980 after a long and checkered history of which AID, as a major investor in the Bank, is well aware. In contrast to its predecessor's more general economic development aims, BANADESA's main objective is to provide credit to the small and medium size agriculturalists in Honduras. It provides banking and financial services to tens of thousands of campesinos - individually and in groups - through a central offices and 27 branches in different parts of the country. As well, it is a major investor in 11 productive enterprises, including an agricultural input supply operation.

b. Operations

In sum, after almost 30 years of operations, BANAFOM had made loans and investments totalling \$594 million, and had lost a total of \$83.9 million, of which \$46.7 million was attributable to lending operations. It operated with subsidized interest rates, made some questionable big loans, and performed a combination banking/social welfare role which under the best of circumstances would have made profitable operations difficult. On the positive side, it made a total of \$550 million in loans, of which \$27 million were classified as uncollectible by audit as of the date it closed its books. Even when refinanced loans are accounted for, its overall combined delinquency/bad debt rate was less than 10% of the loans made over its 30 years of credit operations, which should be considered reasonable given previous operating standards. As BANAFOM did not write off uncollectibles until legal action had been completed, its final balance sheet, with the accumulated bad debts of 30 years still included, appears to be a financial horror. As indicated by its overall delinquency/bad debt rate, the reality is a good bit less dramatic.

BANADESA initiated operations with a legal promise of significant new capitalization from the GOH, very little cash, and all of BANAFOM's debts and uncollectible/past due loans. Despite this inauspicious start, BANADESA has made a sincere, and so far reasonably successful attempt to improve its operations. The pace has been slower than hoped for, as BANADESA management has had to devote significant effort to addressing the severe liquidity problems which for the most part were inherited from BANAFOM.

c. Administrative and Financial Viability

Despite a sincere effort, until the recent approval of BANADESA capitalization there has been little improvement in the financial situation of the bank. The Mission believes that continued efforts are warranted to help BANADESA develop into a viable banking institution for small and medium farmers due to the fact it is the only existing organization with an adequate network of branches to cover the country; has considerable experience in agricultural credit; and is, and will continue to be, the primary channel for the GOH to extend credits to the reform sector through various "fideicomiso" agreements. After a number of studies and analyses, the Mission in concert with BANADESA and GOH officials, established the following minimum conditions for new lending to BANADESA:

- Full implementation of decentralization;
- Adoption of commercial banking criteria for borrower creditworthiness, interest rates charged, and treatment of past due and uncollectible loans; and reasonable progress in recovering past due and uncollectible accounts on which collection efforts have been made;
- Completion and implementation of operational manuals;
- Evaluation of the profitability of branch operations and non-banking enterprises, and divestiture of unprofitable operations; and,
- Signing of formal agreements to put the agreed capitalization plan in effect. (Signed on July 7, 1982, See Annex H-4).

The technical assistance to be provided under the Project will help to ensure that these major areas of concern have been resolved satisfactorily. A brief status of BANADESA's efforts on these areas of concern follows:

1) Full Implementation of Decentralization

Utilizing their own funds, BANADESA contracted with Servicios Técnicos del Caribe for T.A. in 1982 to assist in making the first two regional offices operational. These regions are San Pedro Sula and Comayagua; cover 20 of the 28 agencies; represent approximately 85% of cartera and operations; and 189 cities or 66% of those in the country. The next two regions, La Ceiba and Santa Rosa de Copán, will become operational on January 1, 1983 and will complete the initial phase of regionalization called for in the Ag. Sector II Program.

2) Commercial Criteria, Interest Rates, Treatment of Past Due Loans and Reasonable Progress in Recoveries

In March of 1982 the Board of Directors of BANADESA established a new operational policy which separated commercial lending from "fideicomiso" lending. In June of 1982, the Board established a new unit within the Banking Division to work on the administration of all "fideicomiso" operations. It is felt that better control will result from these actions and that BANADESA will be able to determine more accurate cost data on operations and thereby make necessary adjustments to cover operating costs and potential losses.

BANADESA has recently adopted a plan of action throughout the country in conjunction with the "División de Cartera Vencida" to evaluate past due loans in terms of the guarantee, the age of the loan, the amount of the loan and use all legal means of action on those loans which have real potential of recovery. There has not been sufficient time to evaluate the results of this effort but it can be stated that it is the most positive action taken to date by BANADESA or its predecessor, BANAFOM. This is an area that will require a considerable additional input by BANADESA. The Mission will assist BANADESA through both long-term advisor and short-term technical assistance in order to make meaningful reductions in their delinquent portfolio. Perhaps even more important, are the recent changes made with respect to new lending. Criteria have been tightened, better loan evaluations are being made and control and supervision have been increased. Additionally, subsidies on interest rate charges have been eliminated and credit to ultimate users are now at commercial interest rates. This has been particularly noteworthy with regional cooperatives, an area of importance with respect to volume and delinquency. BANADESA, in the current loan cycle, now requires that regional cooperatives introduce capitalization strategies, utilize strict criteria for on-lending, secure professional management and the maintenance of loan delinquency at less than 10% to be eligible to receive continued financing. There are other requisites but these demonstrate that BANADESA has been serious in their efforts to improve lending operations.

3) Completion and Implementation of Operational Manuals

Considerable progress has been made in this area. The following manuals have been completed and are operational: 1) organization, 2) job descriptions,

3) banking operations, 4) budget control, and 5) internal security. In addition, regulations concerning travel, hygiene and security, training, purchases and bidding, and administration of equipment have been implemented.

The following manuals are in the final revision and expected to be completed and implemented before the end of the fourth quarter of CY82: 1) credit, 2) banking services, 3) recruiting, 4) job evaluation, and classification, 5) audit, 6) accounting, and 7) control and sanitizing of cartera.

4) Evaluation of Profitability of Branch Operations and Non-Banking Enterprises and Divestiture of Unprofitable Operations

During the first six months of 1982, BANADESA has effected cost reductions of \$1.3 million in operations. This speaks well for the new administration of BANADESA and shows their genuine concern for cost effectiveness of operations. Ohio State University is currently involved in a study with BANADESA to identify and analyze the different procedures that are involved in the current process of granting loans. It will point out critical areas of possible misallocations of administrative resources and opportunities for cost economics. It will also determine those cost elements which are beyond the control of the bank such as cost, by source, of external funding. Additionally, the regional office in Comayaguela is conducting an analysis of the cost of money from origin to point of recovery. These studies will, at the very least, provide the basis for determining criteria relative to continuance or elimination of least productive branches within the system.

As of June 30, 1982, BANADESA's total investment in non-banking enterprises amounted to L 32,230,239.60 and showed a total reserve of L 12,719,067.00 against these investments leaving exposure of L 19,511,172.00 against any assets of these enterprises. BANADESA's most serious problem with respect to non-banking enterprises is the Azucarera Cantarranas, S.A. (ACANSA) sugar mill operation, which represents 77 percent of total non-banking enterprise investment.

Given the recent re-structuring of U.S. sugar quotas it appears highly unlikely that BANADESA can sell off this operation in the near or even the intermediate future. Mission efforts will be directed to helping BANADESA reduce operating expenses and towards having the GOH assume responsibility for operating losses incurred on this project, which was basically a GOH/CONADI endeavor transferred to BANADESA.

With respect to non-banking enterprises, BANADESA has directed its initial efforts to evaluating the problems and necessities of these enterprises, effecting the administrative and operational changes which could have the most immediate impact on reducing current losses and at the same time work toward profitability over the medium term.

BANADESA has been working with CONADI to develop a solution to the problem with Productos Lácteos Sula, S.A. by some form of re-capitalization, refinancing of debt and possible transfer of ownership to a producer's cooperative. They have asked the Mission for assistance in the evaluation of the Sula operation and this work should be completed in August.

BANADESA is sincere in its desire to upgrade these enterprises to a degree that will permit divestiture. They point out that considerable progress has been made to date, citing divestiture of BANASUPRO, and are planning to also divest their input store operation at the earliest possible date.

5) Signing of Formal Agreements to Put Capitalization Plan in Effect

The National Congress of Honduras approved on July 8, 1982, presidential decrees numbered 49 and 50 which provide for the capitalization of BANADESA and the refinancing of the old BANAFOM debt with the Central Bank. These decrees are attached in Annex H-4.

Mission believes this action demonstrates the GOH faith in and commitment to BANADESA as the major supplier of credit to the agricultural sector.

5. Non-Bank Financial Institutions

a. Organization and Functions:

Non-bank financial institutions such as cooperatives and development foundations are actively providing credit services, with varying degrees of efficiency, to small borrowers throughout the country. At present such credit is obtained through the Federation of Savings and Credit Cooperative Associations (FACACH) and the 140 urban and rural credit cooperatives within the movement; the Federation of Honduran Coffee Cooperatives (FENCOCAL) and its 26 affiliated organizations; the Honduran Development Institute (IDH); the Regional Agricultural Cooperatives created within the agrarian reform sector; and numerous other small farmer associations and cooperatives not affiliated with national organizations. While all of these organizations are extremely important to their client members, they are not as yet proven vehicles for savings mobilization nor do they possess the management skills necessary for efficient credit administration. At the same time, however, a few of the organizations within the cooperative sector do appear to possess the potential to become efficient wholesalers of agricultural credit, since they already possess the outreach necessary to reach large numbers of small farmers at low institutional cost. It is these non-bank financial institutions which will be strengthened under the Project by assisting them with internal reorganization, the design of member capitalization and resource mobilization programs, and the development of lender criteria that is more consistent with the overall achievement of economic self-sufficiency.

b. Operations:

1) The Federation of Savings and Credit Cooperative Associations (FACACH) is among the strongest of the non-bank financial institutions providing credit to small farmers. It has been in operation for 16 years, possesses 95 affiliates and has successfully mobilized substantial sums of both domestic and international resources. A large portion of the Federation's loan portfolio has been invested in agricultural production and related activities, and it has been an effective provider of credit to small farmers, and in particular those who are not served by either BANADESA or the

private commercial banks. In recent years, due perhaps to its increased emphasis in providing agricultural credit, both the individual credit cooperatives and the Federation have been experiencing difficulties in loan recovery. In addition, the excess demand for credit over the available supply has led to increasing liquidity problems throughout the movement.

The loan delinquency problem has its roots in the recognized risks of providing agricultural credit, where repayment is dependent upon good harvest, and to inadequate financial planning and management within both the Federation and the rural cooperative affiliates. These problem areas are presently being addressed through an Operational Program Grant (522-0177) which finances training for the personnel of both the Federation and 45 of its affiliated cooperatives, and the provision of technical assistance to assist in implementing internal changes. The liquidity problem, which is linked to the high incidence of loan delinquency among FACACH affiliates, will also be addressed under this same OPG through the implementation of a domestic resource mobilization program expected to begin in late 1982.

The technical assistance to be provided under the Project will be directed at the FACACH management personnel to upgrade their financial planning skills and to assist them in designing capitalization strategies, new credit policies and controls and the domestic resource mobilization program. The purpose of this assistance is to help the Federation achieve its full potential through improved loan management, increased services for members and sound financial planning that will lead to long-term institutional viability as a wholesaler of credit to small farmers.

2) Regional Agricultural Cooperatives have assumed an increasing role as financial intermediaries within the agrarian reform sector of the economy, and at present eleven (11) of these organizations are wholesaling BANADESA credit to their small farmer members. These organizations are relatively new, have experienced rapid growth and have been selected by the GOH as being the most effective vehicle for providing agricultural services to the small collective farms that have been created under the agrarian reform. At the same time, the management expertise necessary to operate these organizations in an effective manner has not kept pace with the rapid growth, GOH technical assistance programs have been ineffective, and all of the regional cooperatives are in precarious financial situation. They are presently characterized by their lack of trained or professional management personnel, their total dependence upon GOH and international financial resources and the absence of adequate planning or internal controls which would lead to their eventual independence.

An attempt is presently being made under the Service Cooperative Activity of the Agricultural Sector II Program (522-0150) to assist these organizations in becoming viable, farmer-owned, agricultural business enterprises. However, substantial additional assistance will be necessary before this goal can be achieved. This activity, which was originally designed to create a small number of pilot regional cooperatives has been redesigned recently to provide assistance to the spontaneously created organizations. The technical assistance to be provided under this Project will intensify the technical support presently being provided to the regional agricultural cooperatives and will emphasize internal reorganization and the implementation of policies

which will permit these organizations to become viable wholesalers of small farmer credit. Direct policy guidance will be provided to the Directorate for Cooperative Development (DIFOCOOP) and through its extension program to the regional cooperatives, as well as to the other GOH agencies involved in regional cooperative and agrarian reform development activities such as BANADESA, the Ministry of Natural Resources (MNR), the National Agrarian Institute (INA) and the National Institute for Agricultural Marketing (IHMA).

