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UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

HONDURAS

PROJECT PAPER

SMALL FARMER ORGANIZATION STRENGTHENING
(Amendment # 1)

AID/LAC/P-331 & CR
LAC/P-275

Project Number:522-0252

UNCLASSIFIED

AGENCY FOR INTERNATIONAL DEVELOPMENT

PROJECT DATA SHEET

1. TRANSACTION CODE: C (A = Add, C = Change, D = Delete) — Amendment Number: No. 1 — DOCUMENT CODE: 3

2. COUNTRY/ENTITY: HONDURAS

3. PROJECT NUMBER: 522-0252

4. BUREAU/OFFICE: LAC — 05

5. PROJECT TITLE (maximum 40 characters): Small Farmer Organization Strengthening

6. PROJECT ASSISTANCE COMPLETION DATE (PACD): MM 09, DD 30, YY 93

7. ESTIMATED DATE OF OBLIGATION (Under "B" below, enter 1, 2, 3, or 4): A. Initial FY 85 — B. Quarter 4 — C. Final FY 9[illegible]

8. COSTS ($000 OR EQUIVALENT $1 =)

A. FUNDING SOURCE	FIRST FY 85: B. FX	C. L/C	D. Total	LIFE OF PROJECT: E. FX	F. L/C	G. Total
AID Appropriated Total			1,400	6,764	9,236	16,000
(Grant)	(1,400)	( )	(1,400)	(6,764)	(736)	(7,500)
(Loan)	( )	( )	( )	( )	(8,500)	(8,500)
Other U.S. 1.						
Other U.S. 2.						
Host Country		875	875		19,804	19,804
Other Donor(s)						
TOTALS	1,400	875	1,575	6,764	29,040	35,804

9. SCHEDULE OF AID FUNDING ($000)

A. APPROPRIATION	B. PRIMARY PURPOSE CODE	C. PRIMARY TECH. CODE 1. Grant	C. 2. Loan	D. OBLIGATIONS TO DATE 1. Grant	D. 2. Loan	E. AMOUNT APPROVED THIS ACTION 1. Grant	E. 2. Loan	F. LIFE OF PROJECT 1. Grant	F. 2. Loan
(1) ARDN	210	040	019	1,400		1,250		7,500	8,500
(2)									
(3)									
(4)									
TOTALS				1,400		1,250		7,500	8,500

10. SECONDARY TECHNICAL CODES (maximum 6 codes of 3 positions each): 070 | 031 | 250 | 111 | 240

11. SECONDARY PURPOSE CODE: 130, 200

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

A. Code	BS	BR	COOP	EQTY	TNG
B. Amount	(35,804,000)	(35,804,000)	(35,804,000)	(35,804,000)	(5,000,000)

13. PROJECT PURPOSE (maximum 480 characters)

Establish a viable system for channeling productive resources (e.g. credit, technical assistance, inputs and marketing) to enhance small farmer productivity and diversify the production base.

14. SCHEDULED EVALUATIONS: Interim MM 08 YY 87; MM 01 YY 90; Final MM 09 YY 93

15. SOURCE/ORIGIN OF GOODS AND SERVICES: [X] 000 [X] 941 [X] Local [ ] Other (Specify)

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

This Amendment incorporates the Financial Stabilization and Credit Components into the original project description.

17. APPROVED BY — Signature: Carl H. Leonard — Title: Acting Mission Director — Date Signed: MM 09 DD 09 YY 86

18. DATE DOCUMENT RECEIVED IN AID/W, OR FOR AID/W DOCUMENTS, DATE OF DISTRIBUTION: MM 10 DD 14 YY 86

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PROJECT AUTHORIZATION

(Amendment No. 1)

Name of Country	:	Republic of Honduras
Name of Project	:	Small Farmer Organization Strengthening
Number of Project	:	522-0252
Number of Loan	:	522-

1. Pursuant to Section 103 and Section 531 of the Foreign Assistance Act of 1961, as amended the Small Farmer Organization Strengthening Project for the Republic of Honduras was authorized on September 24, 1985. That authorization is hereby amended as follows:

a. Paragraph I of the authorization is hereby deleted in its entirety and the following is substituted therefor:

"I. Pursuant to Section 103 and Section 531 of the Foreign Assistance Act of 1961, as amended, I hereby authorize the Small Farmer Organization Strengthening Project for the Republic of Honduras (the Cooperating Country) involving planned obligations of not to exceed $8,500,000 in Loan funds and $7,500,000 in Grant funds, subject to the availability of funds in accordance with the A.I.D. OYB/allotment process, to help in financing foreign exchange and local currency costs for the Project. The planned life of project is eight years from the date of initial obligation."

b. Section II of the authorization is hereby deleted in its entirety and the following substituted therefor:

"II. The Project consists of institution building, financial stabilization and credit components. The institution building entails organizational development activities to enhance the managerial and the service delivery capacities of the (5) intermediary organizations and their affiliates to address the needs of their constituents. The financial stabilization program will strengthen the farmer organizations by assisting them to resolve accumulated financial problems to permit new resources to be channeled through them. Technical assistance will be provided to improve the managerial capacity of the organizations and to furnish guidance in achieving organizational and financial self-sufficiency. In addition, training will be included to upgrade the organizational development skills and managerial capability of farmer intermediary organization officials and employees. Management of debt cancellation and restructuring activities will be the responsibility of a Financial Development Fund (FDF), an autonomous unit to be created for this purpose within the National Credit Union Federation (FACACH).

The credit component will consist of short-term production and medium-term investment credit that will be made available to intermediary organizations which have complied with the project participation criteria as established by the FDF.

The counterpart agency will be the National Directorate for Cooperative Development (DIFOCOOP), a dependency of the Ministry of Economy charged with cooperative development.

By the end of the fourth year, it is anticipated that approximately 55 affiliates will have been included and approximately 6,000 small and medium sized farmers will benefit."

c. Paragraph III.1 of the authorization is hereby amended to add the following terms:

"1(b) Interest Rate and Terms of Repayment

The Cooperating Country shall repay the Loan to A.I.D. in US Dollars within forty (40) years from the date of the first disbursement of the Loan, including a grace period of not to exceed ten (10) years. The Cooperating Country shall pay to A.I.D. in US Dollars interest from the date of first disbursement of the Loan at the rate of (a) two percent (2%) per annum during the first ten (10) years, and (b) three percent (3%) per annum thereafter, on the outstanding disbursed balance of the Loan and on any due and unpaid interest accrued thereon."

"1(c) Source ana Origin of Goods and Services (Loan)

Goods and services, except for ocean shipping, financed by A.I.D. under the Project shall have their source and origin in the countries which are members of the Central American Common Market and in countries included in A.I.D. Geographic Code 941 except as A.I.D. may otherwise agree in writing. Ocean shipping financed by A.I.D. under the Project shall, except as A.I.D. may otherwise agree in writing, be financed only on flag vessels of the United States, other countries in Code 941 or countries that are members of the Central American Common Market."

"1(d) Reimbursement of Expenses

Upon compliance with the relevant Conditions Precedent to Disbursement, A.I.D. may disburse Loan or Grant funds as reimbursement for eligible expenses incurred subsequent to the date of this authorization."

d. Paragraph III.2 of the authorization, "Conditions Precedent", is hereby amended to add the following Conditions:

"f. Prior to the first disbursement of the Assistance included in Amendment No. 1, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Borrower/Grantee will, except as A.I.D. may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D.: An opinion of the Attorney General of the Republic or of counsel acceptable to A.I.D. that Amendment No. 1 to the Agreement has been duly authorized and/or ratified by, and executed on behalf of, the Borrower/Grantee and that it constitutes a valid and legally binding obligation of the Borrower/Grantee in accordance with all of its terms."

"g. Prior to any disbursement of Loan funds, or the issuance of any commitment documents under the Project Agreement for the Loan, the Borrower/Grantee shall, except as the Parties may otherwise agree in writing, furnish to A.I.D., in form and substance satisfactory to A.I.D., evidence that a trust account has been established within qualified private banks to manage the $8.5 million in Loan resources. The Central Bank of Honduras will identify the banks to manage these trust accounts through a competitive process, and final selection will be conditional upon A.I.D. approval. The terms and conditions under which the banks will manage these accounts and the criteria that will guide intermediary access and onlending of Project Loan resources will be clarified in detail during Project implementation through the issuance of Implementation Letters."

e. Paragraph III.3 of the authorization, "Covenants", is hereby amended to add the following:

"b. As counterpart assistance to the Project, capitalize the Financial Development Fund (FDF) with a total of the equivalent of $19.8 million over the first four years of Project life. These resources will be transferred to the FDF at no cost and they will be used for the financial stabilization of participating intermediary organizations. Upon the request of the FDF and approval of its Board of Directors, the Central Bank of Honduras will disburse these resources to the FDF, which will in turn utilize them for financial restructuring, recapitalization and/or the purchase of intermediary obligations from creditor institutions."

"c. Authorizes the representatives of the public sector institutions (i.e., BANADESA, DIFOCOOP, INA, etc.) to agree to negotiate with the FDF the sale of outstanding obligations of participating intermediary organizations at below the book value of those receivables, where the following conditions prevail:

(i) The delinquent loan receivable can be demonstrated to have been caused by acts of nature, insufficient production resulting from inappropiate technology, unstable markets or other factors outside the control of the cooperatives' directors, management or membership. A delinquent receivable shall not have been caused by misuse of funds by management or unjustified member delinquency;

(ii) The cooperative's Board of Directors has approved implementation of management reforms recommended by the FDF; and

(iii) An economic feasibility study has demonstrated that the cooperative can become a significant provider of productive services to its members and become financially sound, if the organization has been restructured."

"d. Create a special trust account within BANADESA which will be capitalized by the resources that have been transferred to the Bank to finance the regional cooperative "models" created under the Agricultural Sector II Program (i.e., CREHSUL, Fruta del Sol, Maya Occidental, 20 de Marzo, and COHORSIL), and their Cooperative Union (UNIOCOOP), including all loan balances, accrued interest, and undisbursed resources. Furthermore, this trust account will become the depository of all resources received by BANADESA from the FDF as a result of debt retirement of the delinquent portion of the Agrarian Reform Trust Account portfolio. The terms and conditions for all new lending from this account and for intermediary access will be clearly defined in the Trust Account contract to be signed between the Bank and the Ministry of Finance."

"e. Ensure in form and substance acceptable to A.I.D. that the National Credit Union Federation (FACACH) has provided a Delegation of Authority to the Financial Development Fund (FDF) that will permit it to operate with complete autonomy. This will include the authorization to allocate stabilization resources, contracting of personnel, administration of Project assets, provision of operational support grants, and pre-approval of loan applications. This contractual relationship will be reviewed by A.I.D. on a semi-annual basis. If it is found that the Delegation of Authority is not supportive of effective Project implementation, the Government of Honduras covenants to take whatever actions are necessary for the continuation of FDF activities."

"f. <u>Project Evaluation</u>. The Parties agree to establish an evaluation program as an integral part of the Project. Except as the parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter: (a) a baseline study of initial Project participants; (b) evaluation of progress toward attainment of the objectives of the Project; (c) identification and evaluation of problem areas or constraints which may inhibit such attainment; (d) assessment of how such information may be used to overcome such problems in this or other projects; and (e) evaluation, to the degree feasible, of the overall development impact of the Project."

2. The authorization cited above remains in force except as hereby amended.

Signature: ______________________

Carl H. Leonard, Acting Mission Director

Date: 9/9/86

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LIST OF ACRONYMS

1.	ANACH	-National Association of Campesinos of Honduras
2.	AIFLD	-American Institute for the Development of Free Labor
3.	BANADESA	-Honduran Agricultural Development Bank
4.	DIFOCOOP	-National Directorate for Cooperative Development.
5.	ESF	-Economic Support Fund
6.	FACACH	-Federation of Saving and Credit Cooperative Associations
7.	FECORAH	-Federation of Agrarian Reform Cooperatives
8.	FDF	-Financial Development Fund
9.	FEHCOCAL	-Honduran Federation of Coffee Cooperatives
10.	GDP	-Gross Domestic Product
11.	HCB	-Honduran Central Bank
12.	IEE	-Initial Environment Examination
13.	IHCAFE	-The Honduran Coffee Institute
14.	IHMA	-Honduran Institute for Agricultural Marketing
15.	INA	-National Agrarian Institute
16.	JEWG	-Joint Economic Working Group
17.	UNIOCOOP	-Union of Agricultural Service Cooperatives

I. Project Background

A. Introduction

In September, 1985, USAID/H signed a Project Agreement with the GOH for the Small Farmer Organization Strengthening Project (522-0252), a major new effort designed to strengthen farmer associations to permit them to serve as channels through which productive resources (e.g., credit, entrepreneurial skills, technology, etc.) could be provided to small farmers throughout the country. The original design of the Project included a mix of technical and operational support, credit, and financial stabilization resources with a total funding of $16.0 million in D.A. grant and loan resources and $19.8 in GOH counterpart, which would come from the Economic Stabilization Fund Program.

In principle the GOH was in agreement with the need to strengthen the five intermediary organizations initially selected as potential Project participants (i.e., FACACH, FEHCOCAL, UNIOCOOP, FECORAH and ANACH) to increase their ability to deliver services to their members; however, the Government, despite initial indications of concurrence, ultimately came out against the creation of a "new" institution to effect the financial stabilization of these organizations. For this reason, a much reduced Project Agreement was signed in September, 1985, including $1.4 million in D.A. Grant resources and $1.75 million in GOH counterpart. The Agreement also provided for the creation of a Technical Commission (consisting of representatives from the Ministry of Finance & Public Credit, the Ministry of Economy, the Central Bank of Honduras, the Credit Union Federation, the Private Banking System, and A.I.D.) which would design the financial mechanisms to be used to restructure the debt of participating organizations and to channel new resources to them.

B. Progress to Date

The Technical Commission began work in January, 1986, and a series of fifteen working sessions have taken place since that time. Concurrently with the creation of the Commission, a decision was also taken to limit disbursement of Project resources (grant and counterpart) until agreement was reached on the financial mechanisms due to their importance to the institutional development process. Upon the successful conclusion of the design work of the Commission, the intent of the Mission and the GOH was to amend the Project, increasing funding levels to their original totals and extending the PACD of the Project. The Technical Commission has now completed the design of a viable, technically-sound mechanism to address the financial difficulties confronting rural intermediaries, and this Amendment to the Project both describes and affirms the original design and the level of effort and funding.

II. Amendment Description

The purpose of this Project Paper Amendment is to ensure the establishment of a viable system for channeling productive resources (e.g., credit, inputs, technical assistance and marketing) to enhance small farmer production and productivity. This objective will be accomplished by stabilizing and strengthening existing small farmer organizations to make them efficient conduits of the required services and inputs. After a considerable amount of time in negotiations with the GOH and as a result of a prior committment by the Honduran Government for the implementation of this Project, it is a propitious time to go forward with this Amendment.

This Amendment will add the credit and the financial stabilization components to the institution building process that is the focus of the Project. The institution building will entail organizational development activities to enhance the managerial and the service delivery capacities of the intermediary organizations to address the needs of their constituents; and, a financial stabilization program to strengthen the farmer organizations by assisting them to resolve accumulated financial problems to permit new resources to be channeled through them. Technical assistance will be provided to improve the managerial capacity of the organizations and to furnish them guidance in achieving organizational and financial self-sufficiency. In addition, training will be included to upgrade the organizational development skills and managerial capability of farmer intermediary organization officials and employees.

The stabilization element designed by the Technical Commission will consist of a program of financial normalization through the use of a complex mix of fiscal strategies. These strategies include the possible liquidation of intermediary affiliates; elimination of non-performing assets; and efforts at debt restructuring or a rescheduling of outstanding obligations by utilizing all available financial tools (e.g., debt moratoria or forbearance, deferral of principal and interest, consolidation of creditors, loan guarantee's, equity participation, etc.). The intent of this element is to facilitate where possible the cancellation of intermediary outstanding debt while providing for the injection of new capital to foster institutional growth. Management of debt cancellation and restructuring activities will be the responsibility of a Financial Development Fund (FDF), an autonomous unit to be created for this purpose within the National Credit Union Federation (FACACH). The Fund will rest in the private sector, will be guided by a Board of Directors made up of eminent representatives from the GOH and the Honduran banking and agricultural communities, and will have final approval authority over the distribution and use of the financial resources of the Project.

The credit component will consist of short-term production and medium-term investment credit that will be made available to intermediary organizations which have complied with the project participation criteria as established by the Financial Development Fund. The short-term production financing will be made available to constituents of qualified participating intermediary organizations at or near market rates of interest. The credit mechanism will be created to ensure qualified intermediary access to financial resources for production and investment. Specifically, the Central Bank of Honduras (CBH) will create trust accounts for wholesale lending to be managed by the FDF and by selected private banks. These trust accounts will employ strict eligibility criteria for lending, promote the capitalization of the intermediary, and explore the use of new collateral and loan guarantee mechanisms. Medium-term investment resources will be disbursed using the same mechanisms. However, a determination of interest rates will await the [illegible]ion of an in-depth policy analysis to be undertaken by an AID/W and [illegible] Special Commission.

The counterpart agency will be the National Directorate for Cooperative Development (DIFOCOOP), a dependency of the Ministry of Economy charged with cooperative development. DIFOCOOP will monitor overall Project progress; program training activities; review the FDF's funds, operating plan and budget; and support the establishment and operations of the FDF by providing technical assistance to participating intermediary organizations.

Implementation of this amended Project will be guided by a controlled expansion strategy. In the initial stage activities will be focused on the institutional modification, at the national level, of five intermediary organizations -- the Union of Agricultural Service Cooperatives (UNIOCOOP), the Honduran National Credit Union Federation (FACACH), the Honduran Federation of Coffee Cooperatives (FEHCOCAL), the Federation of Agrarian Reform Cooperatives (FECORAH), and the Honduran National Association of Campesinos (ANACH). As each of these organizations adopts the policies and procedures necessary to participate in the Project's debt restructuring and credit elements, institutional rationalization efforts will shift to the intermediary's affiliates.