3) The Honduran Federation of Coffee Cooperatives (FEHCOCAL), which represents 26 affiliated coffee cooperatives, is the largest single exporter of Honduran coffee and in 1981 was responsible for 26% of all coffee exports from the country. Although the primary function of the Federation is the marketing of member's production, it also provides some short-term credit to affiliates for marketing operations and some limited technical assistance in management training. After a period of steady growth, the Federation's financial situation seriously deteriorated during the 1976/77 marketing year due to the large losses incurred through coffee price speculation of the coffee producers. Given the importance of the Federation to the economy, the GOH was forced to consolidate and pay-off \$7.5 million in outstanding debts through a long-term loan from the Honduran Coffee Institute (IHCAFE), and FEHCOCAL instituted new marketing policies and credit controls. Since 1978 the Federation and its affiliates have continued to obtain credit from private commercial banks. Although, the crisis of confidence caused by its earlier mistakes has not yet been fully overcome in the eyes of many. Despite this, FEHCOCAL and its affiliates remain the most viable channel through which small farmers can maximize their income through coffee production, and they are close enough to commercial viability that they could easily attract new members if they provide expanded services. Their ability to accomplish this depends in part on the ability of the cooperatives to provide production credit, a service which the Federation does not presently provide to its affiliates.

The technical assistance to be provided under the Project will attempt to upgrade the financial management skills of the Federation in order to reestablish its capability as a wholesaler of production credit. It is felt that such a program will assist FEHCOCAL and its affiliated cooperatives in becoming an efficient alternative credit channel for small producers, and assist farmers in increasing both the yields and the quality of coffee produced, thus further strengthening the position of Honduras in the international coffee markets.

B. Economic Feasibility

The conceptual basis for the Project design was the Agricultural Credit Sub-sector Assessment recently prepared by an Ohio State University team contracted under a DS/RAD Cooperative Agreement. This section summarizes the scope and conclusions of the Assessment, describes the role of the Project in the GOH's economic recovery strategy, and qualitatively assesses the economic viability of the project in terms of costs and benefits.

1. Agricultural Credit Sub-sector Assessment

The Ohio State University (OSU) team analyzed trends in the economy, the agricultural sector, and the banking system for a twenty-years period, with special emphasis on the boom-bust cycle of the last five years. The assessment attributed the decline in economic activity in the last 5 years, during which time real GDP growth declined from 7% in the late seventies to zero in 1981, to these major causes: a deterioration in the terms of trade and domestic production problems which have resulted in a precarious balance of payments position (net reserve losses of Dols 60 and 70 million for 1980 and 1981 respectively); growing public sector budget deficits financed by the Central Bank which have "crowded out" the private sector from credit resources; and poor investor confidence. These factors have resulted in decreasing levels of private capital formation, with negative 9 percent growth in 1981.

Agricultural production has been unduly penalized as a result of its interaction with the external sector, and due to channeling of an increasingly smaller real and nominal share of credit resources to the sector. Real growth in agricultural value added declined from 7.4 percent in 1979 to minus 2.8 percent in 1980 and a projected 1 percent in 1981. Lower agricultural credit levels were attributed to both the above macroeconomic problems, and to financial intermediation rigidities, such as fragmented interest and discount rate structures, which have biased the channeling of credit against agriculture and artificially favored other productive sectors.

The study recommended eliminating cumbersome application procedures and excessive monitoring of the use of funds by borrowers, as these practices raise lender costs without benefit for either the financial institution or the borrowers. The direction of credit to defined activities (e.g. to crop production but not marketing or other activities, to specific borrowers or groups of borrowers, or to development of specific agricultural products) was strongly discouraged. The OSU team concluded that bankers should be left to sort out which agricultural sector activities should be financed and that targeting would be unlikely to significantly increase target group benefits. They provided evidence showing that some credit gets to many small borrowers through the informal credit system, and documented the high costs to the financial system of targeting credit specifically to small borrowers.

The team concluded that increasing access to credit for smaller borrowers should be accomplished by increasing liquidity and credit growth in the banking system rather than by directing credit to specific borrowers. Among other recommendations, the team proposed that the Mission adopt the project purpose of strengthening the country's financial intermediation system and allow the financial marketplace to sort out the most efficient uses of credit. To accomplish this purpose, the team proposed that the Central Bank liberalize interest rates, create a uniform discount rate to replace the fragmented structure then in effect, and review reserve requirement policies. The first two, and most important of these recommendations have been partially carried out by the Central Bank by consolidating all interest rates at the maximum ceiling of 19 per cent on all but basic grain loans which are currently capped at 16 per cent. It is expected that the assistance provided

under this project will promote liberalization of loan interest rates. The third recommendation is under analysis by the Bank, AID, and the International Monetary Fund.

2. Role of the Project in the GOH's Economic Recovery Strategy

There are indications that the economic policies of the recently elected government will address some of the macroeconomic constraints identified by the OSU team in a strong and forthright manner. The public sector deficit will be addressed inter alia by austerity and new revenue measures, and the possible divestiture of deficit ridden public enterprises. As noted above, the financial rigidities that have constrained credit growth over the last few years have already been partially attacked in recent measures adopted by the GOH. The results of these measures are expected to include the expansion of private sector credit and improved private sector confidence. The agricultural sector is expected to benefit more broadly than other sectors from the general increase in credit that the new policies will engender over time.

3. Project Benefits

Project benefits will stem from the improved financial intermediation function which will be performed by the banking system. The anticipated liberalization of interest rates will encourage greater use of credit for productive activities and increase competition for credit resources which would benefit savers. Once interest rate ceilings have been raised or even removed, activities whose risk rate would exceed such a ceiling will no longer be precluded. Financial instruments would carry positive real rates of return since inflation would no longer be allowed to erode their value. The net effect will be the reversal of a trend that has caused the economy to demonetize over the last two years. The cost of capital to protected agroindustries would be increased, thus eliminating a price distortion. Financial portfolios will be diversified by banks as well as firms and households. Transaction balances will increase and borrowing rates are likely to increase, thus favoring domestic savings mobilization, and serving as a disincentive to capital flight.

The uniform discount rate, which is complementary to liberal interest rates, would improve the financial intermediation system by reducing administrative costs to the banking system, and eliminating the subsidies and the illusory benefits from attempting, probably unsuccessfully to stimulate lending for specific activities. A uniform and flexible discount rate will also provide the Central Bank with a simple tool to control the monetary aggregate and to adjust to changes in the external financial markets.

D. Financial Plan

The total program costs over the planned 3 years implementation period are \$ 1,362.5 million. A.I.D. will provide \$ 1.0 million in grant funds to strengthen the financial intermediation system by improving the capability of the GOH and private banking community. The AID grant funds will provide technical assistance and finance research and seminars.

The GOH contribution of \$362.5 thousand will provide credit in the amount of \$300 thousand to rural cooperatives to help assist basic grain financing. The balance, or 17% of the GOH contribution will be "in kind" consisting of 12 person/months of high level personnel to serve as local counterpart for both the cooperative advisor and credit advisor, 2 person month as local counterpart for the computer and O & M technicians, logistic support for office space/secretarial services and supplies, and transportation for the surveyors. The percentage of contributions of the participants are as follows: A.I.D. 73%, GOH 27%.

AGRICULTURAL CREDIT

FINANCIAL PLAN

(\$ 000)

<u>ACTIVITIES</u>	<u>AID</u>	<u>GOH</u>	<u>TOTAL</u>
1. <u>RESOURCE MOBILIZATION</u>			
Technical Assistance	202.0	28.5	230.5
Training	183.0	8.4	191.4
Logistic Support	-	4.0	4.0
Sub Total	385.0	40.9	425.9
2. <u>STRENGTHENING SMALL BORROWER CREDIT CHANNEL</u>			
Technical Assistance	422.0	9.2	431.2
Training	183.0	8.4	191.4
Logistic Support	-	4.0	4.0
Sub total	605.0	21.6	462.6
3. <u>WHOLESALE OPERATION</u>			
Technical Assistance	10.0	-	10.0
Credit Line	-	300.0	300.0
Sub total	10.0	300.0	310.0
TOTAL	1000.0	362.5	1362.5
Percentage	73%	27%	100%

The A.I.D. contribution of \$1 million is to be disbursed as follows:

<u>A.I.D.</u>		CALENDAR YEARS				<u>TOTAL</u>
(\$ 000)		1 9 8 2	1 9 8 3	1 9 8 4	1 9 8 5	
		<u>4 Mos.</u>	<u>12 Mos.</u>	<u>12 Mos.</u>	<u>5 Mos.</u>	
<u>1. RESOURCE MOBILIZATION</u>						
Long-term Advisor Cooperatives	-	80.0	92.0	-	172.0	
Short-term TA to FACACH	-	15.0	15.0	-	30.0	
Research & Seminars	<u>73.0</u>	<u>60.0</u>	<u>50.0</u>	<u>-</u>	<u>183.0</u>	
Sub total	73.0	155.0	157.0	-	385.0	
<u>2. STRENGTHENING SMALL BORROWER CREDIT CHANNELS</u>						
Long-term Credit Advisor		80.0	92.0	4.5	217.0	
Short-term TA to BANADESA	85.0	85.0	-	-	170.0	
Other short-term TA	15.0	20.0	-	-	35.0	
Research & Seminars	<u>73.0</u>	<u>60.0</u>	<u>50.0</u>	<u>-</u>	<u>183.0</u>	
Sub total	173.0	245.0	142.0	45.0	605.0	
<u>3. WHOLESALING OPERATIONS</u>						
Other Short-term TA	<u>10.0</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10.0</u>	
Sub Total	10.0	-	-	-	10.0	
TOTAL	256.0	400.0	299.0	45.0	1,000.0	

The GOH contribution of \$.562.5 million is to be disbursed as follows:

	GOH				TOTAL
	(\$ 000)				
	CALENDAR YEARS				
1 9 8 2 4 Mos.	1 9 8 3 12 Mos.	1 9 8 4 12 Mos.	1 9 8 5 5 Mos.		
<u>1. RESOURCE MOBILIZATION</u>					
Short-term TA Local	7.4	14.7	1.4	-	23.5
Research & Seminars	-	8.4	-	-	8.4
Long-term Advisor Cooperatives (Local)	-	2.5	2.5	-	5.0
Logistical Support	-	2.0	2.0	-	4.0
Sub total	7.4	27.6	5.9	-	40.9
<u>2. STRENGTHENING SMALL BORROWER CREDIT CHANNELS</u>					
Short-term TA Local	1.4	2.7	1.4	-	5.5
Research & Seminars	-	8.4	-	-	8.4
Long-term Credit Advisor (Local)	-	1.5	1.5	0.7	3.7
Logistical Support	-	2.0	2.0	-	4.0
Sub total	1.4	14.6	4.9	0.7	21.6
<u>3. WHOLESALING OPERATION</u>					
Credit Line	300.0	-	-	-	300.0
Sub total	300.0	-	-	-	300.0
TOTAL	308.8	42.2	10.8	0.7	362.5

5. Conclusion

The Project is economically viable. Taken as a whole, it will lead to a greater mobilization of credit from domestic resources, increased domestic savings in the economy, more efficient allocation of credit resources to activities with a higher economic return to the economy, and a reduction in the cost of financial intermediation.

E. Social Soundness Analysis Summary

1. Target Group Benefits

The approximately 335,000 poor families in rural Honduras are the long-term Project's Target group. To the extent that the Project is successful in promoting an atmosphere which will increase credit availability and employment opportunities in rural areas, rural families will be able to increase their incomes by taking advantage of such opportunities. The project beneficiaries will be those target group families and family members that exercise their interest and willingness to do so.

2. Social Soundness Analysis Conclusions

In the long term, this project will increase the potential for employment for the landless poor and will promote an environment which will lead to liberalization of fiscal policies which in turn will improve the allocation of credit to favor traditional small farmers and agrarian reform farmers. Wage labor is the only viable source of income, in the near future, for most landless poor farmers. The rate of abandonment of asentamiento memberships in the last few years is a clear indication that the landless poor prefer steady wage labor to participation in ill-conceived and poorly executed agrarian reform initiatives. Thus, wage labor in farm production and agro-industrial production is a highly desirable benefit for the landless poor whose employment has been significantly reduced in the last two years. Participation in this type of benefit requires no change in existing sociocultural patterns or forms of rural organization, since it is and has been traditionally the principal source of income for the landless poor.

Credit is used by a small number of farmers (20%) but desired by more than half of the small traditional farmer target subgroup. Credit terms and conditions are generally well-known and understood by most small farmers, so that little training effort will be required. However, most commercial banks have traditionally shunned dealing with small farmers because of the low average size of loans. Farms requiring more substantial credit, large commercial farms and smaller capital intensive commercial farms, although excluded from this Project, normally can qualify for commercial bank credit and would have first priority for the limited available credit.

In view of the desire of the target group for the kind of assistance proposed, and the absence of any reason to believe that the assistance would be shunned by the target group or prove damaging to non-target group members, the Mission has concluded that the Project is socially sound.

F. Credit Strategy

1. Relationship to other USAID Projects

Several ongoing AID projects have credit components. These credit components were included in order to achieve specific Project purposes. For example, in the Small Farmer Coffee Improvement Project, credit for small farmers is the key element in the strategy for keeping this group active in coffee in the face of the coffee rust threat. The coffee credit element is consistent with this project in that in both cases the funds will be lent at commercial rates through private and public banks. Arrangements for credit to be offered under the Natural Resources Management Project are now under study. The Mission intends to propose that the GOH make these funds as well available at commercial rates, but the wide divergence between the private, capturable rate of return on the conservation activities and the social rate of benefit therefore may require an intermediate solution. Finally, the recently signed Title I/III Program for FY82-84 has 3.6 million in credit for cooperative management capability and diversified crop marketing. These funds will also be lent at commercial rates. In addition, \$250,000 in Technical Assistance will be provided through Title I/III to establish a credit mechanism designed to provide loans for small farmer irrigation works. The credit for these installations will be given at commercial rates.

2. Relationship to Other Donor Activities

USAID/Honduras has held extensive conversations with the IBRD and the IDB concerning their intentions for future agricultural credit activities, as well as discussions with the IMF concerning the monetary policy reforms contemplated. All three institutions concurred with the need to provide assistance to the various financial institutions in order to bring out a better understanding of the reforms being sought under this Project.

The IDB has provided significant funds for agricultural credit in the past but does not contemplate provision of additional resources in the immediate future. The IBRD has an ongoing agricultural lending program through the Central Bank, which began as a livestock program in 1970 and has been opened to general lending since 1976. The World Bank program is limited to medium and long term investment loans such as the irrigation installations mentioned earlier, and recognizes that there is a large unmet credit demand in Honduras, particularly for working capital loans. The IBRD intends, however, to continue directing future resources toward investment credit.

G. Environmental Concerns

A Negative Determination was requested for the project in the PID. This determination was subsequently approved by the LAC/DR Environmental Officer. A copy of the IEE and the cable advising LAC/DR concurrence is included in Annex B.

H. Project Implementation

1. Host Country Arrangements

The Project Agreement will be signed by the MHCP, BANADESA and the Central Bank.

2. A.I.D. Arrangements

a. Procurement

The only procurement required under project is for technical assistance. In view of short disbursement period and past history of lengthy and complicated procurement procedures by Honduran institutions, AID will contract all of the technical services. Procurement and contracting will be carried out by a combination of AID/W, USAID/H, and RCO/Panama efforts. AID/W will handle all PASA's and Cooperative Agreement Amendments. RCO/Panama will handle all other procurement actions expected to result in contracts whose amount exceeds the authority of the Mission. The following table summarizes the procurement actions and action agents expected under the project:

<u>Services Required</u>	<u>Estimated Value (\$000)</u>	<u>Action Agent</u>	<u>Procurement Mode</u>
1. Credit Adviser	217	AID/W	PASA Contract
2. BANADESA Short Term Advisers	170	USAID/H	Minority Firm
3. Cooperative Finance Adviser	172	AID/W	PASA Contract
4. Short-term FACACH Advisors	30	AID/W	Competitive/IQC
5. Other Short-term Advisors	45	RCO/P	Competitive/ Minority Firm
6. <u>Seminar/Workshops</u>	<u>366</u>	<u>AID/W</u>	<u>Amend Cooperative Agreement/ Competitive</u>
Total Procurement Actions	1,000		<u>5 Contract</u>

This level of procurement actions is not expected to place any undue strain on the capabilities of the action agents.

I. Project Monitoring

Overall responsibility for monitoring the Project will be in the Agricultural Development Office of USAID/H. Backstopping support for the Project will be provided by the Mission's Program and Capital Resources Office. These two offices will review implementation progress with appropriate representatives from the GOH, Central Bank, BANADESA, private banks and non-bank institutions. Through these contacts, the emphasis on resource mobilization will be assured. The offices with monitoring roles under the project have the capability to carry out the functions described above.

J. Source and Origin of Goods and Services

The source and origin for AID financed goods and services will be Code 000 (U.S. only) for all activities.

K. Implementation Schedule

Early action with respect to contracting technical assistance will be essential if Project implementation is to provide a continuation of services in these general areas of concern and to allow work to be well advanced prior to 1983 crop cycle credit requirements.

The schedule for the implementation of the major actions required during the first year of the Project's implementation is:

- 1) Project approved by AID/W; authorization, negotiation and signing of the Project Agreement in September 1982.
- 2) No conditions precedent will be required under the Project.
- 3) PIO/T's for each activity of technical assistance in the Project will be prepared in September 1982 and AID/W will prepare necessary PASA agreements with USDA; necessary amendments to existant cooperative agreements; and contracts with IQC firms.
- 4) AID/W actions with respect to 3) above should be completed in October 1983 and required TA should begin in October 1982.

L. Evaluation Strategy

The evaluations will be expected to allow progress toward targeted outputs to be monitored and to provide adequate and timely information for project control purposes. This Project is attempting to achieve structural and policy improvements through an educative process using technical assistance than through a priori C.P.s. The evaluation will focus, therefore, not only on the outputs of the advisors and researchers, but also on the degree to which this process can be effective in influencing policy.

1. Evaluation Plan

a. Evaluation Committee

Monitoring of progress of the Agricultural Credit project will be the responsibility of a joint committee with members from the following organizations:

- i) Central Bank
- ii) National Development Bank
- iii) USAID

The committee will meet at a minimum on an annual basis to review progress and problems, and issue an annual evaluation report. Other meetings and reports will be held on an ad hoc basis as needed. The Evaluation Committee will include but not be limited to the institutions listed above.

M. Negotiating Status, Conditions and Covenants

1. Negotiating Status

The Project design has been completely discussed with representatives from the Central Bank. The project description has been agreed to by the GOH and the proposed Conditions Precedent are not expected to cause any negotiating problems.

2. Conditions

The standard Conditions Precedent will be met by the GOH. (Congressional approval will not be required???)

DEPARTMENT OF STATE
TELEGRAM

ANNEX "A"
Page 1 of 4

7

STATE 242751

AMERICAN EMBASSY TEGUCIGALPA

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FM SECSTATE WASHDC
TO AMEMBASSY TEGUCIGALPA PRIORITY 9586
BT
UNCLAS STATE 242751.

AIDAC

E.D. 12356: N/A
TAGS:
SUBJECT: AGRICULTURAL CREDIT (522-0178)

REF.: (A) STATE 106157 (B) TEGUCIGALPA 6774

1. IN ACCORDANCE WITH GUIDANCE PROVIDED BY STATE 106157, AA/LAC HEREBY AUTHORIZES THE MISSION DIRECTOR, USAID/HONDURAS TO APPROVE THE PROJECT PAPER AND TO AUTHORIZE A DOLS 1.0 MILLION GRANT FOR THE AGRICULTURAL CREDIT PROJECT. STOESSEL

BT
#2751

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COPY

Both Available Documents

RESOURCE MOBILIZATION AIMS THAN THE RATE PROPOSED IN THE PID. A METHODOLOGY FOR DETERMINING THE APPROPRIATE INTEREST RATE OFFERED TO PARTICIPATING LENDERS SHOULD BE IN THE PP. THE DAEC FURTHER SUGGESTED THAT ANY SIZEABLE DIFFERENTIAL THAT WOULD BE EARNED BY THE CENTRAL BANK BE USED TO PROVIDE A FINANCING SOURCE FOR

ANNEX "A"
Page 3 of 4

CONTINUED TECHNICAL ASSISTANCE TO THE BANKS IN RESOURCE MOBILIZATION AND FOR THE OTHER PURPOSES DISCUSSED IN THE PID, WITH ANY REMAINDER TO BE MADE AVAILABLE FOR INCREASING THE LINES OF CREDIT TO THE PARTICIPATING LENDERS. IN ORDER TO MAXIMIZE THE RESOURCES AVAILABLE FOR THESE PURPOSES, THE DAEC RECOMMENDED THAT AID LOAN FUNDS BE PROVIDED TO THE CENTRAL BANK AT AID'S MOST CONCESSIONAL TERMS.

-- 5. TARGETING. IT WAS AGREED THAT, FOR EACH CATEGORY OF SUB-LOAN BEING CONSIDERED UNDER THE PROJECT, LENDING CRITERIA WERE NECESSARY TO ENSURE THE PARTICIPATION OF SMALL FARMERS.

*May mean
like a small
signature*

-- (A) FOR AGRICULTURAL PRODUCTION SUB-LOANS TO INDIVIDUAL FARMERS, THE MISSION SHOULD PROPOSE BORROWER ELIGIBILITY CRITERIA SUFFICIENT TO ENSURE THAT SMALL FARMERS ARE THE PRIMARY BENEFICIARIES.

-- (B) FOR SUB-LOANS TO AGRO-INDUSTRY, AGRICULTURAL SUPPLIERS, AND OTHER RURAL ENTERPRISE, A MINIMUM NUMBER OF JOBS CREATED PER UNIT OF INVESTMENT SHOULD BE ESTABLISHED, AS SUGGESTED IN THE PID. IF SUCH A CRITERION IS NOT APPLICABLE, CRITERIA COMPARABLE TO THOSE INCLUDED IN RECENT LOANS TO LAAD FOR SUB-LENDING IN CENTRAL AMERICA SHOULD BE PROPOSED TO ENSURE THAT SMALL FARMERS BENEFIT FROM AGRO-INDUSTRY DEMAND FOR THEIR PRODUCTION AND FROM THE INPUTS AND SERVICES PROVIDED BY OTHER ENTERPRISES WHICH RECEIVE CREDIT.

THE DAEC FELT THAT NO MEANINGFUL TARGETING OBJECTIVE WAS SERVED BY A MAXIMUM SUB-LOAN AMOUNT, AS PROPOSED IN THE PID. HOWEVER, THE MISSION MAY WISH TO REVIEW AND/OR APPROVE ALL SUB-LOANS ABOVE A CERTAIN LEVEL, PARTICULARLY DURING THE EARLY STAGES OF THE PROJECT.

-- 6. CREDIT STRATEGY. THE MISSION IS PRESENTLY FINANCING OR PLANS TO FINANCE A NUMBER OF PROJECTS WHICH INCLUDE ACTIVITIES RELATED TO AGRICULTURAL SECTOR CREDIT. THE PP SHOULD INCLUDE AN ANALYSIS OF THESE CREDIT ACTIVITIES AND EXPLAIN IN DETAIL THE EXTENT TO WHICH THEY AND THE SUBJECT PROJECT ARE MUTUALLY SUPPORTIVE AND TOGETHER FORM A COHERENT STRATEGY IN THE CREDIT AREA. THE MISSION SHOULD ALSO ENSURE THAT INTEREST RATES UNDER ALL PROJECTS ARE AS CONSISTENT AS POSSIBLE WITH THE MARKET RATE APPROACH CALLED FOR IN THE SUBJECT PROJECT.

-- 7. RELATIVE SHARE OF CREDIT FOR THE AGRICULTURAL SECTOR. THE DAEC RECOGNIZED THAT, DESPITE THE AIMS OF THE SUBJECT PROJECT, THE EFFECT OF OTHER FACTORS ON HONDURAS' MONEY SUPPLY COULD LEAD TO A SMALLER THAN EXPECTED INCREASE IN CREDIT FOR THE AGRICULTURAL SECTOR. THE DAEC WAS CONCERNED, HOWEVER, THAT THE DISPROPORTIONATE DECLINE IN AGRICULTURAL SECTOR CREDIT BE ELIMINATED. TO THIS END, THE DAEC SUGGESTED THAT, AS PART OF THE DISCUSSION OF POLICY CHANGES DURING THE INTENSIVE REVIEW, THE MISSION ENCOURAGE THE CENTRAL BANK TO SET TARGETS FOR PRIVATE SECTOR LENDING BY SECTOR THAT WOULD REDRESS THE PRESENT IMBALANCE OVER TIME BY FOSTERING A GREATER RELATIVE SHARE OF LENDING TO THE AGRICULTURAL SECTOR. WHILE RECOGNIZING THE DIFFICULTIES INHERENT IN MEASURING ADDITIONALITY UNDER PRESENT CIRCUMSTANCES IN HONDURAS, THE DAEC SUGGESTED THAT THE MISSION EXPLORE DURING PP DEVELOPMENT POSSIBLE MEASURES THAT COULD BE TAKEN UNDER THE PROJECT TO ASSURE THAT THE AID LOAN FUNDS PROVIDED WILL BE ADDITIONAL TO CREDIT WHICH OTHERWISE WOULD BE AVAILABLE FOR THE AGRICULTURAL SECTOR.