Only a small number of affiliates of a given organization will be treated at any one time. The treatment intervals will be for periods of six months. Once the first set reaches institutional stabilization, a second set will be assisted, followed in turn by subsequent sets. The number of affiliates will gradually increase over the life of the Project and, by the end of the fourth year, it is anticipated that approximately 55 affiliates will have been included.

By the end of the fourth year, the beneficiaries of the Project will be approximately 6,000 small and medium sized farmers who are members of the intermediary organizations. These farmers are characterized by meager per capita incomes, low educational levels, poor living conditions and inadequate caloric intake. They will receive the benefits of the improved agricultural service system, which, in turn, will contribute to increased farmer incomes and improvement in the quality of life.

The amended Project will last a total of eight years, including the initial year of FY86. It will be funded for a four year period and at a cost of $35.8 million. The A.I.D. contribution for the initial funding period will total $7.5 million in Development Assistance Grant and $8.5 million in Development Assistance Loan. This will be complemented by a GOH contribution of $19.8 million in Economic Support Fund (ESF) local currency.

Figure 1

Summary Project Budget
US$ (000)

Components	A. I. D. Grant	A. I. D. Loan	A. I. D. Total	Host Country GOH	Host Country Total
1. Organizational Development	7,444		7,444	5,667	13,111
2. Financial Stabilization	-	-	-	12,637	12,637
3. Credit	-	8,000	8,000	-	8,000
Sub-Total	7,444	8,000	15,444	18,304	33,748
Contingency	56	500	556	1,500	2,056
Total	7,500	8,500	16,000	19,804	35,804

A. Conformance with A.I.D. Policy

The Project directly responds to the three principal recommendations of the National Bipartisan Commission on Central America for accelerated rural development. These are:

1. increased economic support for cooperatives;
2. the provision of financial resources to supplement credit and investment programs; and
3. increased emphasis to be placed upon equitable access to land, titling, and related land reform issues.

The Project is directed at strengthening rural intermediaries, and particularly agricultural cooperatives and other similar institutions providing services to small farmers. It will provide credit to finance short-term production requirements and medium-term investment in the agricultural sector. Finally, the beneficiaries of the GOH agrarian reform programs are among the target group of potential project participants. The institutional development efforts to be undertaken with the agrarian reform farmer associations are designed to consolidate their achievements to date and to assist them in providing more effective services to their members. This provision of services will result in increases in member productivity and incomes, and will enhance land tenure security and further investments within the sector.

The proposed Project conforms to the Kissinger Commission/Jackson Plan recommendations on agricultural development and the A.I.D. Policy Determinations of Food and Agriculture, Private Sector, Institution Building and Credit. As recommended by the Kissinger Commission and the A.I.D. Policy Determination of Food and Agriculture, the Project will increase food availability through heightened production and enhanced productivity. In consonance with the A.I.D. Private Enterprise and Institution Building Policies, the Project will concentrate its resources on the development of private sector entities, the farmer organizations that service the small farmer target group. In addition, it will finance the creation of a completely private Financial Development Fund (FDF) that will guide the institutional and financial stabilization processes of the intermediaries. Finally, in line with the Agency's position on credit, the Project will utilize monies for lending to farmers in a way that supports the expansion of institutions (farmer intermediary organizations) that effectively mobilize and allocate private, indigeneous financial resources.

B. Relationship to USAID Country Strategy

The USAID country strategy is designed to support Honduras' development goals. In the short-term, the Mission's objectives are to foster economic stabilization and promote growth with equity to improve the standard of living of the country's poor. To stabilize the economy, the USG is providing significant levels of balance of payment support. Economic stabilization will be brought about through GOH implementation of important macro-economic policies to correct the existing desequilibria, while simultaneously creating a sound basis for a long-term export-oriented expansion strategy. To this end, the Mission, through the JEWG, is encouraging the GOH to develop improved policies that govern tax collections, budget expenditures, foreign exchange markets and credit management.

The Mission's strategy for improving the standard of living of the Honduran poor consists of a multifaceted program addressing a linked series of sectoral specific problems. The goals for the agricultural sector include increasing the incomes and improving the living conditions of the rural poor, increasing foreign exchange earnings generated by the agricultural sector, and, preservation and enhancement of the natural resource base. To achieve these goals the Mission is focusing on: (1) increased productivity and diversification of the productive base into export crops and livestock enterprises; (2) secure access to resources (land, water, capital and modern technological inputs) to improve productivity; (3) development and diffusion of improved production technologies; and (4) an upgrading of the human resource base. Progress toward attaining these objectives has been made with the current USAID/Honduras agricultural portfolio. For example, the Agricultural Research Foundation Project is developing the basis of new technology development. The Land Titling Initiative is facilitating farmer access to cultivable terrain. The Small Farmer Coffee effort is contributing to the promotion of an export commodity. Finally, the Rural Technologies Project is developing and diffusing improved farming equipment and practices.

In addition, the Mission has had success working with Honduran intermediary institutions in many of its projects, and particularly where credit activities have been included. Several examples of these projects are as follows:

1. Under the Small Farmer Coffee Improvement Project, initiated in 1981, a total of 2,813 loans have been approved by participating banks (i.e., three private and one public bank) with a total value of $8.7 million. To date only a portion of the nursery loans have matured, but loan repayments are above 98 percent. Principal repayments on rehabilitation loans will not begin until the 1985/86 crop year. It should be noted, however, that interest payments (due each year) have a recovery rate of greater than 95 percent. Early in 1984, the principal lending institutions and cooperatives sought several changes necessary to effect an expanded program through intermediary organizations. The goal of this action was to reduce administrative costs while expanding credit coverage and extension outreach capabilities. This new mechanism became possible only when the interest spread was modified to permit intermediaries sufficient income to cover costs and risks.

2. The Mission has been working with the Federation of Savings and Credit Cooperative Associations since 1981 in an attempt to design new strategies for cooperative lending programs in rural areas. Although this Federation has encountered liquidity and delinquency problems, it has successfully implemented a pilot domestic resource mobilization program among five of its affiliates. These affiliates substantially increased member savings and deposit accounts and lessened their dependence upon external Federation resources.

3. The BANADESA trust account which has been used to finance the four model regional agricultural cooperatives created under the Agricultural Sector II Program, has resulted in effective agricultural lending practices in which the intermediaries have demonstrated their ability to manage both locally generated and external resources. These four cooperatives are utilizing $3.5 million to finance the production of 1,600 small farmers on 9,600 acres of land. More importantly, these cooperative intermediaries have effectively controlled loan delinquency (e.g., less than 10 percent) and have mobilized approximately $350,000 in member paid-in capital.

This Small Farmer Organization Strengthening Project will be the lynch-pin in a series of new initiatives that will cement the agricultural program into a coherent whole and also further the progress made toward the realization of sector goals. Managerially sound farmer organizations will provide the vehicle for channeling the needed productive resources to small farmers thereby improving their incomes and quality of life and enchancing their participation in the national economic mainstream.

III. Project Description

A. Problem

Agriculture is and will continue to be the most important sector of the Honduran economy. At present it directly contributes over 30 percent of the GDP and is responsible, indirectly, for an additional 20 percent through the relationship of food commodities to industry and manufacturing. The sector accounts for two-thirds of the foreign exchange due to exports and employs over 60 percent of the country's economically active population. While the agricultural sector has the human and physical resource base to generate sufficient food to satisfy both domestic demand and provide a surplus for export, increase small farmer income, and contribute significantly to growth of the economy as a whole, a complex of impediments severely constrain realization of its potential. Critical among the impediments is the extremely limited access of the vast majority of farmers to the factors (e.g., credit, managerial expertise, technology, and markets) needed to increase production and productivity.

This limited access is, in turn, reflective of the deficiencies exhibited in the system which currently exists for delivering services to the producers. For example, the Ministry of Natural Resources is responsible for providing extension services for the entire country. A review of the status of its operations clearly indicates that an undermanned, deficiently trained technical staff, and serious budgetary and logistical support problems, combine to severely constrict its outreach capability. The Mission's best estimates suggest that less than 15 percent of the country's farmers are receiving assistance from the public sector extension service.

The Honduran Institute for Agricultural Marketing (IHMA), a semi-autonomous dependency of the Ministry of Natural Resources, is charged with the responsibility of orchestrating the sale of basic grains. In spite of continued support from the National Government and international donor organizations throughout its existence, IHMA's performance has been far below par. Grain storage capacity is woefully deficient and product quality control standards are virtually non-existent. Equally important is the fact that payment procedures are extremely bureaucratic and drawn out, often resulting in depressed price settlements with the growers. It is accurate to say that IHMA enjoys little credibility among the producers who frequently opt for disadvantegeous arrangements with independent buyers (coyotes) rather than confront the inefficiencies of cumbersome public sector bureaucracy.

Finally, as noted above, BANADESA is involved in the provision of significant credit resources. Yet, through a combination of factors, including a bloated bureaucracy and political influence in decision-making, the Bank has had limited success in reaching the small farmer population. It is generally recognized that not more than 5 percent of growers in the country have benefit of credit recources.

B. Amendment Components

1. Institutional Development

This Amendment will support a major effort to upgrade the administrative, management, planning and capital formation capabilities of the farmer intermediary organizations. It will also facilitate an expansion of the service delivery abilities of the intermediary affiliates' to address the access problems which have inhibited the growth and productivity of the agricultural sector. In addition, a stabilization component will inject new capital into these intermediaries to provide for financial stability while the institutional strengthening process is underway. This institutional strengthening effort will be supported by substantial technical assistance to enhance the management skills of Project participants, and eligible organizations will eventually be provided access to additional financial resources (i.e., both debt and equity financing) to stabilize their affiliates and to promote investment and production opportunities within the sector.

Five national intermediary organizations, representing large numbers of small- and medium-size farmers, have been identified as possessing the ability to become effective resource delivery channels and of providing a viable alternative to the presently less effective GOH programs in the rural areas. During the intensive review completed in early 1985, all five were analyzed to: (1) identify overall economic potential of each; (2) evaluate service delivery mechanisms; (3) analyze financial and institutional structures; (4) outline the potential for new services; and (5) suggest policy and operational changes required for enhanced delivery of services. While they hold promise for providing a viable alternative to the ineffective existing public sector system for delivering services to farmers, all the organizations were encountering different degrees of structural and financial difficulties. Since the completion of the review and due to a lack of remedial actions, the financial and operational situations of these intermediaries has continued to deteriorate. The treatment of these difficulties will require a mix of financial and technical support unique to each organization.

The intermediaries participating in the implementation of this amended Project are analyzed below. They are representative of both the cooperative movement and the peasant associations existent in the country. The older institutions (e.g., the Credit Union and the Coffee Cooperative Federation's) will require organizational changes, policy modifications and financial stabilization. They do possess professional personnel and are accustomed to using businesslike practices in their operations. Nevertheless, their policy and service delivery programs have not kept pace with an increasingly difficult economic climate. The newer organizations (e.g., the campesino associations) are less familiar with economically-sound service delivery, and will need a more complete institutional development effort to introduce policies and programs to revamp their organizational structure, thereby enabling them to more effectively provide their constituencies with the required services. It is the Mission's judgement that the revitalization of these organizations is the most expeditious way of reaching the Honduran small farmers, both those growers who are currently members of cooperative or association affiliates, as well as independent producers who once attracted by the success of the Project, will join one of the existing movements.

2. Participating Organizations

The Honduran cooperative movement began in the early 1950's and has grown slowly to a present total of 771 cooperative organizations legally registered by the Government. These cooperatives provide services to approximately 113,000 Hondurans. They operate in both the rural and the urban areas of the country, and are active in agriculture, savings and credit, forestry, housing, transportation, industrialization and fishing. The agricultural sector is the largest component of the cooperative movement -- accounting for more than 50 percent of the existing organizations. The cooperative intermediaries identified as possessing the potential for inclusion in the Project are the Honduran National Credit Union Federation (FACACH); the Honduran Federation of Coffee Cooperatives (FEHCOCAL) and the Union of Agricultural Service Cooperatives (UNIOCOOP).

a. The Federation of Savings and Credit Cooperative Associations (FACACH)

In terms of capital and total membership, the Credit Unions affiliated to FACACH are the most important cooperative organizations in the country. This national credit union system currently serves more than 39,000 individuals and over its eighteen year life, the Federation has evolved into an association of 89 affiliated credit unions with assets totalling L 19.2 million (U.S.$ 9.6 million). Figure 2 shows the Honduran credit union movement's growth in key membership and financial indicators for the 1966-1984 period.

Figure 2

NATIONAL CREDIT UNION DEVELOPMENT INDICATORS

(Monetary Data in Thousands of Lempiras)

	1966	1970	1975	1980	1984
Affiliated Credit Unions	10	110	110	91	89
Members	9,921	24,500	29,797	36,645	39,104
Share Savings	1,076	8,334	14,306	34,590	45,750
Deposit Savings	0	0	0	3,767	7,155
Loans Outstandings	767	10,499	15,985	38,052	50,388
Total Assets	2,208	11,666	19,846	48,426	NA
FACACH					
Shares	5	134	953	2,637	2,567
Deposits	0	0	85	583	1,304
Notes Payable	10	1,132	3,867	7,805	9,052
Loans Outstanding		1,058	4,899	10,076	11,310
Total Assets	32	1,661	6,014	15,600	19,182

This debt was absorbed and refinanced with the Honduran Coffee Institute (IHCAFE) over a 15-year period at a per annum interest rate of 7 percent, resulting in an annual debt payment of approximately L 1.25 million. To avoid endangering the stability of the banking sector and to maintain an important cooperative entity, the Government decided to have the Federation absorb the losses of its affiliates rather than declaring the sector bankrupt. While the reasons for this decision are understandable, the debt servicing obligation placed upon FEHCOCAL constituted a significant cost-added to every bag of coffee processed. This, in turn, contributed to the deficit operations of the Federation and its inability to provide the much needed assistance, both financial and technical, to the affiliates. A similiar deficit financial situation exists among the majority of the cooperatives under the FEHCOCAL umbrella. During the 1984/85 crop cycle, the Federation again incurred severe losses on its marketing operations, and in November a consortium of private banks acquired control over management decision-making. In the 1985/86 cycle, this external control reduced export operations by approximately 75% and almost entirely eliminated any services provided to affiliates. More seriously, however, the private bank intervention has not succeeded in reversing the financial deterioration of the Federation and additional losses, again resulting from bank-financed price speculation, have resulted from its 1986 export operations.

The Federation's affiliates also experience organizational, policy and management problems in addition to their debt obligations. These difficulties are directly attributable to antiquated administrative structures and deficiencies in the quality of professional management which, in turn, constrain FEHCOCAL's capacity to attend to the needs of its constituents. The recent decline in coffee production, attributable to the entry of "coffee rust", is an example of the negative impact which the Federation's limited technical capacity has on its members. The absence of technical assistance is retarding farmer ability to resolve the disease problems which are contributing to a decline in production. The decrease in yields is making it more difficult for the growers to generate the income needed to repay their outstanding obligations.

The institutional analysis of the Federation and its affiliates completed during the 1985 intensive review concluded that FEHCOCAL has the potential to become a viable vehicle for provision of intermediary services. Indeed, prior to the financial losses incurred in the 1970's, it was one of the few dependable sources of services available. At this time, however, a series of fundamental changes must take place. First, the financial situation of the coffee cooperative sector is severely constraining its operations. The Federation and its affiliates require greater amounts of working capital to increase the volume of coffee purchased from members. Second, the drying capacity of the Federation is less than adequate, resulting in greater costs of transportation and lower quality coffee. Accordingly, the drying capacity of the Federation must be increased, storage capability expanded, and processing costs lowered to improve price competitiveness. Third, coffee storage facilities must be improved and qualified as "authorized warehouses" by the GOH. If taken, this measure will result in an increase in the quarterly export quotas assigned to the cooperatives and, by extension, to the [illegible] group – FEHCOCAL. It will also help rationalize the marketing [illegible] eliminate or reduce speculation among the cooperatives, and increase the amount of credit availability. Fourth, agronomic technical assistance must be furnished to producers to increase yields and to provide them with the technology needed to inhibit or slow the entry of diseases such as coffee rust. Fifth, technical expertise is necessary to assist the Federation to reformulate its operational policies and restructure its administrative apparatus. An essential reform area is related to the lack of member capital participation in both the cooperatives and in the Federation. This lack of internally generated capital has created an excessive leveraging of cooperative finance, has weakened the essential "user-ownership" relationship that characterizes successful cooperative enterprises, and has reduced the profitability of operations in general. Additionally, the Federation does not possess a credit analysis capability, an obvious necessity if it is to continue to provide financing and loan guarantee's to its affiliates, and support their efforts at providing resources to their farmer members.

c. The Union of Agricultural Service Cooperatives (UNIOCOOP)

The Union of Agricultural Service Cooperatives is a newly formed (April 1985) central service organization consisting of the four "model" regional agricultural cooperatives supported by USAID/H under the Agricultural Sector II Program. Creation of the model regional coops was an experimental activity designed to demonstrate the feasibility of establishing autonomous, agricultural entities possessing the managerial talent necessary to efficiently provide production services (i.e., input supplies, credit, technical assistance and marketing) to significant numbers of small farmers while utilizing operational policies which are consistent with the attainment of economic self-sufficiency. Since 1981, this initiative has successfully introduced a businesslike cooperative "model" into four (4) regional agricultural service cooperatives. These organizations are unique in their strict adherence to business-oriented operational policies, emphasis upon member capital participation, professional management, and success in grouping together small independent farmers and agrarian reform units within a single enterprise.