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PAGE 3 OF 341656

-- 8. BANADESA PARTICIPATION. THE REVIEW SERIOUSLY QUESTIONED THE FEASIBILITY OF BANADESA'S PARTICIPATION IN THE PROJECT. THE DAEC CONCLUDED THAT THE BURDEN OF PROOF IS ON THE MISSION. THE PP SHOULD SPELL OUT THE PROPOSED CONDITIONS PRECEDENT IN VERY EXPLICIT TERMS, SHOULD ADD TO THOSE CONDITIONS A REQUIREMENT THAT BANADESA PROVIDE EVIDENCE THAT IT HAS DEVELOPED THE INSTITUTIONAL CAPABILITY EFFECTIVELY TO PLAN AND ADMINISTER LOANS TO POTENTIAL RETAIL LENDERS, AND SHOULD DESCRIBE BANADESA'S PROGRESS IN IMPLEMENTING ITS REFORM PROGRAM AND MEETING THE PROPOSED CONDITIONS PRECEDENT. ✓

-- 9. COUNTERPART. THE DAEC DID NOT FIND UNREASONABLE THE 25 PERCENT CASH COUNTERPART CONTRIBUTION FROM PARTICIPATING LENDERS, IN VIEW OF THE PROJECT PURPOSE OF ENCOURAGING INCREASED SAVINGS MOBILIZATION. SELECTION OF PARTICIPATING LENDERS SHOULD TAKE INTO ACCOUNT THEIR POTENTIAL TO MEET THE COUNTERPART REQUIREMENT.

-- 1B. PD71. AID/W REVIEWED SUBJECT PROJECT IN THE CONTEXT OF THE REQUIREMENTS SET FORTH IN PD71. GIVEN THE NATURE OF THE PROJECT, IT WAS CONCLUDED THAT PD71 WAS NOT DIRECTLY APPLICABLE. FURTHERMORE, THE FACT

THAT THE CREDIT WILL BE MADE AVAILABLE TO A LARGE NUMBER OF BORROWERS FOR A VARIETY OF NON-FARM EMPLOYMENT ACTIVITIES AS WELL AS FOR AGRICULTURAL PRODUCTION MINIMIZES ANY POTENTIAL DIRECT EFFECT OF THIS PROJECT ON THE EXPORT OF SENSITIVE COMMODITIES. GIVEN THE PRIMARY FOCUS ON STRENGTHENING THE HONDURAN FINANCIAL INTERMEDIATION SYSTEM AND THE LARGE NUMBER OF SMALL TRANSACTIONS, IT WAS NOT CONSIDERED DESIRABLE FOR THE MISSION TO TRACE THE USES OF EACH INDIVIDUAL LOAN. HAIG

BT

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LAC/DR-IEE-82-7

ENVIRONMENTAL THRESHOLD DECISION

Project Location : Honduras

Project Title and Number : Agricultural Credit
No. 522-0178

Funding : FY 1982, Grant - \$1 million
Loan - \$16 million

Life of Project : Three years

IEE Prepared by : E. Zallman, USAID/Honduras

Recommended Threshold Decision: Negative Determination

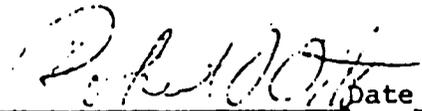
Bureau Threshold Decision : Concurrence with Recommendation

Action : Copy to Julius P. Schlotthauer ✓
Acting Mission Director

: Copy to E. Zallman, USAID/Honduras

: Copy to Scott Smith

: Copy to IEE file



Robert O. Otto
Chief Environmental Officer
Bureau for Latin America
and the Caribbean

Date 19 Jan 82

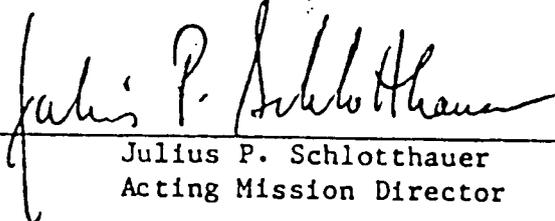
Initial Environmental Examination

I. Project Description

The Project consists of two activities. The first is the provision of credit for agricultural production, marketing, and transformation operations, and for small businesses that provide services to these operations. The credit is not directed either at specific crops, or borrower groups, or types of activities. The number and location of the activities to be financed is not yet known. An illustrative list of projects will be included in the Project Paper. It is expected that the illustrative projects will be small scale activities which have no major effects on the human or physical environment and lead to somewhat improved incomes and living conditions for the Project's target group. Should it become apparent that one or more of the illustrative projects may have significant environmental effects, the measures necessary to mitigate any adverse effects will be detailed in the Project Paper. The second activity is the provision of technical assistance to financial institutions. This activity clearly has no major foreseeable environmental effects.

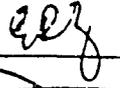
II. Recommendation

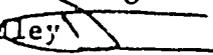
Based on the foregoing Project description, I recommend that the Threshold Decision with respect to the environmental impact of the Project be a Negative Determination.



Julius P. Schlotthauer
Acting Mission Director

24 Nov 81
Date

Draft: EZallman 

Clearance: RDudley 



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SECRETARIA DE HACIENDA Y CREDITO PUBLICO
REPUBLICA DE HONDURAS

Tegucigalpa, D. C., 30 de agosto de 1982

No. CP-1351

Señor
ANTHONY CAUTERUCCI
Director Agencia para el
Desarrollo Internacional
Presente

ACTION N°	PCR
INFO	
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Sr. Ad.	
OPOR	
OLT	
HRD	
HRD-E	
HRD-H	
AGR	✓
ENG	✓
CONJ	✓
MGT	
RHJDC	
JAO	
RLA	
CHRON	✓
HEADER	✓

Señor Director :

Por este medio la Secretaría de Hacienda y Crédito Público, en nombre y representación del Gobierno de Honduras, tratando de superar la difícil situación económica del país, ha asistido a reuniones con Gobiernos e Instituciones Internacionales con el propósito de identificar las medidas más efectivas que contribuirán a la solución del problema. La escasez y el uso ineficiente de crédito para la agricultura, son de especial interés y preocupación, no obstante los adelantos obtenidos con las operaciones de BANADESA, todavía queda mucho por hacer; dirigiendo nuestro objetivo a las áreas siguientes :

1. La administración y manejo del crédito para estimular la capitalización y el uso eficiente del crédito
2. El desarrollo de políticas monetarias y fiscales que fomenten la movilización de ahorros y la eficiente distribución del crédito.

Con el propósito de cumplir con las metas anteriores, el Gobierno de la República de Honduras solicita a la Agencia para el Desarrollo Internacional, financiamiento en carácter de Donación, por US\$ 1.0 Millones, para el Proyecto de Crédito Agrícola; que será ejecutado a través de BANADESA, para cubrir gastos de Asistencia Técnica, Capacitación, Investigación y Seminarios a desarrollar por la Universidad Estatal de OHIO.

Para el presente año se requiere una cantidad de US\$500,000.00 y BANADESA, aportará como contraparte los servicios de apoyo logístico para la movilización interna de los expertos hasta US\$300,000.00 del crédito que con fondos propios BANADESA ha destinado a FACACH.

Agradeceremos una resolución favorable a nuestra solicitud, a la vez nos suscribimos del Señor Director con las muestras de nuestra consideración y estima.


RODOLFO MATAMOROS
Subsecretario de Hacienda
y Crédito Público

OFFICIAL
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Logical Framework - Agricultural Credit PID

<u>Narrative Summary</u>	<u>Objectively Verifiable Indicators</u>	<u>Means of Verification</u>	<u>Important Assumptions</u>
PROGRAM OR SECTOR GOAL:	Measures of Goal Achievement:		Assumptions for Achieving
To stimulate agricultural production and increase the incomes of poor rural families	Increase of productivity of rural families	GOH and international agency publications	farmers want the credit and use it for productive purposes
Sub-goal:			Goal Targets:
To strengthen the financial intermediation system, thereby increasing the flow of agricultural credit to rural families	Adoption of key financial policies	GOH publications	policy proposals are acceptable to Congress and President
PROJECT PURPOSE:	Conditions that will indicate purpose has been achieved: End of project status:		Assumptions for achieving purpose
To increase the knowledge of the overall policy framework affecting the allocation of credit and savings mobilization in the Honduran banking and financial intermediation system and to assist the financial institutions to adapt to the changing financial environment.	1. Proposal and support of policies which will work toward effective capitalization and real interest rates 2. Improved management of cooperatives and BANADESA	1. GOH records and newspapers 2. contractor reports	Honduran financial institutions fully participate in policy dialog and understand issues
OUTPUTS:	Magnitude of outputs		Assumptions for achieving outputs:
1. Research conducted	1.1 key problems in banking system identified and solutions suggested 1.2 results incorporated into seminars	1. Contractor reports and seminar materials	Honduran financial institutions fully participate in development of research topics and in seminars
2. Seminars conducted	2. Minimum of ten seminars conducted with representatives of 8 private and 2 public financial institutions	2. contractor reports	GOH continues support of cooperative movement
3. Administration of BANADESA improved	3.1 BANADESA meets conditions precedent for future lending programs 3.2 Increased flow of credit through BANADESA 3.3 Improved data collection, utilization, and dissemination	3.1 contractor reports 3.2 BANADESA reports	
4. Administration and credit management of target coops improved	4.1 9 regional cooperatives reorganized 4.2 fifteen DIFOCOP extension agents trained and working 4.3 Fifty percent of target cooperatives attain financial viability 4.4 Increased flow of credit through cooperatives and credit unions.	4.2 independent audit report	
INPUTS:	Implementation Target		Assumptions for providing inputs
1. Technical assistance	1.1 AID \$634,000 1.2 GOH \$37,700		
2. Training	2.1 AID \$366,000 2.2 GOH \$16,800		
3. Logistic Support	3.1 GOH \$8,000		
4. Credit Line	4.1 GOH \$500,000		

5C(1) - COUNTRY CHECKLIST

Listed below are statutory criteria applicable generally to FAA funds, and criteria applicable to individual fund sources: Development Assistance and Economic Support Fund.

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FAA Sec. 481. Has it been determined that the government of the recipient country has failed to take adequate steps to prevent narcotic drugs and other controlled substances (as defined by the Comprehensive Drug Abuse Prevention and Control Act of 1970) produced or processed, in whole or in part, in such country, or transported through such country, from being sold illegally within the jurisdiction of such country to U.S. Government personnel or their dependents, or from entering the U.S. unlawfully?
 1. No such determination has been made.
2. FAA Sec. 620(c). If assistance is to a government, is the government liable as debtor or unconditional guarantor on any debt to a U.S. citizen for goods or services furnished or ordered where (a) such citizen has exhausted available legal remedies and (b) the debt is not denied or contested by such government?
 2. The GOH is not liable as a debtor under these conditions.

-2-

3. FAA Sec. 620(e)(1). If assistance is to a government, has it (including government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?
3. There is no evidence of such action.
4. FAA Sec. 532(c), 620(a), 620(f), 620D; FY 1982 Appropriation Act Secs. 512 and 513. Is recipient country a Communist country? Will assistance be provided to Angola, Cambodia, Cuba, Laos, Vietnam, Syria, Libya, Iraq, or South Yemen? Will assistance be provided to Afghanistan or Mozambique without a waiver?
4. Honduras is not a communist country nor will any assistance be provided to any of the countries indicated.
5. ISDCA of 1981 Secs. 724, 727 and 730. For specific restrictions on assistance to Nicaragua, see Sec. 724 of the ISDCA of 1981. For specific restrictions on assistance to El Salvador, see Secs. 727 and 730 of the ISDCA of 1981.
5. Not Applicable
6. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, the damage or destruction by mob action of U.S. property?
6. In the past, there have been incidents where the GOH was unsuccessful in containing demonstrations aimed against the U.S. Embassy. This has not been the case for over twelve years.