Two of these cooperatives began as organizations providing services to small, basic grain producers. Efforts are currently underway to provide expanded marketing assistance and small-scale processing, introduce new technology packages to increase farmer productivity, and diversify member production into more profitable non-traditional crops where feasible. Total membership in these two cooperatives is approximately 1,400 farmers. The second pair of cooperatives are export-oriented enterprises, producing non-traditional crops (primarily cantaloupe and cucumbers) for the U.S. winter market, and membership totals approximately 200 farmers. In combination, these four cooperatives provide services to 1,600 farmers, finance the production on 9,600 acres of land, possess a total member-contributed capital of $350,000, and are utilizing L 7.0 million in production and investment credits.

The Union (UNIOCOOP), was created to channel continued assistance to these four geographically separate cooperatives, and to provide a mechanism through which other similiarly organized cooperatives may also affiliate and obtain services. The functions of the Union include:

(1) provision of central purchasing and contracting services for supplies, agricultural inputs, transportation, equipment, etc. and providing marketing assistance, broker representation, etc.;
(2) service as a communications center capable of providing affiliates with marketing, technical and financial information;
(3) execution of periodic audits of the financial records of the cooperatives;
(4) facilitation of actions required to obtain import/export permits, and arranging for all other licenses and documentation;
(5) provision of liaison services among the cooperatives and between the coops and the GOH, private institutions and international agencies;
(6) arrangement of training and technical assistance activities; and
(7) provision of financing and/or assuming equity positions within its affiliates to resolve short-term financial problems and to promote their continued development.

An evaluation of this cooperative development effort was completed during the 1985 intensive review. The research identified a series of management and fiscal problems that are affecting the ability of these four cooperatives to become independent, self-supporting intermediaries. The two export-oriented groups experienced a disastrous marketing cycle in early 1985 which resulted in a severe financial setback. The evaluation revealed a complex of factors (e.g., unprecedented early entrance of Mexico into the U.S. winter fruit market, unusually inclement weather in the U.S. which frustrated produce delivery, and poor management) that contributed to the economic reversal. However, the evaluation further pointed out that all four organizations have adopted sound financial growth policies, have implemented appropriate management systems and are providing a relatively adequate range of quality services to their constituents. The net result of these policies and actions is that on-farm productivity of participating members has increased. Much smaller marketing losses were again incurred during the 1985/86 cycle, and it has become apparent that greater efforts at crop diversification and experimentation must be undertaken before additional credit is provided to small farmers of non-traditional export crops, particularly given the high investment costs per manzana and the volatile and high risk U.S. winter market.

The Mission judges that the difficulties encountered by the two export groups in the recent marketing cycle, while comprising a hard "lesson to be learned", provide a valuable base for charting a corrective course of action for the future. Although the advances the coops have made to date are significant, the evaluation clearly indicated that there is room for further improvement. For example, to facilitate the management planning process, a mechanism to track participant yield and productivity requires an upgrading of the extension cadre and the introduction of marketing services. Financially, all four cooperatives must expand the volume of their operations, particularly those income generating services (e.g., input supply, credit and marketing) which will enable them to attain economic self-sufficiency. Although the two basic grain-oriented cooperatives are relatively stable, serious financial problems exist within the two agro-export organizations. Both will require a new infusion of capital to continue operating. With some modification in their operating policies and the assistance to be provided by the Project, the two basic grain-oriented cooperatives will attain economic self-sufficiency in the near future. Even though the financial stability of the two export commodity coops is more distant, it is the Mission's opinion that with the inputs of this initiative, they will achieve self-sufficiency by the end of the four-year funding period.

In addition to cooperatives, Honduras is unique in Central America because of the large number of politically active and relatively well-organized peasant associations. Estimated membership of the three major peasant organizations is approximately 55,000 individuals, and another 20,000 are members of numerous smaller associations. Although the primary goal of the peasant organizations has been that of defending the rights of agricultural workers to gain employment and to possess land, effective provision of economic and social services are considered by the leadership to be crucial to organizational success. In general, these institutions have been relatively successful in obtaining land, but development of effective commodity production and marketing programs for their constituencies has been, to date, beyond their capacity.

d. <u>The Federation of Agrarian Reform Cooperatives (FECORAH)</u>

FECORAH was organized in 1974 and is the only peasant association possessing legal recognition under the Honduran Cooperative Law. FECORAH's affiliates consist of about 200 cooperatives and pre-cooperatives (i.e., collective farming units) and total membership is estimated at 6,000. The Federation was created to assist agricultural cooperatives spawned by the GOH Agrarian Reform programs, and its affiliates follow the precept of collective agricultural production and ownership. During its initial years, FECORAH received substantial support from the GOH, including operational subsidies from the National Agrarian Institute (INA), to finance service to membership initiatives. In spite of this, it has not been able to develop the service programs nor the income mechanisms which would ensure eventual independence. In an attempt to enact income generating activities, FECORAH organized seven Regional Service Centers throughout the country. Only three, however, are operating at this time and they provide a limited range of services to affiliates.

The analysis of FECORAH conducted during the 1985 intensive review indicated that, to the extent that the Federation has been able to obtain support from the GOH (e.g., the National Development Bank, the National Agrarian Institute, the Ministry of Natural Resources), it has been effective. However, severe limits on financial and human resources and an overdependence upon the GOH have inhibited FECORAH from taking steps to obtain self-sufficiency. To achieve financial independence FECORAH must undertake a series of significant reforms. A policy reorientation is in order to help the Federation to focus on furnishing economic services to its members while simultaneously de-emphasizing its concentration on land acquisition, provision of legal services and other areas of traditional interest. The professional cadre, while dedicated, is undermanned and deficient in effective managerial skills. Administrative and accounting systems are outdated and must be revised. Finally, there is a need to restructure its financial picture. Its current sources of income, (profits of a Federation-owned rice mill, donations from the GOH and other benefactors, and contributions from affiliates) are generally inadequate. Moreover, the external donations serve to perpetuate the current dependency status. To attain economic independence and generate the revenue required to upgrade the professional caliber of its staff, it must embark on a program of sound, income-generating activities.

e. <u>The National Association of Campesinos of Honduras (ANACH)</u>

Founded in 1962, ANACH is the oldest of the Honduran peasant associations and currently counts a total membership of approximately 25,000 individuals. As with FECORAH, ANACH has concentrated its efforts on political and social issues with a particular emphasis on the implementation of national agrarian reform programs. However, as an increasing number of affiliated groups have obtained land, the Association has become more interested in providing support services to these newly landed entities. During the 1970's, ANACH organized a series of internal technical departments and a rotating fund designed to provide technical assistance, extend credit, administer social programs, and conduct feasibility studies for the affiliated groups. These efforts failed and the technical department fell victim to budgetary cutbacks while the rotating fund was dissipated through loans that were unrecoverable. In 1977/78 ANACH began a program to organize its landed affiliates into regional cooperatives through which they could be provided access to services. Currently, fourteen (14) of these regional cooperatives are operating. However, as with the National Association, the coops are almost entirely dependent upon international donors and the GOH for services and financial support. Moreover, owing to outstanding obligations created by unpaid loans and limited member capital participation, the fiscal condition of these cooperatives is precarious, a situation which has forced an even greater dependence upon external financial resources, particularly those of the GOH.

The institutional analysis of ANACH and its regional affiliates concluded that the Association is the weakest of the five intermediary groups that will participate in the Project. Administrative and management systems are deficient and must be overhauled to emphasize sound business-oriented policies and practices. The financial situation is unsettled (accumulated losses in 1984 totaled L133,000) and must be stabilized through increased attention to income generating activities and decreased reliance on outside donations. Finally, there is a severe lack of professionally trained managerial personnel at all levels. This situation must be corrected if the Association's deteriorating financial trend is to be reversed and appropriate systems installed to deliver services to its constituency.

Given the importance of the ANACH movement in Honduras, and the extremely difficult situation facing the ANACH cooperatives (described above), a very intense effort in institutional development will be necessary to bring the Association to the level required for participation in the Project.

3. Summary Status of Intermediary Organizations

In mid-1985, a matrix, (Figures 3 and 4), comprised of financial status, membership base and services provided, was developed to determine the technical assistance and financial mix needed to stabilize the intermediaries under consideration. Although the matrix indicators have changed during this past year, only the FEHCOCAL and the two agro-export model cooperatives have experienced significant changes and it does provide an accurate picture of the problems facing each of the intermediary organizations at this time. As Figure 3 demonstrates, all of these institutions are experiencing significant financial difficulty. In the cases of FECORAH and ANACH, the net income shown was a result of dues or donations, since neither institution possesses income generating capabilities. The membership base of each institution varies widely from a low of 1,449 members to a high of 39,104 members. There is little correlation, however, between the number of members served, the range of services offered, and the financial strength of each institution. In the area of service delivery, FACACH and FEHCOCAL both provide the widest range of services, from credit lending to input supply and marketing (note: FEHCOCAL services have been reduced significantly). FECORAH and ANACH offer a rather limited scope of services which are focused upon such areas as obtaining land and legal representation. The four model cooperatives are primarily involved in the production and marketing of basic feed grains, cucumbers and melons.

As noted previously, each of the five intermediary organizations posses the potential for developing into viable service delivery mechanisms, however, they are all encountering significant institutional and financial problems. The technical assistance to the cooperatives and the training to their leaders to be provided by this Project Amendment will enable the intermediary organizations to overcome their administrative constraints. The debt restructuring and stabilization financing, complemented by the new credit resources furnished by the Project, will assist the farmer organizations to resolve their fiscal difficulties. This technical and financial assistance will eventually be provided to all of the umbrella organizations, as well as to most of their affiliates. All investments will be preceeded by feasibility analyses and a controlled expansion or risk reduction strategy will guide the development of the Project at all times.

Figure 3

COMPARATIVE MATRIX ANALYSIS

CURRENT STATUS INDICATORS(Lempiras) - 1984

INSTITUTIONS	FACACH	FEHCOCAL	UNIOCOOP	FECORAH	ANACH
FINANCIAL					
NET INCOME	(740,725)	(2,801,937)	(2,836,660)	26,033	34,852
TOTAL ASSETS	19,668,063	31,858,364	4,460,155	1,023,934	280,788
TOTAL DEBT	13,968,153	42,452,066	5,385,673	527,000	454,666
PAID-IN CAPITAL	2,567,123	27,000	777,598	394,000	-0-
TOTAL NET WORTH	5,699,910	(10,593,702)	(925,518)	496,934	(173,878)
MEMBERSHIP					
No. OF AFFILIATES	89	28	4	375	728
No. OF MEMBERS	39,104	7,300	1,449	10,000	25,000

FIGURE 4

Services Offered By Intermediariy Organizations

INSTITUTIONS SERVICE OFFERED	FACACH	FEHCOCAL	UNIOCOOP	FECORAH	ANACH
CREDIT	X	X	X		
INPUT SUPPLY	X		X		
DOMESTIC MARKETING	X	X	X		
EXPORT MARKETING		X	X		
TECHNICAL ASSISTANCE	X	X	X		
LEGAL ASSISTANCE	X	X		X	X
REPRESENTATION	X	X	X	X	X
ACCOUNTING		X			
SAVINGS	X				
INSURANCE	X				
PRODUCT PROCESSING	X	X	X		
PRODUCT STORAGE	X	X			
SOCIAL PROGRAMS	X	X		X	X
COOP. ORGANIZING	X	X			
NUMBER OF SERVICES	12	11	7	3	3

C. End of Project Status

The following objectives will be achieved by the end of the four-year funding period:

1. a Financial Development Fund, capable of providing institutional development and financial stabilization assistance to intermediary organizations, established and operating;

2. five umbrella farmer intermediary organizations restructured institutionally and stabilized financially;

3. a minimum of 55 farmer organization affiliates organizationally restructured and financially stabilized;

4. approximately 2,000 production credit loans, totalling over $8.0 million dollars, disbursed to small scale growers;

5. a cadre of not less than 30 intermediary organization officials trained in the principles and practice of institutional development.

D. Project Inputs

To achieve the anticipated outputs by the end of the four-year funding period the Project will provide long-term and short-term technical assistance, training, commodities, resources for debt rescheduling and financial restructuring, funds for short-term production and medium-term investment credit, and operational support grants.

The technical assistance, both long-term and short-term, will be financed with A.I.D. grant funds. The Project budget includes 28 person years of long-term T.A.. Two advisors, both skilled in cooperative institutional development, will assist the USAID/Honduras Project Manager to implement the Project. Five additional long-term technicians (i.e., experts in finance and credit, credit unions, extension, and institutional development) will be assigned to the FDF and will provide guidance to the Fund's staff on intermediary participation criteria, formulation of debt rescheduling or equity participation criteria, and treatments to resolve farmer production and marketing difficulties. In addition, the long-term technical assistance will backstop the professional personnel within the participating umbrella groups and will focus their efforts on organizational development, financing, marketing, commodity production, and extension as indicated by the circumstances affecting each specific organization.

Three person years of short-term technical assistance is contemplated to complement the long-term advisors. The short-term T.A. will include experts in such fields as Agronomics, Cultural Anthropology, Economics, Commodity Procurement, Insurance, Marketing, Data Processing, etc., and will be applied as needed.

The training component of the Project calls for a combination of long and short-term training for up to 30 individuals from the staffs of the participating intermediaries. Topics for study will include Farm Management, Organizational Development, Credit, Finance, Marketing, Extension and Accounting and will take place at U.S. universities and agri-business enterprises, as well as in-country. Candidates will be nominated by their "home" institution, and processed by USAID in accordance with normal procedures as necessary. Training will be financed by A.I.D. grant funds.

Commodities such as vehicles, office equipment and materials, and other logistical support items will be procured under the Project. The commodities will be distributed among the principal implementing entity, the Financial Development Fund, and the five intermediary umbrella groups -- UNIOCOOP, FACACH, FEHCOCAL, FECORAH and ANACH. They will be used to support the members of the technical assistance team and the staffs of the participating organizations to execute their assigned responsibilities. These items will be financed by a combination of A.I.D. grant and GOH counterpart resources.

The financial stabilization component of the Project will total approximately $12.6 million and will be provided from the special local currency account as a portion of the GOH contribution. As described in Section III, it will be used to stabilize the fiscal position of the participating intermediaries through the use of a complex mix of financial tools. A final input of GOH counterpart funds (totaling approximately $6.4 million) will be utilized to provide operational support grants to the Financial Development Fund, the DIFOCOOP Project Administrative Unit, and to the participating intermediary organizations.

Approximately $8.5 million in A.I.D. loan funds will be applied to provide medium-term investment credit to participating cooperatives and short-term production credit to their members. These resources will be channeled through the trust funds to be managed by either the private banks or the FDF. In all cases, the CBH will assume the foreign exchange risk for the loan.

E. Project Participation

1. Implementation Strategy

Project implementation will be guided by a controlled expansion strategy according to which the application of project inputs will be phased and the number of organizations, both at the national and affiliate levels, will be gradually increased. Throughout, expansion will proceed only after a consolidation of established successes.

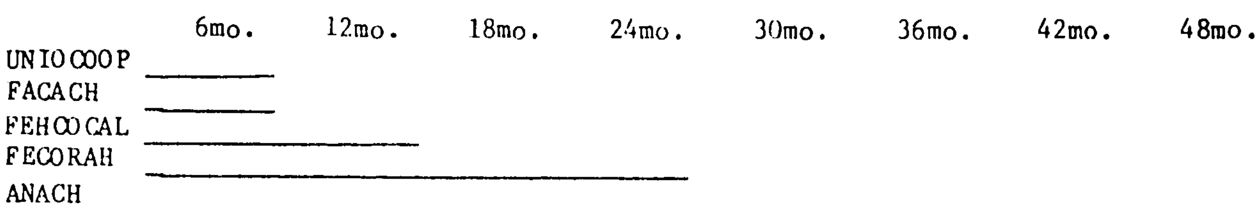
The first phase of inputs will focus on the administrative reorganization of intermediaries at the national level. At the outset of the Project, all five umbrella organizations previously analyzed, and any newly identified intermediaries, will enter into a formal agreement with the Financial Development Fund specifying the prerequisites that must be met by each intermediary to qualify for full participation. The entrance requirements will emphasize the adoption and implementation of sound, businesslike management procedures and policies. In general terms, the criteria will include: (1) adoption of strict lending policies with affiliates; (2) installation of modern accounting and budget control systems; (3) enhancement of staff professional competency and institution of enlightened personnel policies; (4) development of member capital participation programs; and (5) creation of sufficient financial reserve funds to develop a hedge against contingencies. Benchmarks, based on the institutional analyses, will be developed for each participating organization, and progress will be measured on a monthly, quarterly and annual basis. The FDF will utilize monthly financial statements and quarterly progress reports, as well as periodic visits by FDF personnel, to track success in meeting the benchmarks, and to ensure compliance with the Project's participation criteria. The agreement will also specify the time period each intermediary will be awarded to institute the required reforms.

Once the intermediary has implemented the administrative changes, it will make a formal application to the FDF to gain the status of a full project participant. If acceptance is granted, a second formal contract will be entered into between the Fund and the intermediary to govern the terms and conditions, including financial assistance where appropriate, and suspension and disqualification procedures, of participation. The details of the agreement between the FDF and the participating organization appear in Section III.4.c.

It must be recognized that the five intermediaries currently enjoy different levels of institutional development. Moreover, it is anticipated that they will proceed at different rates in undertaking the required organizational modifications. As can be seen from Figure 5, it is anticipated that UNIOCOOP and FACACH will reach the stabilization threshold in relatively short order -- six months after the initiation of the Project Amendment. Both organizations are receiving technical assistance under other A.I.D. financial programs and are making measured but constant progress with the installation of modern management systems. In contrast, the complex of difficulties being encountered by ANACH, FECORAH, and FEHCOCAL is far more serious, requiring a longer period to adopt and put into practice the needed changes.

FIGURE 5

Anticipated National Level Intermediary Institutional Reorganization Rate



As a particular umbrella entity implements the recommended structural changes and thereby reaches the eligibility threshold for full project participation, the focus of technical assistance will shift to the affiliates of that

The FACACH institutional analysis of the original PP concluded that the Federation is clearly the institution of choice for servicing the wholesale credit needs of credit unions and their members in rural Honduras. FACACH is the strongest national cooperative intermediary organization, and together with its leading credit unions, has the potential of becoming an integrated national financial system serving rural areas and their agricultural and production credit needs. However, it must undertake organizational adjustments and reorient its services and development programs to effectively serve its constituency. For example, it must address severe liquidity problems caused by recurring operating losses, loan delinquency and a long-term, refinanced loan portfolio. Furthermore, there is a need to install a centralized financial management capability, enhance the technical capacity of its middle management staff, and formulate implementation strategies which focus on a rational achievement of objectives and management procedures which emphasize personnel accountability for achieving targets and goals. Finally, FACACH must concentrate on serving the financial needs of its affiliates and desist from becoming involved in non-credit union development projects which sap the Federation's financial and human resources. The institutional reorientation effort is vital to FACACH's continued growth and stability, and it is this which will be addressed by this Amendment.

b. The Honduran Federation of Coffee Cooperatives (FEHCOCAL)

Coffee exports are second in importance to the Honduran economy (i.e., 23.3 percent of exports in 1984). They represent 5.7 percent of GDP and generated 42.7 million Lempiras in export taxes in 1983/84. It is estimated that there are approximately 49,000 coffee producers in the country, the vast majority of whom (90 percent) are small- and medium-size growers with farm sizes of less than ten manzanas. Productivity is the lowest in Central America and on approximately 47.7 percent of the coffee producing areas, yields and quality are declining due to a combination of disease problems (e.g., coffee rust) and the use of poor technologies in both production and processing.

FEHCOCAL was organized in 1969 and was until 1985 the largest single exporter of coffee in Honduras. FEHCOCAL and its 28 affiliates represent approximately 7,300 coffee producers, and they have provided growers with technical assistance, input supplies, processing and marketing services, and some limited short-term credit. Although in the past it was relatively efficient in its marketing operations, losses incurred in recent years have severely constrained services to affiliates. The impact of overwhelming debt service obligations on earned income has frustrated the Federation's effort to mount a successful extension program, and at present its operations have been virtually taken over by creditor institutions.

In 1985, the Federation and its affiliates attempted to recover from the severe financial losses incurred during the coffee marketing cycle of 1977/78. During that period, speculation in coffee futures was quite common among coffee producers and exporters in Honduras and, when the prices collapsed, FEHCOCAL, its affiliates, and many coffee producers incurred losses totaling over L 15 million.

organization. At this point the institutional modification process will be repeated. The FDF will develop institutional profiles of a selected group of intermediaries to determine the specific changes in policies, structures, and procedures that are required. With the concurrence of the correspondent umbrella group, the FDF and each affiliate will enter into a formal agreement to design and install a specifically tailored treatment package. Implementation of the package will qualify the affiliate for full project participation. Again, such participation will be governed by a second contract between the Fund and the affiliate. In keeping with the controlled expansion strategy, only a small number of affiliates of a given national organization will be addressed at any one time. The treatments will take place in six-month intervals beginning six months after the initiation of this Amendment. The process will be dynamic -- once the first set has achieved institutional equilibrium, the T.A. effort will concentrate on assisting a second set which, in turn, will be followed by additional sets during subsequent intervals. Figure 6, below, depicts the process of "phasing in" the affiliates and demonstrates that by the end of the four-year funding period, 55 groups will have being treated.

In order to enhance the probability of initial success, and thereby generate a "multiplier" factor for potential participants, the affiliates of each intermediary will be rank ordered on the basis of proximity to possessing a sound administrative structure and effective operating procedures. The affiliates with the highest rankings will be addressed first while lower rated groups will receive subsequent attention. For example, on the basis of successful implementation of constituency savings mobilization campaigns, the FACACH cooperatives in Choluteca, Rio Grande, Yoro, and Corquin are the most advanced of the Federation's units and will be included in the first FACACH affiliate set. Similarly, the coffee coops in Trinidad, Comarca, Santa Ana, and Santa Barbara exhibit the basis of sound management and offer relatively more potential than other coffee cooperatives and most probably will be included in the first FEHCOCAL groups.

FIGURE 6

AFFILIATE PHASE-IN SCHEDULE

	6mo.	12mo.	18mo.	24mo.	30mo.	36mo.	42mo.	48mo.	TOTAL
UNIOCOOP		5	(1)*		(2)*		(2)*		10
FACACH		4		5		5		6	20
FEHCOCAL			4		4		5		13
FECORAH					1		2		3
ANACH					5		4		9
								TOTAL	55

*Anticipated growth UNIOCOOP affiliate memberships.

2. Financial Stabilization

As noted in Section III.F., the financial situation of the intermediaries, especially at the affiliate level, is beset with difficulties. All of the intermediaries have serious liquidity problems and three of the five have negative total net worth balance sheets. If the umbrella organizations and, by extension, their affiliates are to serve as viable vehicles for providing services to small farmers, they must not only undergo organizational restructuring, but also become financially stabilized. Mission personnel and host country counterparts have considered the use of a complex mix of financial tools or approaches to bring about financial normalization of participating farmer associations, including: liquidation of affiliates and/or elimination of non-performing assets; debt moratoria or forbearance conditions; debt restructuring through deferral of interest or principal payments, the consolidation of creditors, and a general rescheduling of loan commitments; possible principal and interest buy-downs; the use of loan guarantees; and equity participation. The fiscal circumstances influencing a particular group's situation will determine the mix of financial mechanisms that will be applied during the financial stabilization process. The determination or selection of financial vehicles and strategies will be made on a case-by-case basis as each umbrella and affiliate unit reaches the full participation threshold, and after a thorough analysis of the group's financial situation has been completed. This analysis will be carried out by the technical assistance personnel attached to the Financial Development Fund within FACACH. The financial resources that will be used by the FDF to effect the stabilization of participating intermediaries will be transferred from the Central Bank of Honduras (CBH) at no cost and on a quarterly basis as projected in the Fund's annual budget submission. This capitalization will constitute a counterpart contribution of the Goverment in support of the Project.

a. Alternative Strategies

(1) Affiliate Liquidation and Elimination of Non-performing Assets

In some situations it may be found that the stabilization process within a Federation or intermediary can best be served by the elimination of non-performing assets and/or the liquidation of affiliates which lack the economic potential to become viable, self-sustaining intermediaries within a reasonable period of time. In brief, the costs of the financial stabilization effort (i.e., restructuring and recapitalization) may be greater than the expected return on investment. For example, an affiliate may be located in an area with limited membership potential; losses may have been due to member unwillingness to repay, irresponsible and intentional mismanagement; agricultural production potential may not exist or be severely constrained; restructuring agreements may be impossible to attain with cooperative members and leadership, etc.. In such situations, the Fund may require the liquidation of such an affiliate, or its merger with another stronger institution, as providing the most effective means to achieve institutional financial stabilization.

Similarly, an intermediary may possess assets which are non-performing or which generate losses to their operations. Examples of such non-performing assets may include agricultural machinery, processing facilities, excess storage capacity, etc.. In such instances, the FDF may require that an intermediary liquidate non-performing assets as a precondition to obtaining access to further stabilization assistance from the Fund. In all instances, the FDF would complete an in-depth analysis of the intermediary prior to determining the degree to which such assets must be liquidated.

(2) Debt Moratoria or Forbearance

The purpose of a debt moratorium or "freeze" of obligations is to temporarily relieve a financially stressed institution from the financial obligations associated with excessive debt. Such moratoria are a temporary condition designed to maintain asset values during the period of time that the creditor and the debtor institutions are negotiating a solution to their outstanding financial problems. In effect, it is a postponement of impending foreclosure while the negotiating process is underway.

Within the Project, moratoria or forbearance situations will be voluntary conditions in which the creditor institution agrees to work with the borrower to exhaust the various strategies that could be used to improve the quality of a loan. These strategies may include restructuring the debt, scaling-down or deferral of principal and inter... payments, or consolidating creditors. This process would require creditor willingness to work more closely with the debtor institution in seeking mutually acceptable solutions to financial problems. The FDF would actively participate and assist creditors and debtors in improving the serviceability of outstanding obligations and in reaching an agreement on a long-term solution to the existing financial problems.

(3) Debt Restructuring

In general, the debt restructuring approach will be applied in those instances in which the complete financial condition of the institution in question is relatively sound (i.e., the financial analysis must indicate that, after consideration of total assets and liabilities, the entity can project a positive net worth). The purpose of the restructuring will be to make payment of the debt manageable by: (1) consolidating the number of creditors; (2) extending the repayment period; (3) deferring interest or principal payments for a designated period of time; and (4) adjusting the interest rates downward to reduce the debt service burden.

(4) Principal and Interest Write-off

A principal or interest write-off refers to a reduction or elimination of a portion of an outstanding obligation. Such write-downs will require negotiation with creditors, since it represents a loss of equity on the lender's books. However, if the financial analysis of the debtor institution indicates that the projected cash flow will not permit repayment under current conditions, a renegotiation of the loan contract, and a rescheduling of interest and principal payments based upon a lower asset value may be the only solution available to the creditor. The FDF will participate in this renegotiation process between creditor and debtor institutions with the goal of attempting to assist the creditor in recovering a portion of its assets while easing the debt service requirements of the borrower. This negotiation process will be designed to increase creditor willingness to participate in the stabilization process, and it may include a Fund offer to provide the creditor with repayment guarantee's for a portion of the reduced debt.

(5) Loan Guarantees

It may be necessary for the Fund to provide a loan guarantee to the lending institution to encourage the restructuring of outstanding obligations. The FDF would essentially agree to indemnify the lending institution in the case of default by the borrower on the entire or a portion of the outstanding obligation. The degree of guarantee commitment would be negotiated based upon lender willingness to restructure debt and cooperate with the stabilization process. The use of guarantees will reduce the risk to the lender, increase his participation in the recovery process, and possibly lessen the need for Project resources in the restructuring or stabilization process. There are risks involved in the use of such guarantee mechansims (e.g., they could reduce the vigilance with which lenders scrutinize loan applications and increase the potential for losses); however, if combined with other actions designed to reduce debt obligations or increase institutional cash flows, they can effectively contribute to the financial stabilization process.

(6) Equity Participation

Equity financing or participation will be applied in cases involving the bankruptcy or near bankruptcy of the intermediary or, in situations in which a creditor is unwilling to restructure outstanding intermediary obligations. Under this stabilization approach, the FDF will negotiate with an intermediary's creditors the cancellation of the outstanding obligations at discounted or reduced rates. This negotiation process will be proceeded by the completion of a formal contract between the participating intermediary and the Fund according to which the debt of the intermediary will be purchased by the FDF and converted to equity shares. This equity investment is likely to take the form of preferred share capital, certificates of deposit, or special stabilization reserves, the mode being dependent upon the problem being addressed and the need to operate within existing legislation. In all cases these new equity investments will be linked to intermediary acceptance of Fund participation in its internal operations. As in the case of Fund issuance of loan guarantee's to creditors, great caution will be necessary in the use of equity financing to stabilize intermediary organizations.

3. Financial Stabilization Contract

All of the financial stabilization processes will center on a formal contract between the intermediary and the Financial Development Fund (FDF) specifying the responsibilities of both parties. In cases involving the debt of an umbrella group, approval of the general membership will be required prior to signing the agreement to ensure binding legality. In instances concerning an affiliate, approval of the affiliate's membership, as well as agreement of the umbrella organization, will be requisites for signature. In all cases, the intermediary, national entity or affiliate entering into the contract will be liable only for its proper debt; it will incur no responsibility for the outstanding obligations of other units of the same Federation, Association, or Union.

Under the debt restructuring arrangement, the FDF will negotiate with creditors the degree to which it will assume an intermediary's outstanding obligations or assist in their repayment. It will possess the ability to provide a creditor with a "repayment guarantee" in return for a restructuring or write-off of a portion of the obligation; or, in extreme situations, it may become the holder of the intermediary's outstanding debt in its entirety. Under a complete debt assumption scenario, the FDF will negotiate the cancellation of the intermediary's debt with the creditors. In these negotiations, the Fund will bargain to purchase the debt from the creditors at a discount, based on the premise that the existing obligations are uncollectable. In return for assuming the debt from the creditors, the Fund will have veto power over any management decision or practice by the intermediary that does not comply with administrative procedures required for full participation in the Project. It will also have first call on dividend payment or other earnings generated to retire the debt (it may agree to its retirement on a non-accruing bas' `, and approval authority over the organization's operating plans and budgets.

For its part, the intermediary will agree to retirement of the debt through a sinking fund arrangement that will take into account fluctuations in earnings resulting from variations in production levels among crop cycles. The sinking fund will assure the FDF of a continuous flow of repayment monies and require the intermediary to amortize the outstanding balance of the obligation at a fixed rate. This rate will be based upon projected cash flows and be adjusted on an annual basis. Additionally, the intermediary will agree to continue to implement the required managerial procedures and operating policies. The rights and obligations of both parties will be clearly defined in a binding contractual agreement between the Fund and the participating intermediary, and it is important to note that these contractual conditions are illustrative. The full-range of conditions will be further refined during the initial period of implementation, and the provisions governing each agreement will be tailored to the specific circumstances of the subject intermediary.

A similar formal contract procedure will be followed in cases requiring equity financing. FDF equity participation differs from the debt assumption scenario in that the Fund will take an equity position in the intermediary through ownership of stock shares. The value of the stock will be equal to the price at which the FDF negotiates the settlement with creditors. Under this arrangement the Fund, as owner of the equity, will have first call on generated earnings, up to an agreed upon maximum return on invested funds, veto power over any management decisions or practices that are not in compliance with the institutional reform requirements of that intermediary, review and approval authority over investment and operating plans and their related budgets and, will designate an external auditor to establish an on-going program of examination and verification. Possible additional conditions will stipulate: (1) equity repurchase scheme (i.e., sinking fund) will be determined by the Fund in consultation with the intermediary and will be subject to an upper limit; (2) that the minimum dividend to be paid on equity will be at least 4 percent per annum, assuming generation of an operating surplus -- the actual amount of dividend paid above the 4 percent floor will be a function of the surplus earned; (3) that the intermediary will have entered into appropriate rescheduling or other agreements with creditors to assure non-foreclosure of outstanding obligations thereby securing FDF equity participation; (4) that the subject intermediary will have first call on repurchasing preferred stock from the Fund; and (5) that the preferred stock will be a non-negotiable instrument -- i.e., that it cannot be sold to third parties.*

The reflows from both debt retirement and repurchase of equity shares will be deposited in a revolving fund managed by the FDF to be used to stabilize intermediaries financially that join the Project in the future. The annual four percent dividend floor received by the Fund on equity transactions will be applied to underwrite the FDF's costs of operation.

4. Suspension - Disqualification

To reinforce achievement of the Project Purpose, the creation of institutionally and financially stable intermediary organizations that will serve as viable mechanisms for delivering services for small farmers, the FDF-intermediary contracts will also contain sanctions should an intermediary not comply with the terms of the agreement. Non-compliance will be judged against two standards -- failure to continue to implement the administrative reforms (e.g., capitalization policies, strict internal credit policies, stringent accounting procedures, and upgrading professional staff quality), and failure to observe debt or equity retirement conditions. The sanctions will consist of suspension, and in extreme, non-remedial cases, complete loss of eligibility to receive new project inputs (i.e. injections of new credit resources). In instances involving refinancing, disqualification will also entail debt retirement at accruing (rather than non-accruing) interest rates. The process of employing the sanctions will be multi-staged. If, in carrying out normal monitoring activities, the FDF discovers deficiencies in intermediary performance relative to either of the two standards, the Fund will formally place the subject institution on notice and specify a prudent time period within which the adjustments must be made. If the corrections are not made by the assigned date, the FDF will suspend the intermediary and advise that complete disqualification will go into effect if the remedial steps are not taken. Cases of disqualification will entail a third and final formal notice from the Fund to the intermediary, at which time legal actions would be taken to recover FDF assets.

*As with rescheduling, the terms and conditions regarding equity participation used here are illustrative and will be subject to modification and refinement during the first stage of project implementation.

5. BANADESA Participation

The National Agricultural Development Bank (BANADESA) will have a role in the Project due to its historically predominent role in agricultural lending, and the likelihood that the Bank is one of the major creditors of the intermediary organizations envisioned as participating in the Project. The size and diversity of the BANADESA loan portfolio makes it likely that frequent negotiations will take place between the Bank and the Financial Development Fund (FDF) as the stabilization or debt restructuring process is undertaken, and, a Project strategy has been designed that will ensure a positive and supportive role for the Bank within the Project.

Historically, BANADESA has used two different sources of funds for intermediary financing, it's own capital and a series of trust accounts. As FDF negotiations to stabilize participating intermediaries financially are undertaken, both Bank capital and fiduciary trusts will be affected by the debt restructuring agreements sought by the Fund. Although a few Bank-financed intermediaries are current in their accounts, the majority are either delinquent or have been artificially refinanced under unrealistic repayment terms.

Negotiations are underway with BANADESA to determine its willingness to create a special trust account (fideicomiso) to capture the reflows of FDF resources that are used to retire intermediary obligations. The proposal under discussion with BANADESA would permit this fiduciary trust to be capitalized by the retirement or cancellation of obligations undertaken by the Financial Development Fund. It is further being proposed that this trust fund would relend to intermediary organizations under the same terms as those to be used in the lending operations of the private bank trust account(s) described in the following section on Agricultural Credit (III, F.). The Financial Development Fund (FDF) will assist the Bank in developing eligibility criteria, provide it with access to technical assistance, and work in close coordination with it throughout the life-of-project.