7. FAA Sec. 620(1). Has the country failed to enter into an agreement with OPIC?
8. FAA Sec. 620(o); Fishermen's Protective Act of 1967, as amended, Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing activities in international waters?
- (b) If so, has any deduction required by the Fishermen's Protective Act been made?
9. FAA Sec. 620(q); FY 1982 Appropriation Act Sec. 517. (a) Has the government of the recipient country been in default for more than six months on interest or principal of any AID loan to the country? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the appropriation bill appropriates funds?
10. FAA Sec. 620(s). If contemplated assistance is development loan or from Economic Support Fund, has the Administrator taken into account the amount of foreign exchange or other resources which the country has spent on military equipment? (Reference may be made to the annual "Taking into
7. The OPIC Investment Guaranty Program is in effect in Honduras.
8. Honduras has not seized or imposed penalties or sanctions against, U.S. fishing activities.
9. (a) No
(b) No
10. Yes

-4-

Consideration" memo:
"Yes, taken into account
by the Administrator at
time of approval of
Agency OYB." This
approval by the
Administrator of the
Operational Year Budget
can be the basis for an
affirmative answer during
the fiscal year unless
significant changes in
circumstances occur.)

11. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have they been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption?
11. No
12. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the AID Administrator in determining the current AID Operational Year Budget? (Reference may be made to the Taking into Consideration memo.)
12. Honduras is not in arrears to the extent described in Article 19 of the U.N. Charter.
13. FAA Sec. 620A; FY 1982 Appropriation Act Sec. 520. Has the country aided or abetted, by granting sanctuary from prosecution to, any individual or group which has committed an act of international terrorism? Has the country aided or
13. No

-5-

abetted, by granting
sanctuary from
prosecution to, any
individual or group which
has committed a war crime?

14. FAA Sec. 666. Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? 14. No
15. FAA Sec. 669, 670. Has the country, after August 3, 1977, delivered or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device, after August 3, 1977? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) 15. No
16. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Session of the General Assembly of the U.N. of Sept. 25 and 28, 1981, and failed 16. Refer to Statutory Checklist of Honduras Land Titling Project, 522-0173.

to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the Taking into Consideration memo.)

- 17. ISDCA of 1981 Sec. 721.
See special requirements for assistance to Haiti.

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria.

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy?

1. The Department of State has not determined that Honduras violates human rights.

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the country made such significant improvements in its human rights record that furnishing such assistance is in the national interest?

2. Not applicable

b. ISDCA of 1981, Sec. 725(b). If ESF is to be furnished to Argentina, has the President certified that (1) the Govt. of Argentina has made significant progress in human rights; and (2) that the provision of such assistance is in the national interests of the U.S.?

c. ISDCA of 1981, Sec. 726(b). If ESF assistance is to be furnished to Chile, has the President certified that (1) the Govt. of Chile has made significant progress in human rights; (2) it is in the national interest of the U.S.; and (3) the Govt. of Chile is not aiding international terrorism and has taken steps to bring to justice those indicted in connection with the murder of Orlando Letelier?

5C(2) PROJECT CHECKLIST

Listed below are statutory criteria applicable to projects. This section is divided into two parts. Part A. includes criteria applicable to all projects. Part B. applies to projects funded from specific sources only: B.1. applies to all projects funded with Development Assistance Funds, B.2. applies to projects funded with Development Assistance loans, and B.3. applies to projects funded from ESP.

CROSS REFERENCES: IS COUNTRY CHECKLIST UP TO DATE? HAS STANDARD ITEM CHECKLIST BEEN REVIEWED FOR THIS PROJECT?

A. GENERAL CRITERIA FOR PROJECT

1. FY 1982 Appropriation Act Sec. 523; FAA Sec. 634A; Sec. 653(b).

(a) Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project;
(b) is assistance within (Operational Year Budget) country or international organization allocation reported to Congress (or not more than \$1 million over that amount)?

(a) Congress was informed in a Congressional Notification in FY82.

(b) The project is included in the

2. FAA Sec. 611(a)(1). Prior to obligation in excess of \$100,00, will there be

2. Yes

(a) engineering, financial or other plans necessary to carry out the assistance and (b) a reasonably firm estimate of the cost to the U.S. of the assistance?

3. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

3. No further legislative action will be required in Honduras.
4. FAA Sec. 611(b); FY 1982 Appropriation Act Sec. 501. If for water or water-related land resource construction, has project met the standards and criteria as set forth in the Principles and Standards for Planning Water and Related Land Resources, dated October 25, 1973? (See AID Handbook 3 for new guidelines.)

4. Not Applicable
5. FAA Sec. 611(e). If project is capital assistance (e.g., construction), and all U.S. assistance for it will exceed \$1 million, has Mission Director certified and Regional Assistant Administrator taken into consideration the country's capability effectively to maintain and utilize the project?

5. Not applicable

6. FAA Sec. 209. Is project susceptible to execution as part of regional or multilateral project? If so, why is project not so executed? Information and conclusion whether assistance will encourage regional development programs.
 7. FAA Sec. 601(a). Information and conclusions whether project will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; and (c) encourage development and use of cooperatives, and credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture and commerce; and (f) strengthen free labor unions.
 8. FAA Sec. 601(b). Information and conclusions on how project will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise).
6. The Project is not suitable for execution as part of a regional project.
 7. The Project is designed to strengthen the financial intermediation system, which will in turn encourage private initiative, development and use of cooperatives and the improvement of technical efficiency in agriculture.
 8. All of the technical assistance under the Project will be of U.S. origin.

9. FAA Sec. 612(b), 636(h);
FY 1982 Appropriation
Act Sec. 507. Describe
steps taken to assure
that, to the maximum
extent possible, the
country is contributing
local currencies to meet
the cost of contractual
and other services, and
foreign currencies owned
by the U.S. are utilized
in lieu of dollars.
9. The GOH has agreed to contribute
substantial counterpart funding.
10. FAA Sec. 612(d). Does
the U.S. own excess
foreign currency of the
country and, if so, what
arrangements have been
made for its release?
10. The U.S. does not own such excess
currency.
11. FAA Sec. 601(e). Will
the project utilize
competitive selection
procedures for the
awarding of contracts,
except where applicable
procurement rules allow
otherwise?
11. Yes
12. FY 1982 Appropriation Act
Sec. 521. If assistance
is for the production of
any commodity for export,
is the commodity likely
to be in surplus on world
markets at the time the
resulting productive
capacity becomes
operative, and is such
assistance likely to
cause substantial injury
to U.S. producers of the
same, similar or
competing commodity?
12. Not Applicable
13. FAA 118(c) and (d).
Does the project comply
with the environmental
procedures set forth in
AID Regulation 16? Does

the project or program take into consideration the problem of the destruction of tropical forests?

14. FAA 121(d). If a Sahel project, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of project funds (dollars or local currency generated therefrom)?

B. FUNDING CRITERIA FOR PROJECT

1. Development Assistance Project Criteria

a. FAA Sec. 102(b), 111, 113, 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and

- (a) The Project will promote structural changes to increase the access to production and investment credit for small farmers. In addition, technical assistance will be provided directly to cooperatives to assist them in developing commercial viability.

otherwise encourage democratic private and local governmental institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106. Does the project fit the criteria for the type of funds (functional account) being used?

1.b. Yes. This Project is designed to increase the productivity and income of the rural poor through improving the financial intermediation system and improving access to production and investment credit.

c. FAA Sec. 107. Is emphasis on use of appropriate technology (relatively smaller, cost-saving, labor-using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor)?

1.c. Not applicable

d. FAA Sec. 110(a). Will the recipient country provide at least 25% of the costs of the program, project, or activity with respect to which the assistance is to be furnished (or is the latter cost-sharing requirement being waived for a "relatively least developed" country)?

d. Yes

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e. FAA Sec. 110(b).

Will grant capital assistance be disbursed for project over more than 3 years? If so, has justification satisfactory to Congress been made, and efforts for other financing, or is the recipient country "relatively least developed"? (M.O. 1232.1 defined a capital project as "the construction, expansion, equipping or alteration of a physical facility or facilities financed by AID dollar assistance of not less than \$100,000, including related advisory, managerial and training services, and not undertaken as part of a project of a predominantly technical assistance character."

f. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

g. FAA Sec. 281(b). Describe extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage

8. The Project is based on a comprehensive study of the financial system. The purpose of the Project is to improve the capability of the Honduran financial community to analyze the situation and create relevant policies.

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institutional development;
and supports civil
education and training in
skills required for
effective participation in
governmental processes
essential to self-government.

2. Development Assistance Project
Criteria (Loans Only)

- a. FAA Sec. 122(b). Information and conclusion on capacity of the country to repay the loan, at a reasonable rate of interest. a. Not Applicable
- b. FAA Sec. 620(d). If assistance is for any productive enterprise which will compete with U.S. enterprises, is there an agreement by the recipient country to prevent export to the U.S. of more than 20% of the enterprise's annual production during the life of the loan? b. Not Applicable
- c. ISDCA of 1981, Sec. 724 (c) and (d). If for Nicaragua, does the loan agreement require that the funds be used to the maximum extent possible for the private sector? Does the project provide for monitoring under FAA Sec. 624(g)? c. Not applicable

3. Economic Support Fund
Project Criteria

- a. FAA Sec. 531(a). Will this assistance promote economic or political a. Not Applicable

stability? To the extent possible, does it reflect the policy directions of FAA Section 102?

- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? b. Not Applicable

- c. FAA Sec. 534. Will ESF funds be used to finance the construction of the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such use of funds is indispensable to nonproliferation objectives? c. Not Applicable

- d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made? d. Not Applicable

Project Background

1. The Macro-Economic Picture

Despite substantial progress in the late 1970's, Honduras remains the poorest country in Central America. Ninety percent of the its 2.4 million rural inhabitants have a per capita income of only \$100 compared to the national average of \$565. This income level is insufficient to provide an acceptable quality of life.

The economy's real growth rate dropped from the average of 7% during the late 1970's to a mere 2.5% during 1980. Current estimates for 1981 indicate real GDP growth between zero and minus 2%, signifying a declining per capita income for the second straight year, with further deterioration expected in 1982. The sharp decline in coffee prices combined with soft export markets for its other tropical agricultural products, worsening terms of trade for its principal products, the turmoil in Central America, and the worldwide liquidity squeeze have contributed to a strong downward trend in investment, production and real per capita income. Honduras presently finds itself in a moderate to severe recession and prospects for a revival in growth in the near future are not favorable.

While economic performance may improve somewhat when general market conditions and the political situation improve, Honduras' high degree of dependence on international trade poses a major constraint to its long term development. Honduran need to rely on the world market results from the low income and small size of its domestic market. Throughout the last decade, exports have accounted for an average of 29% of GDP, while imports have increased their share from an average of 32% during the first half of the decade to an average of 39% during the second half. Despite the country's comparative advantage in producing its principal export crops, it is not earning enough to finance the external resources, such as fuels, capital equipment, and the technology required to diversify the economy's production base.

The strong dependence on international trade, specifically on a few export commodities (coffee, bananas, beef, and forest products), has placed Honduras in a position where its economic growth is especially sensitive to factors beyond its control. These include natural disasters, commodity market fluctuations, and overall trends in the world economy. The devastating effects of Hurricane "Fifi" in 1974 and the rapid rise and fall of coffee prices in the late seventies are clear examples of the effect of exogenous factors on the country's economy.

From 1977 to 1979, internal stability and favorable external conditions combined to help Honduras experience one of its few periods of robust economic growth. The strong performance of the economy was largely fueled by a dramatic rise in coffee prices and quotas, the recovery of banana production after the hurricane, the increasing participation of government in economic activity, and an active private sector.

Table I: HONDURAS: MACROECONOMIC INDICATORS
(In Percent of GDP)

Balance of Payments 1981(P)	1978 1979		1980	
	Current Account	[8.6]	[8.9]	[12.6]
Capital Account	9.1	9.1	11.2	6.9
Net Change in International Reserves [] = increase	[1.2]	1.8	2.4	3.3
Public Sector (Central Government)				
Revenue	15.0	14.7	14.9	12.5
Current Expenditure	14.0	13.3	14.3	13.6
Capital Expenditure	7.3	5.7	5.6	3.7
Overall Deficit	[5.6]	[4.5]	[7.6]	[6.7]
Domestic Finance	1.1	1.1	2.2	0.5
External Finance	4.5	3.3	4.9	3.6
Unfinanced Deficit	-0-	-0-	0.7	2.6
Investment				
Gross Fixed Capital Formation	26.0	25.8	25.8	25.3
Private	16.2	17.2	16.8	17.0
Public	9.8	8.6	9.0	8.3
Domestic Credit Flows				
Private	37.4	34.0	31.0	..
Public	33.2	31.7	28.9	..
	4.2	2.3	2.1	..

KEY: .. = not available; [] = negative; P = Projected

Source: Ministry of Finance and Central Bank of Honduras
Since mid 1980, a rapid deterioration of the economy has taken place as evidenced by the economic indicators included in Table I. Four interrelated causes of this deterioration stand out as being the most serious, in large part due to their negative implications for reversing the downward trend. They are the: decline in private investment, worsening balance of payments, large GOH fiscal deficit, and reduction in new loans to the private sector through the banking system.