F. AGRICULTURAL CREDIT

1. Credit Strategy

In an effort to alleviate the credit contraction problem discussed in Section III, and to increase the provision of financing to growers through participating farmer organizations, the Government of Honduras (GOH) will establish a trust account mechanism within the Central Bank of Honduras (CBH) using the $8.5 million in A.I.D. loan resources to be provided by the Project. The Central Bank will be responsible for the foreign exchange risks and the repayment of the loan. The trust account(s) (fideicomiso) will be managed by the private banking system in coordination with the Financial Development Fund (FDF) to be established within FACACH.

All lending from these trust account(s) to the participating intermediary organizations will be guided by the use of strict eligibility criteria to ensure intermediary compliance with the Project-supported institutional development process. This process emphasizes intermediary use of businesslike criteria to guide service delivery (i.e., competitive pricing of services; maintainance of up-to-date accounting and budget controls; use of qualified, professional personnel in management; etc.), and, adherence to the principles of strict lending policies, member capital participation, and reserve creation against contingencies. These principles are considered basic to the institutional development process and to an eventual attainment of financial self-sufficiency and institutional independence. Additional criteria which will be used to determine credit eligibility include:

1. Financial viability of projects to be financed;
2. Legal recognition as an intermediate service institution;
3. Previous credit history;
4. Demonstrated management capabilities and effective member service programs;
5. Operational policies consistent with economic health;
6. Ability to repay and,
7. Coherent investment strategies, including mixed portfolios, marketability of member production, adequate infrastructure, etc.

The Financial Development Fund (FDF) will provide the private bank(s) which are managing trust account(s) with a "Certificate of Eligibility" for each intermediary seeking access to financing.

The credit component of the Project is complementary to the institutional development process. In addition to the goal of increasing the flows of credit to the agricultural sector, the provision of financing is closely linked to the capital formation process of the participating intermediary farmer organizations. The introduction of sustained and obligatory member capitalization programs within the intermediaries is a prerequisite to loan approval. Credit approvals throughout the intermediary system will be linked to the capital participation of the borrower in his local organization or cooperative, and the total equity situation of an intermediary will be used as collateral against non-payment. Unwillingness of an intermediary to adopt a sound, long-range capital formation strategy will preclude its access to credit resources. Similiarly, the small farmer borrower will be required to participate in the capital development of his intermediary institution.

Intermediary onlending of short-term credit to producers will be at market or near market interest rates and will be directly linked to grower participation in the capitalization of his intermediary organization. Reflows from these loans, after payment of interest charges and administrative fee's, will be retained by the Central Bank and be reserved for future lending to new participants in the Project. Private bank management of these trust accounts will be renegotiated by the Central Bank on an annual basis, and will be subject to renewal following an analysis of results (i.e., quality of service, reporting, fund managment, etc.), and an expressed willingness to continue participation.

2. Private Bank Trust Accounts

The rationale of using private banks to manage trust accounts (fideicomisos) for onlending to intermediary organizations is to stimulate private banking community involvement in small farmer lending without requiring the banks to assume the risks of loan repayment. Past experience of the private banks in agricultural lending has been poor, and when combined with the lack of collateral among small farmers and the bank perception of the extremely high risks involved, it has resulted in a reluctance to lend for either production or investment within the sector. Private bank management of a trust account to finance rural intermediaries will provide a risk-free environment in which the banks may view and evaluate the Project-sponsored institutional strengthening and financial stabilization efforts. As banks begin to feel more secure about the loan management capabilities of an intermediary, their willingness to participate in agricultural lending may increase. A similar strategy to encourage private bank agricultural lending was successfully utilized under the Small Farmer Coffee Improvement Project (522-0176). During the initial three year's of this Project, A.I.D. credit resources were channeled through the private banking system for onlending to small farmers for investment and production. Private banks were allowed substantial margins (6% overhead and 4.5% for reserves) to encourage their participation. Following three years of private bank lending and very high loan recovery rates (approximately 96%), the banks have agreed to utilize their own resources to finance the short-term production component, thus increasing the amount of A.I.D. resources that can be used to expand investment opportunities among the small farmer coffee producers.

Selection of the private bank(s) to manage a trust account(s) in support of Project activities will entail a competitive process, and the final selection will be made by a mutual agreement between A.I.D. and the GOH. The banks will be requested to submit proposals to the Central Bank of Honduras (CBH) in which they would illustrate how the account would be managed; describe supplementary services that would be provided to borrowers; and state the management fee to be charged. Additional evaluation criteria to be used would include bank experience in agricultural lending, national agency outreach, demonstrated management ability, etc.. The initial number of private banks selected will be limited (one or two banks) to reduce the complexity of managing a large number of discrete funds, and due to the expectation that only a small number of intermediaries will qualify for access early during Project initiation. Once the institutional development process has begun to accelerate, however, additional private bank involvement will be considered.

3. Financial Development Fund

The Financial Development Fund (FDF) is an autonomous unit that will be created within the National Credit Union Federation (FACACH). It has a key role in the implementation of the Project. The FDF will coordinate all aspects of the institutional development process including: the completion of the institutional analyses; the design of the intermediary service packages; the provision of technical assistance and training; the allocation of institutional support grants; and the overall monitoring of the development process. In addition, the FDF will implement the financial stabilization program discussed in detail in Section III.E.. The stabilization process is a complex undertaking and will require unique skills in financial analysis, cash flow projection, budgeting, finance, and debt restructuring strategies.

Currently it is expected that all credit (production and investment) will be channeled through the private banking system using the trust account mechanism discussed in Section III.F., and FDF participation in credit provision will be limited to the emision of a "Certificate of Eligibility" to each intermediary seeking access to financing. Private bank management of these fiduciary accounts will be evaluated on an annual basis, and if necessary, the FDF will also possess the ability to expand into credit provision. All terms and conditions applied to the private bank trust account(s) would be applicable to the FDF. The rationale for providing the FDF with this capability is due to the direct link that exists between the financial stabilization process (i.e., renegotiation with creditors, debt restructuring, investment of stabilization capital, etc.) and the provision of new resources to a participating intermediary organization. During implementation, the FDF will closely monitor the institutional development process, certify intermediary eligibility to Project resources, providing intermediaries with technical assistance and operational support grants and, at times, invest "stabilization capital" within participating organizations. This onlending potential will ensure the rapid analysis, approval and allocation of resources, a situation which may become necessary to "guarantee" FDF stabilization investments.

4. Types of Financing

The Project will promote lending for short-term production and medium-term investment credit in the agricultural sector through intermediary organizations. It is too early to anticipate what the exact credit terms and conditions will be within the wholesale credit operations; however, based on the experience of previous A.I.D. and World Bank financed credit lines (both through the Central Bank, private, and public banks), we anticipate that at a minimum, short-term credit to the ultimate borrower would be extended at, or slightly above, current market rates. Such a strategy will permit greater reserve creation and the administrative/financial consolidation of the intermediary institutions.

The following schematic diagram suggests the likely interest rate distribution:

FIGURE 7

Illustrative Interest Rate Distribution

A. I. D.

2.0% to 3.0%

CENTRAL BANK

.5%

TRUST FUND CAPITALIZATION

2.0% to 3.5%

FDF AND PRIVATE BANK FUND ADMINISTRATION

2.0% to 4.0%

INTERMEDIARY ORGANIZATION MARGIN

6.0% to 7.5%

MEMBERS

15.5% to 17%

a. Production Credit

Short-term financing will be provided to eligible intermediaries for on-lending to their members for production or business-related requirements, i.e., short-term working capital, agricultural input purchases such as seeds, fertilizers, chemicals, and small farm implements (sprayers, hand tools, raw materials, inventory expansion, etc.). Eligibility of each intermediary for financing will be determined by the Financial Development Fund (FDF). Intermediaries will be expected to utilize policies similiar to those of the FDF in their onlending to affiliates and/or farmer members, and eligibility will be based upon such criteria as a borrower's past credit history, the amount of share capital possessed, access to technical assistance and markets, and commercial viability of the proposed investment.

b. Investment Capital

The second type of new financing to be provided under the Project will consist of medium and long-term investment capital. Credit will be made available for agricultural investments such as grain storage facilities, irrigation systems, processing plants, machinery and equipment, packing facilities, vehicles, leasehold improvements and, perhaps, land purchase. The terms under which such financing is provided to the qualified intermediaries will be negotiable. However, eligibility for access to these resources will be determined by demonstrated financial management capability, member capital participation in the intermediary, the quality of its short-term loan portfolio, and ability to repay. Compliance with these eligibility criteria will be ascertained by the FDF.

Since little investment lending is expected to occur during the first year of Project life, a determination of interest rates to be charged on medium and long-term lending will await the completion of an AID/W-USAID/Honduras joint task force which is expected to complete an analysis of the national credit situation and interest rate policy in late 1986. At issue is the impact that GOH macroeconomic policies have had in constraining investment within the agricultural sector. Presently, virtually no credit resources are available for medium and long-term lending except for special credit lines created by international donors. Under the Jackson Plan, the U.S. Government has adopted ambitious goals for its assistance to the Central American region, and the stabilization and growth of the Honduran economy is a critical foreign policy objective. Some observers believe that in the light of the policy objectives related to stimulating growth, special measures are required to further promote investment. These measures include either a reduction in the ceiling on interest rates, acceptance of a slightly higher inflation rate as the cost of increased private sector credit supply, or increased provision of targeted credit programs with A.I.D. resources for medium and long-term investments at interest rates which reflect the long-term cost of capital to the Honduran economy rather than current austerity policies. Other observers believe that such measures would undermine the delicate balance of the current economic program and thwart efforts to stabilize the economy. Upon completion of the credit analysis in late 1986, the Mission will negotiate with the GOH and establish the medium and long-term credit policies to be applied in such lending within the Project.

5. Application Process

All requests for access to the credit lines being managed by either the private banking system or the FDF must originate with the intermediary organizations. They will be submitted to the FDF for preliminary review and endorsement and then forwarded to the appropriate financing window for final review and approval. While Fund endorsement will be a prerequisite to final loan authorization, the financing institution (i.e., the private bank) will analyze all loan requests. The analysis to be undertaken by the private banks managing a trust account will reduce the degree of analysis work necessary within the FDF, however, such banks will be expected to ensure that intermediary borrowers do meet the performance criteria of the Project. Once approved, loan disbursements will be made directly from the lending institution to the intermediary.

All loan applications will be judged against a set of criteria which will include the following: (1) legal recognition of the intermediate organization; (2) FDF certification of participation in the Project; (3) commercial viability of the requested loans; (4) prior credit history; (5) management capability; (6) coherent investment strategies; (7) ability to repay; and (8) employment of operational policies consistent with financial stability. The exact credit terms and conditions will vary depending upon the type of financing requested. Nevertheless, experience with other donor and A.I.D.-financed credit lines indicates that short-term credit will be extended to the ultimate borrower at/or slightly above existing market rates. As discussed, this will permit greater reserve creation and support the financial stability and growth of the intermediary organization. The use of market rates will also generate institutional income that can be used to expand technical assistance and training programs for members, and to direct resource allocations toward the most appropriate technology use and investment. Short-term interest rate policy will be reviewed on a regular basis to ensure that lending rates are in line with prevailing market levels throughout the life-of-project.

6. Credit Demand

The high yield commercial agriculture promoted by this initiative demands larger amounts of financing for working capital and investments than those normally available to the Project's target group under their traditional methods. For example, with respect to coffee production, the $250 production cost of a traditional "manzana" (.7 hectare) producing between 5-8 hundredweights, increases to over $1,000 to yield 25 to 35 hundredweights. Corn's production costs go from $175 to $325 to generate a 172% yield increase.

Four prototypes have been developed to analyze Project impact at the farm unit level. Figure 8 illustrates, in terms of total gross costs, with project and without project scenarios per farm unit.

FIGURE 8

Scenarios for Four Prototypes Farm Units Showing Total Gross Costs with and without Project.
(Lempiras)

Prototype	W/O Project Total Gross Cost	W/Project Total Gross Cost
Basic grain	2812.61	4393.08
Basic grain/vegetable	2473.74	5427.50
Non-traditional export oriented	5259.37	16179.58
Non-traditional export oriented	4798.66	28562.11

Demand for credit includes financing for inputs (i.e., herbicides, plaguicides, fertilizers, improved seeds and plant materials), labor (i.e., land clearing, planting, irrigation, cultivation, harvesting) and investment (i.e., irrigation and mechanization equipment, cold rooms, trucks). Most of these inputs can only be purchased with cash. And the lack of liquidity among rural producers impedes their use in production practices.

Also, some affiliates which meet Project selection criteria may not qualify, at least initially, for existing credit programs. Although this Project will make them commercially viable, they are currently financially insolvent. Thus, most lenders view their credit operations as too risky to warrant support.

The credit component included in this Project will address these two constraints. First, it will expand the entire pool of financial resources destined to agricultural production and will improve rural liquidity. And second, this component will also provide a specialized line of credit to finance selected affiliates in their transition from insolvency to commercial viability. An approximate estimate has been made of these organizations' incremental credit demand based on their historical needs (see Figure 9). Gross costs have been used as surrogates for credit needs because the selected organizations will not have the retained earnings or equity necessary to self-finance working capital or investment requirements.

Under this Project no major credit activity is expected during the first year -- a year devoted to reorganization and establishment of rigorous modern management practices. The credit component will start disbursing in the second project year (PY2), complementing the financial needs of the affiliates as they become eligible to join the Project. Initial Mission analysis estimates new requirements of ANACH, FACACH, UNIOCOOP and FECORAH intermediaries at $1.7 Million (m) (PY2), $3 M (PY3) and $ 4 M (PY4), for a $9.7 Million total.

FEHCOCAL has special credit needs. Its cooperatives have access to credit lines funded by the Small Farmer Coffee Improvement Project (522-0176). In June, 1986, the Project was amended and now provides a total of $29.3 M for production/investment credits ($13.8 M in project funds and $15.5 M counterpart). Marketing credit, however, is not covered. This Project will support FEHCOCAL's marketing infrastructure (dryers, storage, processing) and services (post harvest credit needs). The credit component allocates $600,000 to finance FEHCOCAL marketing activities.

The Project will limit its new credit support to $8 M or approximately 80 percent of their additional financial requirements. Following the strategy of controlled expansion, credit disbursement has been estimated at $1.6 M (PY2), $ 3.2 M (PY3) and $3.2 M (PY4). This credit component, established as a trust available to the affiliates as they join the Project, will act as a further inducement for reorganization. It will function on a "first come first served" basis. The earlier an affiliate qualifies for project support, the sooner it can access this specialized line of credit. As these organizations become commercially viable units, a major emphasis will be placed on assisting them to access existing credit lines.

In addition to the Coffee Project, the Mission and the GOH have established or are in the process of establishing, a series of production and marketing credit programs which will support the commercially viable organizations and/or their affiliates. For example, a $7 M trust has been created with BANADESA to supply production credit to cooperatives. The Export Development and Services Project will channel $24 M in credit assistance for the production of non-traditional exports, and a $5 M line of credit to import raw material and capital goods for the production of non-traditional exports. The Small Farmer Livestock Improvement Project (522-0209) supplies cattle and credit to cooperatives. Besides this pool of credit resources, the Interamerican Development Bank has made available $20 million for small producers, the World Bank has provided $45 million for agricultural credit and the GOH has established a $15 million rediscount line for basic grains.

This Project will facilitate the integration of the participating organizations into the formal financial system by focusing upon institutional and policy reorientation which is expected to result in credit-worthy rural intermediary organizations. As noted above, the credit component will only provide support while that linkage is established.

Figure 9

ANNUAL PROJECTED INCREMENTAL GROSS COSTS FOR PARTICIPATING FARM UNITS AND FEHCOCAL
(Lp.000)

	YEAR 2	YEAR 3	YEAR 4
UNICOOP	800	1,150	1,400
FEHCOCAL	200	200	200 1/
ANACH			200
FECORAH			350
FACACH	900	1,900	3,000
TOTAL:	1,900	3,250	5,150
Project Credit Support:	1,600	3,200	3,200

1/ Marketing credit, excludes Farm Units needs.

SOURCE: Economic Analysis Statistical Annex, Farmer Organization Strenghtening Project, July 22, 1985.

IV. Project Management

A. Directorate for Cooperative Development (DIFOCOOP)

The principal counterpart agency for the Project will be the Ministry of Economy (MOE). Officially, on project implementation matters, the MOE will be represented by the Directorate for Cooperative Development (DIFOCOOP), a semi-autonomous dependency charged with the development, legislation, and regulation of the cooperative movement. DIFOCOOP's role in the Project is a combination of administrative activities and the provision of technical assistance to participating intermediary organizations. In its administrative role, the Directorate will establish a Project Administrative Unit (PAU) which will be attached to the Financial Development Fund (FDF). This Unit will provide administrative support to the Project, including: accounting services, transmittal and control of budget requests, monitoring of operational support grants provided to intermediaries, etc.. The Unit will consist of a small, well-qualified staff, financed with ESF counterpart funds, who will carry out their assigned responsibilities under the guidance of the DIFOCOOP General Director. In the provision of technical assistance, DIFOCOOP personnel will coordinate closely with the technical assistance unit of the FDF and participate in the institutional development process to take place within each participating intermediary organization. This will include the preparating and refining of the organizational treatment packages, assisting these organizations in introducing the changes once the package has been developed, providing training to cooperative personnel, and conducting regular audits of their operations. Finally, DIFOCOOP will participate in the pre-qualification of intermediary institutions seeking entry to the Project, monitor implementation of the Project activities, and ensure compliance with cooperative legislation.

B. Financial Development Fund (FDF)

The key role in implementation will be carried out by the Financial Development Fund (FDF) to be created during the Project's start-up phase. The Fund will be a completely autonomous entity that will be attached to the National Credit Union Federation (FACACH), but which will possess operational independence. This autonomy is necessary due to the unique relationship that will exist between the FDF and FACACH. The Fund will operate under the FACACH umbrella, however, the Federation will be required to meet the same kinds of participation criteria as are required of other intermediaries. FDF autonomy will be ensured through a binding Contract which will clearly delineate the responsibilities and obligations of both entities. The relationship will be reviewed periodically to ensure compliance. The linkage between the FDF and FACACH is being made to:

(1) address the concern of the GOH that the Project not immediately create a new, independent Foundation, as was proposed in the original design; and

(2) to provide the Credit Union Federation with the opportunity to learn the sophisticated FDF financial mechanisms, skills that will be necessary to stabilize many of its problem affiliates.

The Financial Development Fund will have as its objective the establishment of a technical resource base to foster the development of the Honduran agricultural sector by promoting the institutional development of rural intermediaries. Under the Project, the FDF will carry-out a complete series of activities related to intermediary development and financial stabilization. An initial task will be to draw-up or update institutional analyses of potential project participants to determine the administrative and operational adjustments that an applicant intermediary must undertake to qualify for full project participation. The Fund will design the administrative treatment packages and assist the intermediaries in adopting them. This FDF institutional development assistance will include the programming of Project-funded technical assistance (both short and long-term), and entail the development of work plans, distribution of tasks, assignment of counterparts and monitoring of technical assistance impact. Finally, FDF personnel, in coordination with DIFOCOOP, will provide timely support in training, extension, marketing, and credit management to each participating intermediary as backstop support to their management personnel and leadership.

A second area of concern for the Fund will be the financial stabilization of the intermediaries. As described previously, the FDF will accomplish the financial normalization of participating intermediaries through the use of a complex mix of financial tools, including possible elimination of non-viable affiliates and the liquidation of non-performing assets. In its negotiations with intermediary creditors, the FDF will seek negotiated debt moratoria or forbearance agreements where necessary, and will pursue debt restructuring through deferral of interest or principal payments, the consolidation of creditors, and a general rescheduling of loan commitments. The rescheduling process may include principal and interest buy-downs, the use of FDF loan guarantees, and the possibility of FDF equity participation in an intermediary. In all cases, the stabilization process will be governed by binding contractual agreements (Stabilization Contracts) between the FDF and the participating umbrella and/or affiliate organizations. These agreements will specify that, in return for relief in the management of outstanding debt, the organizations will entrust the Financial Development Fund with a certain level of control over their policies, procedures, and operations. This control will include approval authority over budgets, operating plans, debt cancellation, and requests for new financing. The degree of FDF participation in the internal operations of an intermediary will be determined by the complexity of the financial normalization required, the amount of risk to be assumed by the Fund, and the degree of institutional development. This FDF participation will be clearly delineated in the Stabilization Contract.

Finally, as discussed in the section on Credit, the FDF will possess the capability to expand and to channel new short and medium-term financing to eligible intermediaries should it be necessary. The terms of such financing would be the same as those to be used by the private bank(s) selected to manage a trust account, and the intent will be to develop a lines-of-credit approach in lending to simplify loan processing and monitoring. It is also possible that the FDF will require intermediary capital participation in the Fund at the time of loan repayment to encourage growth of available resources for relending and active intermediary participation in the central funding activity. If such a requirement is adopted, intermediary share capital will earn interest on its participation (as a percentage of profits generated), and the organization would be provided a seat on the FDF Board of Directors. It should be noted that such capital participation is a long-term goal, and it is not expected to occur during the early life of the Project. The initial emphasis of the credit activity will be on increasing the flow of investment and production resources to the rural sector, and upon the strengthening of the capital formation capabilities of each participating intermediary. The terms of any FDF lending will be clearly defined in a binding Loan Contract which will be similiar in content to the Stabilization Agreements discussed previously.

The Financial Development Fund will be guided by a five to seven member Board of Directors which will furnish the organization's overall policy orientation; approve specific FDF operational policies (i.e., credit, debt restructuring, hiring of personnel, budgets, etc.); and provide final approval for disbursement of stabilization assistance to participating intermediaries. The Board will include representation from the Honduran private banking and agricultural sectors, as well as the participation of the Government of Honduras and USAID/H. Presently, it is expected that this representation will include the Minister of Finance and Public Credit, the Minister of Economy, the National Credit Union Federation, the USAID Mission Director, the Executive Director of the Financial Development Fund, and one representative from the private banking system. It is expected that this group will serve on a voluntary basis. Daily management of the FSF will be carried out by a General Manager assisted by a highly qualified professional and administrative support staff. The Manager will be an individual with sound credentials in finance and agriculture and a proven record of managerial success. The candidate will be selected by A.I.D. through a competitive process and will be contracted using normal A.I.D. procedures.

The professional staff will be divided into three functional units -- a Financial Services Division, a Technical Services Division and an Administrative Unit.

Financial Services Division: The Financial Services Division will consist of a Division Chief, a Deputy (Economist), and four Loan Officers. The principal tasks of this unit will be to conduct, in conjunction with the Technical Services Division, the intermediary institutional profiles and design the administrative modification treatment packages. In addition, the Unit will negotiate the financial stabilization contracts with the intermediaries, monitor intermediary compliance with the terms and conditions of these contracts, and negotiate the repayment of intermediary debt with creditors. The Financial Division will also be charged with the preliminary analysis of intermediary financing requests prior to their submission to the private bank trust account(s). As discussed, the stabilization investments to be made by the FDF will receive final approval from the Board of Directors following the analysis of the Financial Services Division.

The Technical Services/Institutional Development Division: The Technical Services Divsion will be composed of a Division Chief (Business Management Specialist), a Farm Enterprise Specialist, and three institutional analysts with skills in marketing, extension, agricultural production and processing, and organizational development. It will participate in the development of the institutional profiles and the design of the treatment packages, and provide support to the intermediaries' throughout the institutional development process. Their backstopping function will emphasize analysis of technical problems, including policy design, selection and training of management personnel, orientation and pricing of services provided to members, and the identification and procurement of technical services, both within Honduras and overseas to address problem areas.

Administrative Unit: The Administrative Unit of the Financial Development Fund will be composed of an Administrative Chief, a Deputy, secretarial staff, and the DIFOCOOP Project Administrative Unit (PAU). This Office will be charged with all aspects of project administration, including logistic support, accounting, budget controls, financial reporting, filing and procurement. The Administrative Unit will prepare all quarterly financial reports, ensure that all files (i.e., inventories, accounting, progress reports, etc.) are maintained on a current status, and control all disbursement and liquidation of operational support grants provided to participating intermediaries. Finally, the Administrative Unit will procure as needed any legal counsel required by Financial Development Fund on contractual matters related to intermediary administrative reorganization, financial stabilization and/or credit operations.

Figure 10 contains the FDF organizational chart. This chart is followed by Figure 11, which depicts the overall organizational scheme of the Project.

V. Summary Project Analyses

A. Financial Analysis

1. Financial Plan

The total estimated cost of activities for the four-year funding period is $35.8 million. The A.I.D. contribution will be $16.0 million which represents 45 percent of the total costs. A.I.D. resources will be divided between $7.5 million in grant funds and $8.5 million in loan funds. The grant monies will be used to finance the costs of technical assistance (long-term and short-term), training, a portion of the commodity procurement, and project evaluations and audits. The A.I.D. loan resources will be used to establish the wholesale credit window(s) or trust account(s) to be managed by the private bank(s) for onlending of short-term production and medium-term investment credit to qualifying intermediary organizations.

The $19.8 million GOH contribution represents 55 percent of funding costs. These resources, provided by the ESF program, will capitalize a fund ($12.6 million), managed by the FDF, to financially stabilize the intermediary organizations. Reflows of these resources will be maintained by the Financial

Development Fund to capitalize a revolving fund to stabilize new intermediaries as they enter the Project. In addition, a portion of these funds may be used to provide financing to participating intermediaries should the Project Loan funds become depleted or the demand for stabilization assistance be less than presently expected. GOH monies (approximately $7.2 million) will also be used to finance a portion of Project institutional support costs (e.g. salaries, office space, per diem), the procurement of office equipment, and the counterpart requirements of the DIFOCOOP Project Administrative Unit.

Figure 12 reveals the summary cost estimate and financial plan for required funding. Figure 13 demonstrates the detailed disbursement plan, while Figure 14 projects expenditures by year.

FIGURE 10

Organizational Chart
Financial Development Fund

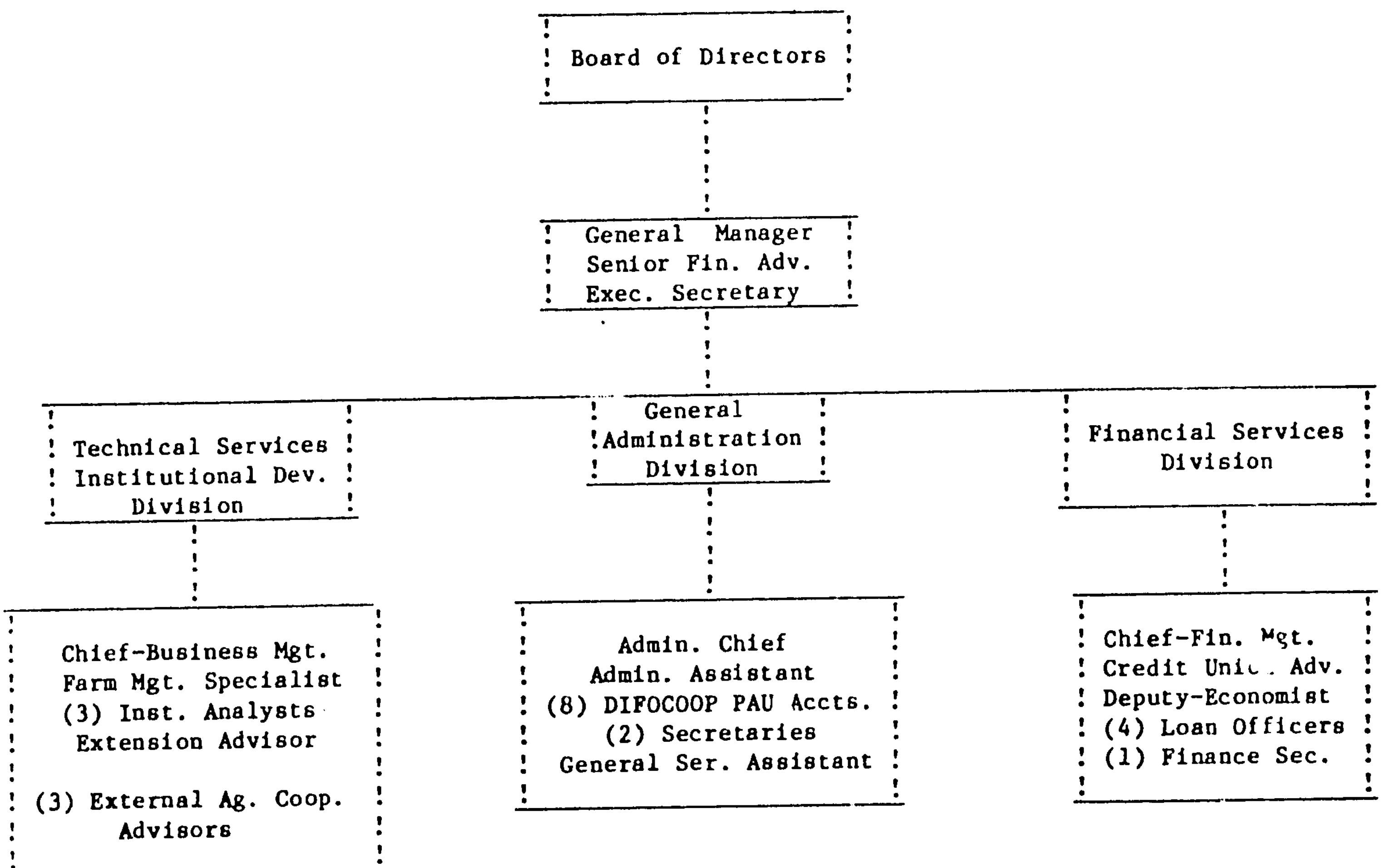
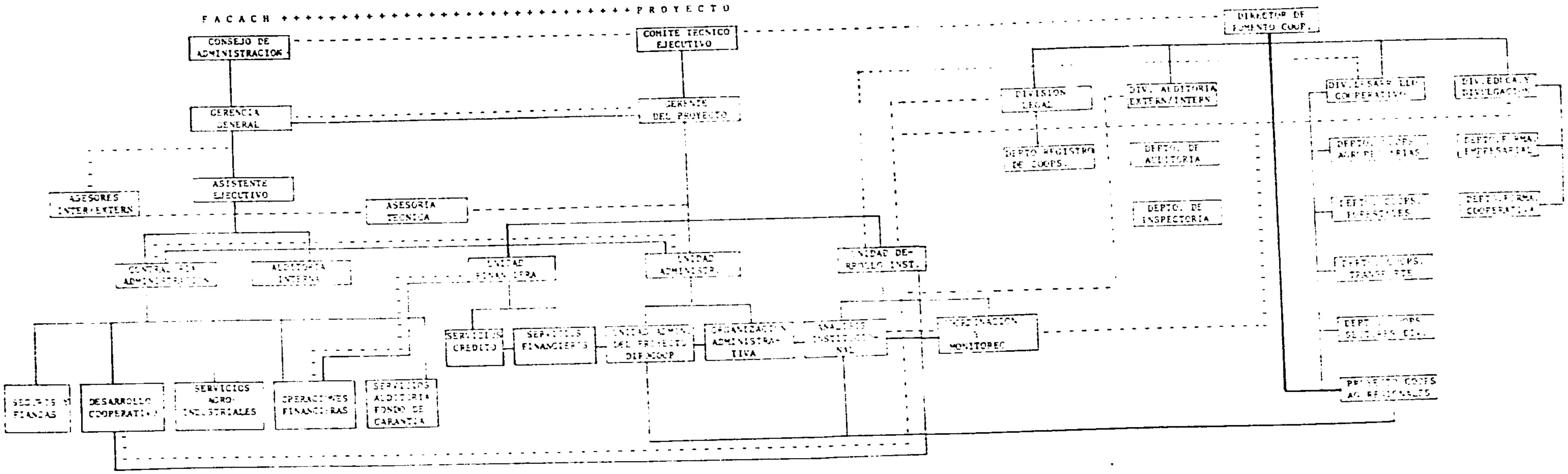


FIGURE 11

PROJECT ORGANIZATIONAL STRUCTURE

O R G A N I G R A M A



- - - - - 1era. Etapa, líneas punteadas sólo de Coordinación entre FACACH y el Proyecto ([illegible] años)

———— 2nda. Etapa, líneas continuas de Relación Directa FACACH y Proyecto (2 a 3 años en base a Indicadores de Medición)

+ + + + + 3era. Etapa, Fusión de operaciones y completa responsabilidad del manejo a FACACH (Después del 3ro. año en base a Indicadores de Medición)

Best Available Document

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FIGURE 12
COST ESTIMATE AND FINANCIAL PLAN
US $ (000)

No.	SOURCE	AID GRANT FX	AID GRANT LC	AID LOAN FX	AID LOAN LC	TOTAL AID	TOTAL GOH	GRAND TOTAL
I.	ORGANIZATIONAL DEVELOPMENT							
	A. Technical Assistance							
	1. Long Term Project Management	900				900		900
	2. Long Term FDF	3,000				3,000		3,000
	3. Short Term - Consultants	550				550		550
	B. Commodities							
	1. Microcomputers	210				210		210
	2. Vehicles	250				250		250
	3. Office Equipment		350			350		350
	4. Miscellaneous Supplies		50			50		50
	C. Training	350	100			450		450
	D. Evaluation and Studies							
	1. Studies (Baseline & Feasibility)	600	150			750		750
	2. Evaluations	100				100		100
	E. Personnel							
	1. FDF - Staff						2,000	2,000
	a) Financial Services Office							
	b) Technical Services Office							
	c) Administrative Office							
	2. DIFOCOOP - Staff						400	400
	3. Institutional Support Staffs						4,000	4,000
	a) FACACH							
	b) FECORAH							
	c) UNIOCOOP							
	d) FECORAH							
	e) ANACH							
	F. Administration & Operation Costs						677	677
	G. Office Equipment & Furniture						90	90
II.	FINANCIAL STABILIZATION						12,637	12,637
III.	CREDIT FUNDS				8,000	8,000		8,000
IV.	CONTINGENCY & INFLATION	804	86		500	1,390		1,390
	Sub-Totals	6,764	736		8,500	16,000	19,804	35,804
	GRAND TOTAL	7,500		8,500		16,000	19,804	35,804

	3. Institutional Support Staffs							4,000	4,000
	a) FACACH								
	b) FECORAH								
	c) UNIOCOOP								
	d) FECORAH								
	e) ANACH								
	F. Administration & Operation Costs							677	677
	G. Office Equipment & Furniture							90	90
II.	FINANCIAL STABILIZATION							12,637	12,637
III.	CREDIT FUNDS					8,000	8,000		8,000
IV.	CONTINGENCY & INFLATION	804		86		500	1,390		1,390
	Sub-Totals	6,764		736		8,500	16,000	19,804	35,804
	GRAND TOTAL		7,500		8,500		16,000	19,804	35,804

FIGURE 13
DISBURSEMENT SCHEDULE

NO.	PROJECT INPUTS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	TOTAL
I.	ORGANIZATIONAL DEVELOPMENT					
	A. Technical Assistance					
	1. Long Term Project Management	225	225	225	225	900
	2. Long Term FDF	750	750	750	750	3,000
	3. Short Term - Consultants	200	200	100	50	550
	B. Commodities					
	1. Microcomputers	140	70	-	-	210
	2. Vehicles	250	-	-	-	250
	3. Office Equipment	150	150	50	-	350
	4. Miscellaneous Supplies	15	15	15	5	50
	C. Training	150	150	100	50	450
	D. Evaluation and Studies					
	1. Studies (Baseline & Feasibility	250	200	150	150	750
	2. Evaluations	-	50	-	50	100
	E. Personnel					
	1. FDF - Staff	500	500	500	500	2,000
	a) Financial Office					
	b) Instit'l. Develpment. Office					
	c) Administrative Office					
	2. DIFOCOOP - Staff	100	100	100	100	400
	3. Institutional Support Staffs	800	1000	1200	1000	4000
	a) FACACH					
	b) FECORAH					
	c) UNIOCOOP					
	d) FEHCOCAL					
	e) ANACH					
	F. Administration & Operation Costs	300	200	177	-	677
	G. Equipment & Furniture	90	-	-	-	90
II.	FINANCIAL STABILIZATION	2,000	4,000	4,000	2,637	12,637
III.	CREDIT FUNDS	2,000	2,400	2,400	1,200	8,000
IV.	CONTINGENCY & INFLATION	139	278	417	556	1,390
	GRAND TOTAL	8,059	10,288	10,184	7,273	35,804

FIGURE 14

PROJECTION OF EXPENDITURES BY IMPLEMENTATION
(US$ 000)

YEAR	A I D				TOTAL AID	TOTAL GOH	GRAND TOTAL
	GRANT		LOAN				
	FX	LC	FX	LC			
irst Year	1,945	274	-	2,050	4,269	3,790	8,059
econd Year	1,706	282	-	2,500	4,488	5,800	10,288
hird Year	1,516	141	-	2,550	4,207	5,977	10,184
ourth Year	1,597	39	-	1,400	3,036	4,237	7,273
TOTALS	7,764	736	-	8,500	16,000	19,804	35,804

2. Disbursement Systems

Payment of costs for technical assistance, training, evaluations and audits from the grant portion of the Project will be made by A.I.D. to the suppliers of the services and participants in accordance with standard direct payment procedures. Similar direct payment procedures will be used to settle accounts with suppliers of commodities financed with loan monies.