A. Investment

After a vigorous participation of private sector investment during the coffee boom years of the late seventies, there was a 2% reduction of gross fixed private capital formation in real terms in 1980. The latest estimate suggests that such a trend is continuing in 1981, with an expected reduction of 9%.

Major causes behind the private investment decline lie in the loss of confidence of the private sector as a result of political developments in surrounding countries, political uncertainties at home and a steady reduction in the availability of financial resources for private investment.

B. Balance of Payments

Honduras' balance of payments deficit widened in 1981 and the GOH has imposed several mild exchange control regulations recently. Imports, which grew at a rate of 20% per annum during the coffee boom, are projected to display a nominal decline in value by 6%, to \$1227 million in 1981 and grow 8% in 1982. Exports -- principally coffee, bananas, forest products, beef and minerals -- are expected to decline by 4% to \$931 million in 1981 and reach the 1980 level again in 1982. Most of the current account balance of payments deficit has been covered by concessionary inflows of capital related to development projects. Despite this, foreign exchange reserves dropped to about five days' imports at the end of the year.

The IMF is providing balance of payments assistance to Honduras through a three year Extended Fund Facility (EFF) which allows the GOH to draw up to \$54.7 million by July 1982 if it meets net domestic credit and net foreign assets performance standards. To date, \$33 million (including the first credit tranche) has been drawn down. Honduras was ineligible to draw from the EFF on October 1, 1981 as it exceeded the target for credit use. An IMF mission is expected to review the situation in December 1981 in preparation for a possible renegotiation of the EFF early in 1982 following the installation of a newly elected government. In addition, the GOH has received \$28 million from the Compensatory Finance Facility to help offset the large decline in exports.

C. GOH Fiscal Deficit

Rapidly increasing revenues due to increased international trade enabled the GOH to maintain a reasonable fiscal balance through 1979. However, in 1980, as export earnings began to falter and spending continued at planned levels, fiscal deficits began to mount. In 1980, the unfinanced deficit reached \$17.2 million and in 1981 it exceeded \$75 million. The latest estimate suggests that the unfinanced deficit may reach \$129 million in 1982.

Budget gaps can be closed through cutbacks in expenditures, increases in taxes, and/or through increased use of credit. Earlier this year and in late December, the GOH increased certain taxes in an effort to cover a good portion of the revenue shortfall. Of late, it has made and vowed to continue strong efforts to tighten control of expenditures in its effort to limit the fiscal pressure on Central Bank credit. However, these measures are not likely to close the gap, implying a continued high rate of borrowing from the Central Bank. The major implication of this course of action will be continued unavailability of credit for the private sector, and cutbacks in public investment.

D. Reduction of New Loans to the Private Sector

In recent discussions with bankers, businessmen, and government officials, the present rapid deterioration of the economy has been blamed in part on the extreme lack of credit for the private sector. Recent reports by the regional Agricultural Attache on dairy, livestock and poultry (81 Guatemala 7045) and on coffee (Foreign Agricultural Service report HD-1012) noted that the lack of credit may cause Honduras to fail to meet its export quotas in these areas in 1982. The lack of credit is resulting in disruption of well established export industries as well as contributing to the decline in new investment.

The reasons for the credit shortage are not entirely attributable to the high prevailing interest rates in international markets and the present lack of investor confidence. A decline in real credit levels has been apparent since 1977. A comprehensive analysis of credit for the private sector, with emphasis on agricultural credit, has just been completed by a team of experts contracted through an ST/RAD Cooperative Agreement with Ohio State University (OSU). The draft report prepared by the OSU team shows that throughout the last decade, domestic credit grew in real terms at a yearly rate of 7.3%, exceeding the average GDP growth of 4.3% quite comfortably. The rate of growth was higher in the second half of the decade, paralleling the performance of the economy.

The distribution of credit resources, however, followed a pattern that increasingly discriminated against the private sector. Table II presents the average annual rates of growth of credit outstanding at the end of each year from 1970 to 1980 by sector. This table shows that the 14.1% average rate of growth of outstanding public sector credit for 1970-80 was more than twice the 7.0% private sector growth rate. This difference was actually greater during the second half of the decade, when the rate of growth for the public sector was almost three times as high as for the private sector (16.3% vs. 6.3%). Nominal and real values for new loans and the portfolio of the national banking system, as well as drawdowns on direct foreign loans to the private sector are included in Annex B.

E. Reversing the Downward Trend

Honduras' open economy, long tradition of currency convertibility, and need for increased investment capital can only prosper in an environment of political stability and confidence. However, even assuming that the political situation in Central America stabilizes over the next few years, there are several major constraints that must be overcome to facilitate the kind and amount of investment needed. Entrepreneurial confidence in the country's future needs to be restored by a reasonable period of domestic and regional tranquility and efficient government. The high projected domestically financed deficits will have to be moderated to avoid a continuation of the 'crowding out' of the private sector from credit resources in the near future. The interest rate ceilings that prevail in the banking system and the high reserve requirements demanded from banks on time and savings deposits should be modified to encourage growth of domestic credit. An answer must be

Table II

Honduras: Average annual rates of growth, in real terms, of domestic credit of the Honduran banking system outstanding at the end of each year, by sector. 1970-1980. (Percentages).

	<u>1970-1975</u>	<u>1975-1980</u>	<u>1970-1980</u>
Domestic credit	6.64	8.02	7.33
Public sector:	11.97	16.27	14.10
Central Government:	10.66	15.18	12.90
Rest of public sector:	18.07	20.12	19.09
Private sector:	7.80	6.25	7.02
Loans and discounts for the private sector:	<u>7.66</u>	<u>4.80</u>	<u>6.23</u>

Source: González-Vega, Claudio, An Assessment of Financial Markets for Agricultural Credit in Honduras, Preliminary Report, 1981

found to the current liquidity squeeze that has seen declining real values of credit resources going to the private sector. Finally, a realistic and aggressive approach to attract investors to Honduras, which is the cornerstone of the Caribbean Basin Initiative, must be developed and implemented. Given the recent downturn in the economy, the precarious financial position of the GOH, and the worsening terms of trade for traditional products, it is clear that only a major push by the country's private sector into new productive activities, with emphasis on exports and diversification, can provide the new engine of growth needed to turn the economy around.

II. Agricultural Sector

A. Agricultural Sector Performance

The Agricultural Sector in Honduras consists of agricultural production, marketing and transformation operations and services for these operations and the rural populace in general. The country always has been predominately agricultural. Its principal exports are bananas, coffee, beef, lumber, tobacco and sugar. Altogether, the agricultural sector accounts for about one-third of the country's GDP, employs over two thirds of the total labor force, provides 16% of all public revenue, and produces 75% of the country's exports. Its importance has been decreasing over time, however, declining from 34.4% of GDP (at factor costs) for 1960, to 30.8% for 1980.

The average annual growth rate of the agricultural sector, at constant prices, from 1960 to the mid 1970's was higher than Honduras' rapid population growth rate of 3.5%. In the last years of the 1970's the average annual rate of growth slowed to 1.9% in real terms. This rate was significantly lower than the 6.8% GDP growth rate during the same years. In 1981, the Mission estimates the sector's growth rate will be between 0 and 1%. While in part recent performance reflects lower prices obtained for principal exports, per capita production of most crops has declined over the last decade.

B. Agricultural Credit^{1/}

Agricultural credit as discussed here includes financing for crop production, livestock and other agricultural sector production. (Agro-industrial credit will be discussed in a later section.) In 1980, approximately \$140 million for agricultural credit was provided by public and private banks and credit institutions. Other sources of credit are input supply companies, local merchants and moneylenders.

During the credit contraction of recent years, agricultural credit has been disproportionately affected, dropping from 30.1% of new loans from the banking system during 1977 to only 20.7% in 1980. Both the nominal and real value of new agricultural loans granted by the Honduran banking system have declined. Lending by both private commercial banks and the public development bank have declined, as shown in Table III. The nominal level of new loans during 1980 was equal to the level reached during 1976. As inflation was relatively high during the second half of the 1970's, an even greater decline of new loans has occurred when measured in real terms, as shown in Table IV. In real terms, new agricultural loans from the banking system declined by 46% from 1977 to 1980, including a 38% decline from 1979 to 1980 alone. In the case of the commercial banks, the decline was 48% from 1977 to 1980, and for development banks, it was 35%.

These reductions in the real value of agricultural credit are very substantial. For the banking system as a whole, the 1980 level of 121.4 million of constant 1966 Lempiras, had been reached in 1972. That is, at the end of the decade, the banking system was granting, in real terms, as much as it was already granting at the beginning of the decade. As population grew rapidly during the decade, there was also a significant reduction in the availability of real agricultural credit per capita.

As agricultural production increased during the latter part of the decade, credit financed a smaller proportion of the increased output, declining from 43.4% in 1977, to 20.1% in 1980 as a percentage of the gross value of the agricultural output (see Table V). Actually, the 1980 level of the ratio

^{1/} The source for the figures in this section is the OSU study.

Table III

New Agricultural Loans (Lps. 000,000, current prices)
(2 Lempiras = 1 Dollar)

<u>Year</u>	<u>Banking System</u>	<u>Commercial Banks</u>	<u>Development Banks</u>
1975	156.4	97.9	57.0
1976	251.1	193.0	54.6
1977	376.1	270.1	105.9
1978	333.6	242.5	90.1
1979	376.7	263.1	113.5
1980	278.6	190.6	88.0

Table IV

New Agricultural Loans (Lps. 000,000, constant 1966 prices)
(2 Lempiras = 1 Dollar)

<u>Year</u>	<u>Banking System</u>	<u>Commercial Banks</u>	<u>Development Banks</u>
1970	106.6	74.6	27.6
1971	109.6	79.5	27.1
1972	126.0	88.4	36.2
1973	126.4	77.5	36.6
1974	104.7	68.8	35.0
1975	106.1	66.4	38.7
1976	162.4	124.7	35.3
1977	224.0	160.9	63.1
1978	187.9	136.6	50.7
1979	195.1	136.3	58.8
1980	121.4	83.1	38.4

Table V: Ratios of Agricultural Credit to Agricultural Output

<u>Year</u>	<u>New Loans to Gross Value</u>	<u>New Loans to Value Added</u>
1970	27.3	20.6
1975	27.4	19.5
1976	36.9	25.0
1977	43.4	31.4
1978	33.3	23.6
1979	27.8	24.0
1980	20.1	15.2

was the lowest during the 1970's, lower than the 27.3% observed in 1970. A parallel reduction also occurred in the ratio of new loans to value added in the agricultural sector. This ratio declined from 31.4% for 1977, to 15.2% in 1980. At the same time, the ratio of total credit to Gross Domestic Product declined from 40.4% in 1977, to 26.3% in 1980.

How has it been possible to more or less sustain production in the face of these severe and dramatic reductions in ratios which usually change by only a few percentage points in a decade? The Mission is studying the factors that may have contributed to this remarkable decline in credit use relative to output. A small part of the drop is undoubtedly explained by the increased use of direct foreign loans that did not pass through the national banking system. The use of foreign loans is shown in Table VI. It may be as well, that due to relatively profitable operations during the mid-to-late seventies, agricultural production operations were increasingly financed from retained earnings. Other factors that may partially explain this drop could be increased working capital generated from lack of maintenance and from depreciation. Under current economic conditions, these other internal sources of financing will soon be exhausted, if indeed this has not already occurred. An increase in credit availability is needed to simply maintain present levels of production, as well as to put unemployed Hondurans to work in new economic activities.

Viewed from any of these statistical perspectives, the message is clear: in the recent credit contraction that has been underway for some time now in Honduras, the reduction in the agricultural sector has been severe and more drastic than in any other sector. If agricultural credit had grown at a moderate real rate of 5% throughout the last decade, new loans in 1980 would have totalled \$199 million instead of the \$139 million granted. The lack of liquidity in the banking system and more limited access to external resources is constraining the levels of economic activity in the sector, and is contributing to the negative rate of growth, in real terms, observed for agriculture during 1980.

It could be argued that the lower volume of agricultural credit is simply a reflection of a lack of demand due to limited productive opportunities in the sector. There are, however, numerous indicators and signs of unsatisfied excess demand for credit in the Honduran agricultural sector. Both private banks and BANADESA claim that they have queues of unsatisfied clients that cannot be served because of lack of funds, and have been asked to provide data on pending loan applications to the Mission. In addition, in view of the substantial decline in the ratio of agricultural credit to the value of output and to the value added for the sector, had productive opportunities been lacking, production probably would have declined in proportion to the credit.

Table VI: Net Use of External Loans for the Private Sector (\$millions)

<u>Year</u>	<u>Short Term</u>	<u>Medium to Long Term</u>	<u>Total</u>
1970	9.9	4.2	14.1
1971	-18.2	4.5	-13.7
1972	-20.1	5.4	-14.6
1973	0.2	9.3	9.5
1974	60.1	26.7	86.8
1975	-10.7	18.2	7.5
1976	48.6	16.7	65.3
1977	59.7	28.8	88.5
1978	5.4	37.3	42.7
1979	50.2	31.5	81.7
1980	24.3	104.4	128.7
1981(est.)	NA	22.6	NA

C. Agro-industries and Services for the Agricultural Sector

The decline in credit for the agricultural sector has also significantly affected the agro-industrial and service sector. The Mission and the GOH are currently analyzing data from the 1975 Industrial Census in comparison to a recent survey of medium sized industry to determine the volume of activity in small and medium sized industries. While quantified data are not yet available, preliminary analysis of survey results indicates that 1981 has been a year of continuing contraction in the agro-industrial sector, mainly due to softening demand and a severe shortage of working capital. In a few cases, including processing operations for milk, pork, tobacco, citrus, leather, vegetables, and cashews, there is evidence of a shortage of raw materials.

The weakening demand in some industries appears to be due to a decrease in internal purchasing power. Where demand is still strong, the shortage of working capital and raw materials has led to excess productive capacity which is in turn reducing profitability and further inhibiting economic recovery possibilities. The shortage of raw materials supply appears to be due to lack of credit for producers and in the case of tobacco to fungus problems. Although data is not available for the rural service sector, we believe the ripple effect of the general decrease in agricultural and agro-industrial production is probably affecting demand in this area as well.

D. Effects of the Credit Crunch on Low Income Rural Families

The steadily declining availability of credit for the agricultural sector in Honduras, in both real and nominal terms, is now a serious constraint to increases in production, employment and incomes in the rural sector. Low income families are directly and severely affected. They find it more difficult to obtain credit as the limited funds are made available to less risky borrowers - medium and large producers. In addition, informal sources

of credit have reduced their lending activities. Most of these sources relend funds obtained from formal financial intermediaries. On the other hand, employment opportunities are drying up due to both the unavailability of credit to marginal processing and transformation operations, and, in some cases, lack of raw materials production. There is some evidence of a resulting increase in migration to the cities in pursuit of jobs that do not exist. The slowdown is leading to lower real incomes and higher malnutrition among low income families, increasing bankruptcies among all size businesses, and pessimism toward the future.

III. Causes of the Credit Crunch

Perhaps the single most important cause of the present credit contraction is the substantial increase in the budgetary deficit of the public sector that has taken place during the two most recent years. This in turn has led to a significant increase in the portion of the deficit that is domestically financed by the banking system. The Central Bank has sopped up a high percentage of the liquidity in the banking system to provide additional loans to the GOH to finance its fiscal deficit. As a result, the private sector has received an ever smaller percentage of available resources.

The moderate inflation rate that Honduras, like most other countries, has experienced over the last few years has also contributed to the credit crunch. As the real value of the portfolio of outstanding loans of the banking system in 1980 was slightly lower than the volume outstanding at the end of 1977, the real value of credit for the private sector has declined.

In addition to inflation, the portfolio, measured in real terms, has declined as a consequence of a decline in the rate of growth of deposits, in real terms, induced in part by capital flight. Capital flight is estimated by the Central Bank at approximately \$480 million from 1976-1979.

The more limited availability of loan funds also has been attributed to the poor performance of exports and the much larger increase in the value of imports. At the same time, Honduras has found itself cut off from its traditional sources of foreign commercial bank credit due to the reluctance of international banks to increase their exposure in Central America at this time, and the calling in of a number of credit lines that were routinely extended by international banks to the national banking system. The solvency of the banking system itself, called in to question by the failure of Banco Financiera Hondurena has also made foreign banks wary of extending credit to Honduras. An important proportion of the country's export crop harvests has been traditionally financed by foreign banks, but apparently this financing has also been reduced.

Recent Changes in Interest Rates Policies of the Central Bank

The Central Bank of Honduras has been changing the interest rate structure quite frequently since 1979. The following are the most significant changes:

A. Borrowing Rates

1. Prior to January 1979

There was a maximum rate of 6% per year for regular savings accounts. A maximum of 9.5% per year was in force for time deposits exceeding 24 months in amounts less than \$50,000. Banks were free to set the interest rate for time deposits greater than \$50,000 kept for a period of more than six months. The maximum interest rate for fixed-income securities was fixed at 8.5% per year.

2. January 1979

The minimum interest rate for regular bank savings accounts was raised to 7% annually, savings and loans were allowed to pay 8% annually. The interest rate for all time deposits was allowed to be established by market forces.

3. March 1980

The maximum interest rate for regular savings accounts was raised to 8% per year, deposits in savings and loans were allowed to receive 9%. The maximum rate for fixed income securities was raised to 10% annually. For time deposits the interest rates were freed.

4. May 1981

The interest rates on regular savings were freed.

B. Lending Rates

1. Prior to January 1979

The interest rates set by the Central Bank ranged from 7.5 to 16% annually, depending on the amount loaned and the activity to be financed. Ceilings applied mostly to agricultural loans. The rates for exports of coffee, tobacco, meat, wood, cotton and seafood were freely established, as long as the loans were greater than \$50,000 for periods greater than six months. Furthermore, these had to be financed with time deposits held in local currency.

2. January 1979

For all loans, the maximum rate was fixed at 14% per year. Loans excluded were those for housing construction, home mortgages, ordinary loans for less than \$500, loans subject to the Small Industry Guarantee Fund, loans funded by the Cattle Development Fund as well as other loans whose interest had to be paid in advance. The interest rates for all the foregoing activities ranged from 7.5 to 16% annually.

3. September 1979

The maximum interest rate was raised to 16% for all loans. The range of interest rates for excluded activities was changed to 8.5 - 13.5% per year.

4. November 1979

For the first time, a distinction was made between domestic and external resources for all loans, with the exception of excluded activities. The maximum interest rates for those loans funded with domestic resources was set at 16%. For loans funded with external resources, the interest rate was set at 3.5 percentage points above the prime rate of New York or the Libor. All other rates for excluded activities remained the same.

5. March 1980

The interest rate for loans from domestic resources was raised to 19% per year. The range of interest rates for excluded activities was changed to 9 - 16% per year.

6. June 1980

A maximum interest rate of 19% per year was set for loans financed with external resources.

7. November 1981

Interest rates for those loans financed with external resources were freed. All other rates remained the same.

I. SEMINAR/WORKSHOPS

The major objectives of the effort in this proposal are to promote efforts for more effective savings mobilization and more efficient credit allocation in Honduras. These initiatives will be directed to lead to policy changes that in fact will enhance savings mobilization efforts and encourage more efficient credit allocation in the rural financial markets of Honduras.

To accomplish these objectives periodic workshops or seminars will be undertaken with selected Honduran government officials and private sector banks to explain and discuss the wisdom of policy changes in the Honduran setting, essentially financial liberalization. To make these seminars meaningful and convincing to the high level Honduran participants, field research at the institutional and the farm level will necessary. The results from this research will serve as the basis for discussion in the seminars. Finally efforts will be made to incorporate into this research competent Honduran professionals from the Economic Studies Divisions of the Central Bank, the National Agricultural Development Bank and key private banks. Their participation will ensure effective cooperation and data collection, insights into peculiar organizational features in Honduras and local allies in "court" during the ensuing seminars.

II. SCOPE OF WORK

Three major areas will be investigated in this project. Savings mobilization behavior and incentives (and related analysis of monetary and financial policies); lending costs, and borrowing costs. Three minor efforts in the area of credit rationing, the area of the centralization and decentralization of credit activity and the current policies and efficiency of having a special rediscount line for basic grains will be looked into only as a by-product of the major areas of work.

The savings mobilization and credit allocation efforts will focus on three different sets of institutions: the Central Bank, BANADESA and the private banks. Substantive areas of investigation will include an extensive and intensive investigation of savings performance and savings incentives; analysis of lending costs and borrowers costs; to a lesser extent insights can be gained into the inter-office or inter-agency procedures for transfers and decision making in the current and proposed patterns of regional decentralization in BANADESA and, for comparative purposes, in selected private banking networks; and current patterns of loan rationing practiced by lenders in the Honduran financial sector.

These areas will include both a macro and micro level perspective and an institutional and farm level analysis. The focus throughout will be aimed at documenting the current incentives (or disincentives) for savings activity and the distortions and inefficiencies in the current patterns and procedures for credit allocation. Once these incentives and distortions are appropriately analyzed, effective seminars can be conducted to promote relevant policy changes.

Savings Mobilization

Effort here will be to document the savings performance and incentives. On a macro level with the help of Central Bank officials, elasticity estimates of savings with respect to interest rate changes will be determined for overall

savings and specific components of the savings portfolio for detailed time series of savings data from 1970 to the present. Also the different incentives for stimulating savings (or disincentives discouraging same) will be investigated within the key banks of the private banking sector and BANADESA, the public sector agricultural development bank for the more recent period. This would include both interest rate and non-interest incentives. The costs of mobilizing savings, incentives for more bank staff effort, the prospects for more outreach programs and savings campaigns, specific bank rules and regulations on withdrawal penalties and related activity will be studied in detail. Finally the characteristics of savers (as reflected by account sizes) will be analyzed by bank type and component type of savings instruments during this period to determine income distribution implications of savings behavior.

All of this effort can be analyzed through time series (the 1970's to the present) and on a detailed cross-sectional regional scale for the most recent period to give substantial degrees of freedom for the documentation and formal testing of savings behavior and the role of interest rates and other incentives on savings performance in the financial system and in rural financial markets. Also from household surveys can be used to measure and evaluate the quality of service to rural savers by rural financial market institutions. Important here would be the need to document the degree to which savings accounts and other deposits are linked to credit activity by rural savers-borrowers, through compensating balances and other practices.

Lending and Borrowing Costs

Lending and borrowing costs are important but little studied components in the performance of rural financial markets. Of particular importance here is the need to identify the elements that add to lending costs for institutions servicing rural clients. The degree to which certain measures can be undertaken to economize or reduce these costs and improve efficiency of loan administration will be investigated. At the same time the marginal costs of servicing selected clientele (i.e., small farmers) or certain crop type activities (e.g., basic grains) needs to be established so that appropriate interest rates can be instituted on the overall portfolio which will allow institutions to absorb these costs. The degree to which decentralized loan administration can save on costs or the degree to which certain economies of scale in loan management are needed for servicing a rural clientele will be investigated for public sector credit activities.

Borrowing costs (above and beyond interest rate charges) also need to be investigated further. Here the real borrowing costs for selected clientele of lending institutions will be determined through an in-depth farm-level survey. The relative incidence of these implicit costs on farms of different sizes, on clientele with different loan sizes or loan status with the lender (new vs. old borrower) and on different enterprise activities will also be investigated. The possibility of compensating balances, loan documentation charges and other implicit charges of the lender that pass on costs to

borrowers will also have to be investigated. Once more empirical results are available in this area, documenting the high effective rates of interest paid by selected borrowers, and the trade-off between explicit (nominal interest rate charges) and implicit borrowing costs, the more likely it will be to engage Honduran officials in a dialogue about the wisdom of raising nominal rates of interest on loans. Results from this activity can also create evidence that can be used to address the need to raise interest rates on savings deposits thereby helping savings mobilization efforts.

Finally an essential feature of the project is to monitor and evaluate the performance of the monetary and financial policies of the Central Bank. This is important to determine the impact of these policies on savings mobilization prospects, and the distortions, if any, that these policies may be having on an efficient and equitable allocation of credit. This activity, along with the previously described scope of work in the savings area and the lending and borrowing costs areas, will help form the basis for the seminars that will hopefully lead to policy changes liberalizing the financial system.

III. RELATED STUDIES

In addition to the above substantial areas of work, three other related issues can be looked at in a summary fashion as a by-product of the above scope of work: the issue of the centralization and/or decentralization of credit distribution in selected lending institutions; loan rationing behavior; and the issue of having a special rediscount line for basic grains in the agricultural credit portfolio. It is expected that some preliminary insights can be gained into these questions from the research generated in the three major areas in the scope of work. While it is not expected that these related questions can be investigated thoroughly within the available resources of the project, sufficient information and insights can presumably be gained that could contribute to any future project work in these areas.

Centralization and Decentralization

Currently in BANADESA the pattern of decentralization (and centralization) of loan administration carries important implications for savings mobilization incentives and efficient loan allocation. These procedures need to be investigated in greater depth. The degree of autonomy in loan decision making, the relevance of the explicit or implicit performance indicators by which branches are evaluated by the central office; the procedures for inter-branch transfers of deposits and the implicit cost to surplus agencies and benefits to deficit branches within this network; and finally the justifications for common cost contributions from the branches to the central office are all important elements that need to be documented and analyzed. The results will enable one to evaluate the degree of efficient loan administration in the current as well as in any prospective plan of central office-branch office reorganization.