The approximately $8.0 million in loan funds for credit will be disbursed on a revolving basis. A.I.D. will deposit an initial amount in a special account in the CBH, and this will be utilized to capitalize the trust accounts (fideicomisos) to be managed by the private banking system to meet the credit needs of participating intermediaries. As these accounts are drawn upon, A.I.D., at the request of the GOH, will provide specified amounts for replenishment.

The $16.467 million in ESF monies for financial stabilization will be disbursed in a similiar manner to the FDF. The first Project Implementation Letter will specify the initial amount to be transferred as well as the procedures for replenishment. The same PIL will also establish the framework of an agreement between the GOH and the FDF governing the use of these monies.

B. Social Analysis

1. Beneficiary Profile

The complete Social Analysis, appearing as Annex H, contains a detailed profile of the Project's beneficiaries. The full profile includes an analysis of key socio-economic indicators of the target group and disagregation by intermediary affiliations.

Figure 15 below presents, in summary fashion, the number of small farmers who will participate in the Project. As the Chart demonstrates, through membership in an affiliate of one of the five national level organizations, approximately 20,000 growers will be directly involved in this effort. As the Chart demonstrates, through membership in an affiliate of one of the five national level organizations, approximately 6,000 growers will be directly involved in this effort. In line with the controlled expansion strategy, the number of participants included will gradually expand as increasing number of affiliates coops are brought on-stream.

Regardless of their particular intermediary affiliation, Project participants, without exception, belong to the rural poor. However, in terms of several social indicators and current access to the factors needed for increasing productivity, there is stratification within the beneficiary group. In general they are divided into two groups -- minifundistas and small-scale growers.

Figure 15

Beneficiaries by Intermediary Group

	Anticipated Number of Cooperatives to Participate in the Project	Estimated Average Number of Members per Cooperative	Total Number of Farmers to benefit from Activities
FACACH	20 rural cooperatives	250	1,363
FEHCOCAL	13 cooperatives	250	1,195
UNIOCOOP	10 cooperatives	250	2,939
ANACH	9 regional cooperatives	200	355
FECORAH	3 regional centers	450	160
Total Average	55 affiliates	280	6,012

a. Minifundistas

Minifundistas are characterized as owners of extremely small, or postage stamp holdings -- farm size does not exceed 15 manzanas. Typically on these holdings the basic unit, the family, is both the primary economic and elemental social group. Division of labor is divided along sex lines. Adult males take the lead in field production activities, while adult females assist with the field work, carryout a full compliment of domestic chores and undertake the child rearing tasks. Normally, all available land is in continuous production and the technology employed tends to be rudimentary, although the impact of past intermediary developments is noted by the incipient use of improved cultural practices. Production focuses on the cultivation of basic grains which, except for limited market sale, are directed toward meeting household subsistence needs. Members of this strata are found among the affiliates of all five umbrella intermediary organizations. While the majority of ANACH and FECORAH groups farm on a collective basis, the level of technology employed and the distribution of production practices used are similar to those of independent minifundistas. Therefore, they are included in the category.

b. Small-scale Entrepreneurs

The small-scale entrepreneur strata refers to those cooperative members with holdings in the 16 to 60 manzana range. In general, these units follow the minifundio pattern of combining economic and social functions in one group -- the resident family. However, there is a tendency toward specialization beyond sex lines. Frequently, casual laborers are hired to carryout planting and harvesting tasks while the owner assumes the role of farm manager. Cultural practices indicate a gravitation towards the use of a farming systems methodology. Field rotation is common, as are combinations of short-cycle ground crops with longer-cycle tree crops. A portion of the cultivated area is reserved for basic grains while the balance is used for commodities that are directed toward domestic and/or international markets. Members of this stratum are most frequently found in the UNIOCOOP export cooperatives, FEHCOCAL and FACACH affiliated cooperatives.

2. Impact of Past Affiliation

Regardless of the strata to which a farmer belongs, available data suggests that membership in a cooperative which has participated in a development program has generally been a positive experience for the grower. For example, an evaluation of a prior FACACH coffee credit program indicated increases in the use of improved seed (55 percent), fertilizers (50 percent), and herbicides (47 percent) by participating farmers. Furthermore, in the majority of cases, access to credit and inputs was accompanied by technical assistance.

Also, in the coffee sector, research conducted in relation to a FEHCOCAL program revealed significant, positive benefits derived through cooperative membership. Data for the 1978-1979 crop cycle indicate that credit and technical assistance made available through the cooperatives contributed directly to yields for cooperative members that were almost 25 percent higher than those of non-coop members (7.25 qq/mz. vs. 5.1 qq/mz.). The data also suggest that coop members, through improved processing technology and use of cooperative marketing channels received a higher cash return than their non-member colleagues. Net income for cooperative members ranged as high as L5,500, while the revenue of non-members was calculated at slightly less than L800.

Finally, the data indicates that, in spite of the recent negative reversals of the two UNIOCOOP export cooperatives during the 1984/85/86 cycles, individual UNIOCOOP farmers have made significant progress. With respect to the minifundistas under the UNIOCOOP umbrella, there is a noted trend toward diversification -- cash crops such as beans, vegetables and coffee complement basic grain production. Prior to joining the cooperative, average income of a typical minifundio unit was between L516 and L844. After participation in the program, earnings increased to a range of between L826 to L1,353.

3. Socio-cultural Feasibility and Constraints - Strategies

The socio-cultural feasibility of the Project turns on three key issues: (1) ability to satisfy anticipated capitalization requirements; (2) the credit policies adopted; and (3) cooperative openness to professional management. Inherent constraints exist concerning each of these matters. However, the project design includes strategies to address the impediments and, in so doing, realize successful implementation.

a. Anticipated Capitalization Requirements: Affiliated Level

In the Ag. Sector II "model" cooperatives, members participate in a capitalization program by depositing share capital in the cooperative, and a multiple of this amount is used to determine credit eligibility ceilings (four to five times total share capital). The member further complements this share capital with an additional 10 percent of the loan value after the produce is marketed and the loan repaid. This obligatory member capitalization program has had great success in assisting the cooperatives in their capital formation efforts, and with some adjustment, it will serve as a guide for structuring intermediary capitalization programs to be introduced within the Small Farmer Organization Strengthening Project. However, experience has demonstrated two potential obstacles in this approach -- affordability and an attitude which views provision of credit as a "State" duty.

Concerning affordability, the question is simply whether farmers with limited incomes and small margins for saving can invest a sizeable portion of their earnings in share capital. To account for this constraint, loan mechanisms governing lending from affiliates to the farmers will consider at least two alternative "savings" arrangements. The first will permit tranch borrowing of approved loans. Each traunch will require a capitalization deposit, but the amount of each deposit will be relatively small thereby presenting less of a burden to the farmer. The second option will consider changes in the distribution of the deposit amounts required at the time of loan approval and loan repayment. For example, in place of the model 20 percent - 10 percent split, consideration will be given to a 15 percent - 20 percent or a 10 percent - 25 percent breakdown. The effect of these changes will be to shift major deposit burden to the marketing period -- the time at which the farmer is financially most solvent. Any modification of the current obligatory capitalization model will require an in-depth risk analysis, since it will likely require an increase in collateral requirements, the introduction of binding marketing contracts, and loan monitoring costs will increase.

The issue of small farmer expectation that the State is bound to provide credit resources without the attachment of the capitalization component is a reflection of an attitude which views the "State as patron and the provider of necessary goods."

While this dependency mentality has been and continues to be prevalent among agrarian reform beneficiaries, a recent agreement between BANADESA and ANACH indicates that there is latitude for change. As part of that agreement, BANADESA will help capitalize its regional cooperatives by retaining a portion of the payments owed to these cooperatives for production delivered to IHMA. This agreement stipulates that retentions held will increase over time for a maximum limit of 10 percent. The agreement further stipulates that cooperatives must use five of the eight points that they charge their affiliates for handling the credit for the creation of a reserve fund. This reserve fund is intended to further capitalize the Regional Cooperatives. Use of a similar mechanism will be considered under this Project -- particularly within the agrarian reform cooperatives. If this is not done, dependency attitudes with respect to government institutions will continue to prevail and obligatory member capitalization policies may be difficult to implement.

b. Credit Policies

As stated previously, revision of credit policies is essential if loan deliquency is to be reduced and if the intermediaries are to achieve sound financial growth. However, many policies are adopted for a variety of reasons (ideological and political bents and administrative deficiencies) and not necessarily based on financial considerations. For example, ideological and political variables induced BANADESA to approve and cosign loans for FECORAH members despite their lack of experience in lending. Similarly, administrative deficiencies prevented both FACACH and BANADESA from adequately supervising loans provided to small farmers and land reform groups affiliated to FECORAH and ANACH, resulting in increasing recovery and liquidity problems. The question remains, can the participating intermediaries reverse past trends and are they willing to emphasize fiscal matters in reformulating their operational policies?

Experience has demonstrated to FACACH that ideological variables cannot guide the implementation of agricultural credit programs. Their present credit policies implicitly reflect the results of shortsighted policies. The agricultural credit program implemented by this institution has been a social success but financial failure. FACACH has begun to understand that the implementation of credit programs based merely on ideological grounds may jeopardize its financial stability. As a result, stricter lending policies are already being applied. The concern with the financial stability of the institution, which according to leaders in FACACH will also have a positive impact on the stability of its affiliates and the socio-economic situation of individual members, has motivated management to adopt intervention measures to correct the administrative deficiencies that have caused high delinquency rates. That is, for FACACH the application of stricter lending policies as well as the implementation of intervention measures are part of a package that will provide the institution with the financial stability needed to continue operating. Commitment to the application of the stricter lending policies and the intervention measures adopted has been observed. This aspect of project activities will not face implementation difficulties in the case of FACACH.

BANADESA has been the main source of credit for ANACH and FECORAH. The management of BANADESA has begun to recognize that the delinquency problems they currently confront have their origin in the soft credit policies of past years that guided loan approvals to both independent and collective farming units. To correct these problems and to prevent decapitalization, BANADESA has recently adopted stricter credit policies. In reference to land reform beneficiaries, these policies stipulate that loans should be approved for cooperatives that: (1) have paid all of their previous debts; (2) for which debts have not been restructured; (3) have at least a manager and an accountant in charge of loan management; and (4) have strict control of the marketing of production. In addition, loans are authorized only when an investment plan is presented and when this investment shows that farmers assume at least 25 percent of the anticipated labor costs. BANADESA's credit policy has obviously had an impact on how both ANACH and FECORAH operate, and it can be argued that their own credit policies are a reflection of BANADESA's. The liquidity problems of BANADESA have become so severe that the

Bank is now designing a new credit policy which demands greater collateral from borrowers. The lack of lendable resources has limited the availability of credit to finance the affiliates of FECORAH and ANACH, and it can be expected that this will influence the willingness of these organizations in adopting more stringent credit approval criteria.

No major difficulties in enforcing strict lending policies in the case of FEHCOCAL and UNIOCOOP are anticipated.

c. Receptivity to Professional Management

Self-determination has been a key tenet in the Honduran cooperative movement. However, a review of the history of this principle suggests an evolutionary process in which its importance decreases over time.

During the first stages of the peasant movement, farmer associations fought for the enforcement of the agrarian reform law and the adjudication of land. The majority of farmers that founded these associations were small producers or ex-laborers on Fruit Company plantations that demanded their right to have a patrimony. During the early stages of the movement, the participation of outside managers in administration of matters pertaining to the development of the first farmer group organized was totally rejected. Later however, when agricultural projects of a greater size began to be implemented, farmers accepted the involvement of public sector institutions in management. Acceptance of their involvement was based on the fact that these public institutions had been co-signers of the loans granted by international donors to implement the projects. Farmers also began to accept the involvement of multinationals having the technological know-how to cultivate and process production. It was believed that only with their assistance could the newly created enterprises become profitable businesses. Multinationals provided not only technical advice, but were often involved in managing loans and keeping track of expenditures. The African Palm Project implemented in the Bajo Aguan is an example of how public sector institutions participated as managers of agrarian reform projects, and, the banana project implemented in Guanchias is an example of the involvement of multinational firms. Professional managers who were not government employees were subsequently hired by the peasant enterprises to replace the representatives from the public sector. This is particularly the case in two well-known enterprises, COAPALMA and HONDUPALMA. Project beneficiaries selected, with the assistance of the goverment, outside managers and made them responsible for the management of their businesses.

While outside management continues to be a delicate matter and must be handled on a case-by-case basis, the recent movement toward its acceptance, and the increased complexity of cooperative programs which surpass the management skills of the peasant leadership, provide a strong indication that it will be adopted by the intermediaries participating in this project.

C. Economic Analysis

1. Results and recommendations.

As shown in Table 1,1/ under the basic benchmark scenario, the resources directly made available by the Project, plus other resources channelled through the farmer organizations, give rise to an overall economic internal rate of return of approximately 23 percent. The sensitivity analysis indicates that (see Table 2) the overall rate becomes positive only after the eighth year, and greater than 15 percent only after the eleventh.

Investment in UNIOCOOP reveals by far the highest return among the five organizations, with also FEHCOCAL showing a high rate. The rate of FACACH is modest (6 percent), while those for FECORAH and ANACH are even less optimistic.

The internal rates of return prove to be highly sensitive to some key basic scenario assumptions. For instance, if yield increases are 25 percent lower than those assumed in the basic scenario, the Project's overall rate of return becomes negative and only UNIOCOOP and FEHCOCAL show positive rates (33 and 9 percent respectively). Alternatively, if costs are assumed to be 20 percent higher, the overall rate of return falls to slightly over 5 percent.

What these results mean is that if the basic scenario assumptions regarding costs or yields were to materialize in practice, and the strengthened farmer organizations were able to generate and channel resources to farm units in the amounts contemplated in the calculations, a positive and significant impact on agricultural productivity and production would take place. Over the long run, such impact would more than compensate for the resource costs involved and the Project would make economic sense. However, the very high sensitivity of the rates of return to changes in yields or costs, coupled with the unavoidable wide margins of error built into the data and assumptions used in the present analysis, underline the need to be extremely cautious regarding the amount and disbursement schedule of the resources contemplated in the Project. As is underscored by the controlled expansion strategy.

If the basic scenario projections regarding costs or yields prove to be too optimistic, the project could result in significant economic losses.

In the above light, it is advisable to adopt a go-slow project implementation process according to which the effectiveness of the proposed credit and institutional assistance be tested first only in the most promising farmer organizations. Only when and if the efforts into those institutions are validated by success should the same approach be tried with the two or three more difficult organizations. In addition, a more detailed economic analysis based on more robust information would be justified.

Regarding the individual organizations, the results offer a basis for suggesting that given its low rate of return under the basic scenario, the cropping patterns and other practices of FACACH be given special attention. Analogously, it is clear that the desirability of including FECORAH and ANACH in the project should be reassessed on a regular basis.

1/ Tables are presented in Annex G.

Other sensitivity tests results warrant attention. If relative to basic benchmark scenario conditions, the cultivation of an export crop (chile cayenne) is increased from 0.25 manzana to 0.5 manzana in farm units otherwise heavily engaged in basic grains cultivation, the Project's overall rate of return rises 41 percent with all organizations showing rates higher than 20 percent.2/ These results strongly suggest that the Project should promote a greater emphasis on export crops away from basic grain cultivation. Such movement toward farmer diversification is a basic tenet of the USAID/Honduras agricultural strategy as exemplified by the Export Promotion Project (522-0207). This same emphasis will be included in all extension activity under this Project. Such an emphasis is advocated by A.I.D. in Honduras as part of its agricultural development strategy.