Loan Rationing Behavior

In the face of interest rate ceilings and inflation, private banks frequently engage in loan rationing behavior to reduce their costs and minimize their risks. This occurs through portfolio selection that emphasizes loan with more secure collateral (such as loans to larger sized farms) and less risks (loans to established customers rather than new clients; crop activity subject to less risk on yields, climate or market connections, etc.). It would be useful to investigate the changing portfolio composition in private banks to document the patterns of loan rationing behavior in recent years.

It is important to document this rationing behavior within the major lenders before any new loan funds are introduced into the banking system with their concomitant liberalizing tendencies in freeing up interest rates. These results can then be compared to the changing portfolio composition that emerges under a more interest rate determined milieu. We would expect a more equitable and efficient pattern of loan allocation to emerge in the latter setting.

Credit for Basic Grains

Another specific area of interest here is an analysis of the credit allocation program for basic grains. This is the single most important crop activity financed in the Honduran setting through formal institutions. Moreover all three sets of institutions discussed above play important roles in servicing this activity. It is the most important rediscount line in the Central Bank and the most important loan activity in BANADESA. Finally it is an integral part of the National Development Plans developed by CONSUPLANE and a specialized government marketing board (IHMA) which has been created to purchase and sell those crops.

No comprehensive study has been undertaken to evaluate the effectiveness of this program, the efficiency of the pricing milieu for this product, the logic behind the national planning effort determining the amounts needed to finance these activities in the field, the lending (and implicit borrowing costs) associated with efforts to push this credit out into the field and the equity and production effect of these efforts.

Analysis of these features of the basic grains program would prove helpful in determining ways to improve credit allocation in the Honduran rural financial market.

Within the limited resources of the present project, it would be unrealistic to thoroughly cover the comprehensive territory in the basic grains area. However, some preliminary insights on the costs of servicing this clientele and the related delinquency and borrowing cost features of these clients in selected institutions can be gathered as a by product of some of the lending and borrowing cost research. This could contribute toward the design of a more concentrated effort in this area in the future.



CONGRESO NACIONAL
HONDURAS, C. A.

DECRETO No. 49

El Congreso Nacional de la República,

CONSIDERANDO: Que con fecha veinticuatro de marzo de mil novecientos ochenta, el Gobierno de la República emitió el Decreto Número 903, por medio del cual se creó el Banco Nacional de Desarrollo Agrícola (BANADESA), con el objeto de coadyuvar en el desarrollo económico y social del país, a través de la canalización de los recursos financieros para el desarrollo de la producción y la productividad en la agricultura, en su concepto más amplio, así como de las demás actividades relacionadas con el procesamiento primario de esa producción, incluyendo su comercialización.

CONSIDERANDO: Que siendo la actividad agrícola la más importante en la vida económica y social del país, el Gobierno conviene obligado a impulsar su desarrollo, apoyando la realización de los objetivos de la Ley de Reforma Agraria y los contenidos en la propia Ley del Banco Nacional de Desarrollo Agrícola.

CONSIDERANDO: Que de conformidad con el párrafo primero del Artículo 3 de su propia Ley Orgánica, el capital autorizado del Banco Nacional de Desarrollo Agrícola será de SIETE Y CINCO MILLONES DE LEMPIRAS - (L.75,000,000.00), íntegramente aportado por el Estado.

CONSIDERANDO: Que el Banco Nacional de Desarrollo Agrícola asumió los activos y pasivos del Banco Nacional de Fomento, cuya liquidación resultó en un monto de capital negativo por L.27.8 millones, que según el artículo 3 anexo i) de la nueva Ley forma parte de su capital inicial, lo que ha incidido adversamente en las operaciones de BANADESA, ya que éste ha tenido que afrontar las obligaciones pendientes al momento de la liquidación de BANAFOM, cuyo monto más importante es el que se registraba a favor del Banco Central de Honduras.



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HONDURAS, C. A.

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CONSIDERANDO: Que parte importante de la deuda heredera de BANAFOM con el Banco Central de Honduras se originó en financiamientos especiales o torgados por éste a BANAFOM, con el propósito de atender programas para afrontar situaciones de emergencia, tales como los ocasionados por la guerra con El Salvador, por el Huracán "FIFI", o para cumplir medidas de política pública agrarista tales como el programa de crédito del Decreto No.8 de diciembre de 1972; o para solventar compromisos ineludibles por efecto del cierre del BANAFOM tal como la cancelación de prestaciones laborales, financiamientos especiales en los que ni a BANAFOM ni a BANADESA les corresponde, en justicia, acarrear con las pérdidas financieras generadas por tales operaciones, las que han agravado aún más la situación del Banco, por lo que es necesario restituir estos valores a fin de que éste presente una situación más equilibrada y sana de su cartera de inversiones.

CONSIDERANDO: Que para contribuir oportunamente al desarrollo del Sector Agrícola y cumplir con sus responsabilidades hacia el mismo, BANADESA requiere urgentemente de los fondos de capital suficientes para incrementar sus operaciones, por lo que se hace necesario crear los instrumentos legales y mecanismos correspondientes que permitan y aseguran alcanzar los objetivos enunciados en la Ley del Banco Nacional de Desarrollo Agrícola.

POR TANTO: En uso de las facultades de que está investido,

D E C R E T A :

ARTICULO 1.- Acordar la capitalización del Banco Nacional de Desarrollo Agrícola (BANADESA), en la cantidad de CIENTO CINCO MIL NOVECIENTOS NOVECIENTOS CUARENTA Y DOS MIL TRESCIENTOS SESENTA Y DOS LÍPIRAS (L.114,942,362.00), íntegramente aportados por el Estado, para cubrir los siguientes con-



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ceptos:

a. Capitalización de BANADESA de conformidad con su Ley Orgánica.	L. 75,000,000.00
b. Déficit acumulado y determinado - conforme auditoría del balance de inicio de operaciones de BANADESA.	L. 27,759,549.00
c. Pérdidas de los saldos en cartera por programas especiales de financiamiento.	L. 12,182,813.00
TOTAL	<u>L.114,942,362.00</u>

ARTICULO 2.- La capitalización a que se refiere el Artículo precedente se hará efectiva por el Gobierno de la República, a través de la Secretaría de Estado en el Despacho de Hacienda y - Crédito Público, dentro de un período de quince años, de conformidad con el siguiente plan de amortización:

Año 1982	L. 2,000,000.00
Año 1983	3,000,000.00
Año 1984	5,000,000.00
Año 1985	5,000,000.00
Año 1986	5,000,000.00
Año 1987	5,000,000.00
Año 1988	10,000,000.00
Año 1989	10,000,000.00
Año 1990	10,000,000.00
Año 1991	10,000,000.00
Año 1992	10,000,000.00
Año 1993	10,000,000.00
Año 1994	10,000,000.00
Año 1995	10,000,000.00
Año 1996	9,942,362.00

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HONDURAS, C. A.

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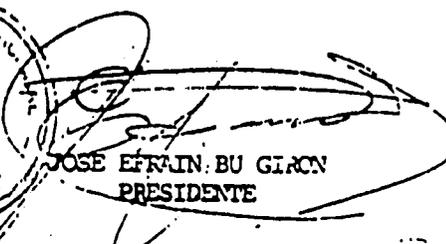
- ARTICULO 3.- Para el estricto cumplimiento del plan de amortización detallado en el Artículo anterior, la Secretaría de Estado en el Despacho de Hacienda y Crédito Público consignará anualmente en el Presupuesto Nacional de Ingresos y Egresos de la Nación, las cantidades necesarias para la amortización del monto de la mencionada capitalización.
- ARTICULO 4.- Queda plenamente facultado el Banco Central de Honduras para que, en forma automática, retenga anualmente de las cuentas bancarias que el Gobierno de la República, a través de la Tesorería General mantiene en dicho Banco, las cantidades contenidas en el plan de amortización detallado en el Artículo 2º de este Decreto, a efecto de amortizar así, el monto del préstamo que esta Institución Bancaria ha acordado otorgarle al BANADESA, con el aval del Gobierno de la República, debiendo inmediatamente hacer el crédito respectivo a favor de BANADESA.
- ARTICULO 5.- En las amortizaciones de capital que hará el Gobierno de la República, hasta completar el capital autorizado del Banco, se podrán utilizar los préstamos suscritos o que se suscriban para tal fin con organismos internacionales o gobiernos amigos.
- ARTICULO 6.- Derogar el Artículo 3 de la Ley del Banco Nacional de Desarrollo Agrícola.
- ARTICULO 7.- El presente Decreto entrará en vigencia a partir de la fecha de su publicación en el Diario Oficial "La Gaceta".



CONGRESO NACIONAL
HONDURAS, C. A.

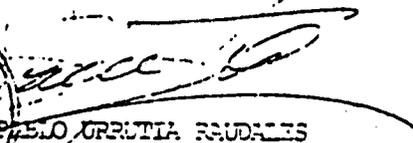
Decreto Número 49...

Dado en la ciudad de Tegucigalpa, Distrito Central, en el Salón de Sesiones del Congreso Nacional, a los ocho días del mes de julio de mil novecientos ochenta y dos.


JOSE EFRAIN BU GIRON
PRESIDENTE



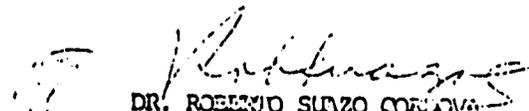
IGNACIO ALBERTO RODRIGUEZ ESPINOZA
SECRETARIO



JUAN PABLO URRUTIA RAUDALES
SECRETARIO

Al Poder Ejecutivo

Por tanto: Ejecútese

Tegucigalpa, D.C., de Julio de 1982.


DR. ROBERTO SUAZO CORRAZA
PRESIDENTE



CONGRESO NACIONAL
HONDURAS, C. A.

DECRETO No. 50

El Soberano Congreso Nacional,

CONSIDERANDO: Que el sector agrícola nacional es determinante en el desarrollo económico y la actividad productiva nacional.

CONSIDERANDO: Que el Gobierno de la República debe fortalecer las instituciones relacionadas con el sector agrícola nacional.

CONSIDERANDO: Que uno de los problemas fundamentales del Banco Nacional de Desarrollo Agrícola, es la enorme carga financiera derivada de su endeudamiento con el Banco Central de Honduras.

CONSIDERANDO: Que además de la capitalización del Banco Nacional de Desarrollo Agrícola, es impostergable la readecuación de sus pasivos, a fin de aligerar en el corto plazo las obligaciones por amortización de capital y pago de intereses.

POR TANTO: En uso de las facultades constitucionales de que está investido,

DECRETA :

ARTICULO 1.- Autorizar al Gobierno Central, para que se constituya en aval, a favor del Banco Central de Honduras, en el préstamo que esta institución concederá al Banco Nacional de Desarrollo Agrícola (BANDESAG), por la cantidad de L.107 millones a un plazo de hasta quince (15) años y bajo las condiciones que apruebe su Directorio; préstamo que será destinado para readecuar la deuda de corto plazo que BANDESAG tiene con el Banco Central de Honduras. Los intereses de este préstamo serán de un 6% anual.

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ARTICULO 2.- Para garantizar adecuadamente la amortización de capital e intereses correspondientes al préstamo referido en el artículo precedente, el Banco Central de Honduras, en forma automática, retendrá anualmente de las cuentas bancarias que el Gobierno de la República, a través de la Tesorería General mantiene en dicho Banco, las cantidades contenidas en el plan de amortización del préstamo, el que será reglamentado en forma tripartita por la Secretaría de Hacienda y Crédito Público, Banco Central de Honduras y BANADESA.

ARTICULO 3.- El presente Decreto entrará en vigencia a partir de la fecha de su publicación en el Diario Oficial "La Gaceta".

Dado en la ciudad de Tegucigalpa, Distrito Central, en el Salón de Sesiones del Congreso Nacional, a los ocho días del mes de julio de mil novecientos ochenta y dos.



JOSE EFRAIN BU GIRON
PRESIDENTE



ALBERTO RODRIGUEZ ESPINOZA
SECRETARIO



FRANCISCA RAUDALES
SECRETARIO



CONGRESO NACIONAL
HONDURAS, C. A.

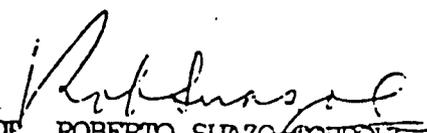
Decreto Número 50...

Al Poder Ejecutivo.

Por Tanto: Ejecútes

Tegucigalpa, D.C., de Julio de 1982.




DR. ROBERTO SUAZO CORDOVA
PRESIDENTE