Given the assumptions, the with-project scenario would be financially attractive to farmers. The margin between expenses and revenues is more than sufficient to enable them to cover the cost of all the productive inputs they use, including the services from parent organizations from which they benefit. The Project, therefore, has potential for being commercially viable. It is important, nonetheless, that the cooperatives and farmer organizations develop the mechanisms to recover the financial costs incurred in providing services and inputs to their members.

Still other sensitivity results show that if the number of farm units effectively benefiting from the Project significantly increase, the rises in the rates of return would be considerable. For example, if relative to the basic scenario, twice the number of farm units participated in the project from year 2, the overall rate of return would more than double.

2. Assumptions

Assumptions regarding specific crops and cooperatives are presented in footnotes under annex tables. The following are the basic assumptions made:

a. With and without-project scenarios

Current budgets for UNIOCOOP farms were taken as indicative of the with-project scenarios. The reason is that the Project would enable such farms to maintain credit and technical assistance levels that have been achieved through prior initiatives. The without-project scenarios reflect the situation of farms which have not benefited from past projects and which are not members of UNIOCOOP. Essentially, as UNIOCOOP member farms have access to desirable levels of credit and assistance, the budgets of present UNIOCOOP farms served as a proxy of the yields and market conditions attainable through the Project by other farms. This view reflects the opinion of mission and non-mission agricultural specialists.

2/ For example, 20 de Marzo, and the cooperatives in ANACH, FACACH and FECORAH are heavily engaged in basic grains cultivation.

b. Basic Benchmark Scenario.

Based on data and information collected from cooperative officials on cropping patterns, expected yields, prices, and required inputs, the financial and economic resource flows were calculated for five farm unit prototypes. Distinct prototypes were used for each of the four UNIOCOOP (Model) coops, and for FECOHCAL. Due to lack of available data for ANACH, FECORAH and FACACH, prototype "A" (used for the basic grain oriented "20 de Marzo" coop of UNIOCOOP) was employed for those intermediaries.

Total manzanas cultivated per farm unit ranged from 4 to 10 manzanas. Prototypes varied in orientation from those engaged primarily in the production of basic grains to others which produced mostly export crops. A summary sketch of each prototype used including size, crop patterns, yearly crop cycles, and "without" and "with-project" yield estimates is found in Table 3.

The number of prototypical farm units for each affiliate coop which were likely to achieve the higher yields in the "with-project" scenario was obtained based on information from cooperative officials. A summary breakdown for each participating intermediary including the average size of its affiliated coops (in terms of numbers of prototypical farm units), expected annual expansion rates, and the specific prototype used is found in Table 2. The total estimated number of farm units and cooperatives that will benefit from the project resources under the basic benchmark scenario is projected in Table 1. The estimates were arrived at by mission specialists. Alternative projections and scenarios were used in the sensitivity tests--see Table 4.

c. Availability of Markets and Generation of Resources.

The calculations assume that satisfactory domestic and international markets exist or will be developed for the additional production resulting due to the Project. The validity of such an assumption in part depends on the success of other A.I.D. projects (e.g. Agricultural Domestic Marketing Project planned for FY 1987).

The present analysis also assumes that farmer organizations participating in the Project will become efficient and credit-worthy institutions, and will be able to attract the level of complementary resources contemplated in the calculations.

d. Costs.

With-project costs at the cooperative level represent net operating expenses of the respective cooperatives. They were obtained by substracting total sales revenue minus costs of sales from total operating costs. For those cooperatives which experienced negative net sales revenues for the base period, actual operating costs only were used.

With-project costs at the national farmer intermediary level represent direct project-funded expenses which correspond to the use of real goods and services. Transfer payments such as the $12.6 million Financial Stabilization Fund and the $8 million Credit Component were not used as such in the calculations. However, the real resources made available by the Project's credit component and other potential credit sources are accounted for in the analysis through the increased farm unit costs associated with additional agricultural inputs in the with-project scenario.

3. Procedures

After the basic data were collected and processed, a financial cash flow analysis was carried out for the prototype farms. Market prices as actually paid or received by the farmers were used at this stage. Accordingly, values were in farmgate prices and the viewpoint adopted was that of the individual farmer. This type of analysis helps to shed light on whether the project is financially viable and whether the financial incentives are likely to be sufficient for the farmers.

The next step was to carry out an economic (efficiency) analysis. This analysis measures whether the real value created through the Project and other complementary resources more than make up for the real cost of the inputs utilized. In the sense used, "real" refers to the society's willingness to pay for the goods or services produced or used in the production processes made possible by the Project. Market prices used for the financial analysis were corrected to more accurately reflect the way society values output and inputs.

After the economic prices were determined, the core procedure consisted in identifying incremental costs and benefits, i.e., the difference between the with- and the without-project scenarios. The incremental values were computed by respectively substracting the without-project costs and benefits from the with-project costs and benefits. The difference between incremental benefits and incremental costs gave the net incremental benefit for each year of the time horizon contemplated--i.e., the cash flow. Finally, the cash flow values were used in calculating the internal economic rate of return.

4. The calculation of economic prices.

As mentioned above, financial prices were revised to correct for major distortions in order to arrive at economic or efficiency prices. The following major adjustments were made:

For selected agricultural products. For basic grains (corn, beans and rice), and for certain other items such as tomatoes for example, through the cooperatives, farmers will benefit from IHMA-supported prices for their produce.3/ These prices are higher than those that would prevail in the free market--i.e., without IHMA. The price at which farmers would have to sell without the Project (and the cooperatives) was estimated as the price farmers paid to the free-market intermediary, the "coyote". The economic price was estimated as the midpoint between the price paid by the coyote and the price paid by IHMA. In the case of agricultural produce which is exported, the price was adjusted as indicated below in connection with adjustments for foreign exchange.

Unskilled labor. If unskilled labor wages reflected the value of the marginal product of unskilled labor, then the wages necessary to bid such labor would provide a measure of the value of the goods and services that could have been produced in other activities. However, Honduras suffers from high unemployment of unskilled labor and its society does not really give up any goods or services by using otherwise unemployed labor in the productive activities the Project makes possible. Accordingly, the financial cost of labor has to be adjusted to arrive at an estimate of the opportunity cost of using labor. In the present analysis, for the basic scenario it has been assumed that the overall unemployment (i.e., overall in the sense of reflecting all the dimensions of unemployment) that unskilled labor in Honduras experiences and is likely to experience in the foreseeable future is 30 percent. On the basis of this assumption, it was estimated that only 70 percent of payments to unskilled workers measure foregone production.

Foreign exchange. As Honduras' currency is overvalued, the official foreign exchange rate undervalues foreign exchange. This means that the incremental value derived from additional exports, and the incremental costs associated with additional imported inputs, are underestimated. Therefore, the foreign exchange rate used to price exports and imports in lempiras has to be adjusted. In this analysis it has been assumed that the true lempira price of a dollar is L 2.60 and, accordingly, a premium of 30 percent has been placed on foreign exchange.

Imported inputs and tariff taxes or quasi-taxes. Imported inputs such as fertilizer and herbicides are subject in Honduras to tariff taxes and/or various port charges which are akin to taxes. As such charges are transfer payments among Hondurans, they must be subtracted from the lempira price of such products. In addition to the effect of the taxes and quasi-taxes, available input prices were on a farmgate basis and reflected the impact of exchange rate distortions and port-to-farm transportation and related expenses. Therefore, the following methodology was employed to arrive at an appropriate conversion factor to obtain economic efficiency prices for imported inputs:

a) Substract the port-to-farm transportation and related expenses from the farmgate prices. This gives the lempira cost of the item at the port of entry at the official exchange rate.

b) Deduct the tariff and similar charges from the price arrived at after step (a).

c) Convert the value obtained after step (b) to economic border prices by multiplying by a factor reflecting the foreign exchange premium.

d) Add the transportation and related expenses that had been deducted at step (a) to the value arrived at after step (c).

In the present analysis both tariff and similar charges, and transportation and related charges, were taken as amounting to about 10 percent each of the CIF price. All these steps were accomplished by multiplying the available farmgate prices by 1.17.4/

D. Technical Analysis

The strategies and policies that will guide the Project activities are those which have been used to develop the successful "model" regional agricultural cooperatives. Briefly stated, the development strategy proposes that rural-based intermediary institutions are the most effective mechanism to retail services to the small farmer population, provided they have sufficient membership to achieve economies of scale, professional management and administrative systems, and service programs and pricing policies that are consistent with economic growth and self-sufficiency.

The technical constraints to the application of the structural model within the Project can be divided among the major Project components (i.e., the institutional development, financial stabilization, and the wholesale credit windows).

1. Institutional Development

Although the Mission believes that an effective institutional design for agricultural service intermediaries has been developed within the four "model" regional agricultural service cooperatives supported under the Agricultural Sector II Program, this design will require modifications to permit it to be introduced into rural intermediaries which differ from the "model" cooperatives in areas such as membership, service programs, etc. For example, the coffee cooperatives are primarily marketing associations and not multi-service intermediaries. Their inclusion as Project participants will require some alterations in the institutional design and policy development used within the "model" cooperatives. Similarly, the rural credit cooperatives of the FACACH system are savings and loan institutions, do not possess input supply nor marketing services, and will require different adaptations of the institutional model. These modifications in the different institutional designs will be a part of specific treatment packages. In areas

4/ Let Y=CIF lempira price of an input Z valued at the official rate, and X=farmgate prices of the input after adding port and freight charges. Then, X=Y+0.1Y+0.1Y or (X/1.2)=Y. As one wants to determine the value of Y in order to adjust by the premium exchange rate factor of 1.3, and then add to the adjusted Y the freight charges to find the economic farmgate price of an input Z, algebraically the operations can be expressed as: Y(1.3)+Y(0.1)=Z or Y(1.4)=Z. Replacing (X/1.2)=Y into this last equation one has (X/1.2)1.4=Z or X1.17=Z.

such as member capital participation, credit policies, and professional management systems, few changes will be made. The PP development process has identified potential Project participants and conducted feasibility analyses at the national level. Institutional analyses at the affiliate level, as well as the design of the treatments and the negotiation of participation terms for both umbrella organizations and their affiliates will be a normal part of implementation.

Agreement to the individual institutional designs and policy determinations must be obtained with each of the potential Project participants to permit budgets and technical assistance requirements to be identified and programmed. The Mission has discussed the general parameters of the Project with all of the potential participants and each has expressed interest in participating in the analysis process.

2. Financial Stabilization

The national level organization of FEHCOCAL, FECORAH, and ANACH and virtually every affiliate of all five umbrella groups will require significant financial stabilization efforts. This stabilization will be effected using a mix of debt restructuring and recapitalization vehicles according to the particular circumstances governing the fiscal position of the specific intermediaries. Debt restructuring will be applied in cases in which the financial picture of the group in question is relatively sound. Other more complex mechanisms, including possible equity participation, will be employed in the more severe instances of financial insolvency or bankruptcy.

All financial stabilization transactions will be managed by the Financial Development Fund which will have stewardship of the project resources assigned for the purpose. Each transaction will be governed by a legal contract between the FDF and the participating intermediary which will detail the terms of the debt relief and the responsibility of each party involved. In general, the agreements will specify that, in return for assistance with debt repayment, the intermediary will cede a certain level of control of the management of its affairs to the Fund. The management control will be returned to the intermediary when the debt is retired or the equity repurchased.

It is the Mission's judgment that the complex mix of financial stabilization mechanisms represent the most appropriate technical approach for resolving the intermediaries' fiscal problems. When it is applied, debt restructuring will make payment of outstanding obligations manageable by consolidating the number of creditors, extending the repayment period, and adjusting interest rates downward to reduce the debt service burden. Other mechanisms, such as negotiated principal and interest write-downs, outright assumption of obligations, repayment guarantee's, and equity participation schemes will permit injections of new capital into near-bankrupt institutions while allowing them to regain total independence through stock repurchase once normalization has been achieved.

3. Wholesale Credit Windows

The constraints inherent in the design of the wholesale credit windows (i.e., the FDF and the private bank-managed trust accounts) are linked to operational policy development and the conceptual use of credit within the Project. This component recognizes that credit is a tool to be used in the institutional development process and not an end in itself. As was stated in the component description, the credit activity will experiment with new mechanisms to finance intermediaries, including the introduction of permanent lines-of-credit which mix short-term production credit with medium-term investment financing.

The thrust of the credit lines will be to reinforce the institutional development effort. An intermediary can approach a private bank-managed trust fund for credit resources for on-lending to members only after compliance with Project participation threshold criteria. Although the lending institution will exercise final approval authority on loan requests, all applications will be subject to review and concurrence by the FDF.

E. Environmental Statement

An Initial Environmental Examination (IEE) was prepared as a part of the PID design. The IEE recommended a negative determination which was concurred in by the USAID/Honduras Acting Mission Director in December, 1984.

The negative determination was reached in accordance with A.I.D. Handbook No. 3, Appendix 20, Section 216.2C, which establishes criteria for exempting the environmental analysis subsequent to the IEE on the basis of categorical exclusion. Among the eligible categories are programs that have no effect on the natural or physical enviroment except to the extent that such programs contain activities (e.g., construction) that have a direct impact on the environment. As stated in Section III, the purpose of this Project is to establish a mechanism through which to channel productive resources to small-scale farmers. Major Project components are the institutional strengthening and financial stabilization of the farmer organizations and the provision of agricultural credit. Accordingly, the USAID/Honduras judges that the negative IEE determination in the PID remains valid and no further environmental analysis is required.

VI. Project Implementation Arrangements

A. Administrative Arrangements

1. Role and Responsabilities of USAID

The Project will be managed by the designated project manager in the Office of Rural Development of USAID/Honduras who will be responsible for monitoring the progress of inputs. The A.I.D. project manager, aided by contract personnel, will work closely with the Financial Development Fund (FDF), DIFOCOOP, FACACH, UNIOCOOP, FEHCOCAL, ANACH, FECORAH and the participating intermediary organization affiliates. The Project Manager will assure compliance with the terms and conditions of the Project Agreement, verify that proper procedures are followed for all procurement, contracting and management, and help solve implementation problems and project issues that arise.

A Mission project review committee composed of the Project Manager, the Chief of the Rural Development Office, and representatives of other appropriate USAID offices will review project status quarterly, identify potential problems, develop appropriate solutions and prepare periodic status reports.

The Office of Development Finance will be responsible for preparing the Project Agreement and will assist the Project Manager in the preparation of subsequent PIL's, as well as other official project correspondence. The Office of the Controller will review all disbursement requests for conformity with A.I.D. regulations and ensure that proper accounting procedures are followed by the GOH and other participating organizations. The Office of Development Programs will coordinate all evaluations in conjuction with the project manager and will advise on data base requirements for the Project.

2. Role of DIFOCOOP

DIFOCOOP will serve as the official cooperating host country entity for the Project. As noted elsewhere, DIFOCOOP involvement will center on monitoring overall progress, programming the Project-sponsored training participants, providing technical support to participating intermediary organizations, and assisting in the preparation of the institutional analyses. In addition, the DIFOCOOP Project Administrative Unit (PAU) will be attached to the Financial Development Fund (FDF) and will provide support in accounting, financial reporting, and general administration.

3. Financial Development Fund

The FDF will carryout and monitor all elements of the Project related to the organizational restructuring and assume a direct role in the financial stabilization of the intermediaries at both the national and affiliate levels. This will include participation in the design of institutional reorganization packages, negotiation of the conditions for the participation of the intermediaries, negotiation of terms for cancellation of outstanding debt, review and approval of intermediary investment plans, and approval of intermediary requests for production credit and investment financing. The FDF will provide the private bank(s) selected to manage Project-financed trust accounts with a "Certificate of Eligibility" for intermediaries requesting access to these resources.

B. Implementation Period

An eight-year implementation period is proposed for A.I.D. participation in this Project. As described previously, this Project Amendment will complete funding for the initial four years. An evaluation and intensive review will be carried out in the Project's third year to measure overall progress and determine the level and composition of additional resources if appropriate.

C. Implementation Plan (Year 1)

Date	Activity
August 86	- Project Agreement Amendment signed
September 86	- RFTP prepared for technical assistance to FDF.
	- Completion of contracting process for USAID Project Technical Manager.
October 86	- IFB for commodities prepared.
	- RFTP issued.
November 86	- Bylaws of the FDF completed and approved by A.I.D. and GOH.
	- FDF Board of Directors named.
December 86	- Committees formed to evaluate RFTP submittals.
January 87	- RFTP proposals reviewed and contractor selected.
	- Contracting of Honduran FDF staff initiated.
March 87	- Arrival of long-term FDF advisors.
	- FDF submits operating budget and work plan.
	- Elaboration of intermediary profiles and participation criteria initiated.
	- Formal contracts with intermediaries concerning participation made.
April 87	- Treatment packages for UNIOCOOP and FACACH designed.
May 87	- FACACH and UNIOCOOP umbrella groups comply with stabilization criteria.

	- Treatment packages for four UNIOCOOP and four FACACH affiliates begins.
	- Institutional treatment package design and implemented for FECORAH.
June 87	- Treatment packages for ANACH and FEHCOCAL umbrella groups designed and negotiated.
	- FECORAH meets entrance criteria.
August 87	- First production and investment credit loans made.
	- Treatment packages designed and under negotiation with ANACH and FEHCOCAL.
	- Two ANACH and four FEHCOCAL affiliates reach participation threshold, and financial stabilization packages under negotiation.
	- Administrative evaluation of Project initiated.

D. Procurement Plan

The Project will finance technical assistance, commodities, and moderate amount of off-shore training. All grant-funded technical assistance will be contracted for directly by A.I.D. using institutional, PSC and/or PASA modes. An institutional contract will be let to the most responsive, qualified bidder to an RFTP that will be issued by the Mission. A joint USAID/Honduras - Host Country committee will be formed to review and rank the proposals and select the contractor. The PSC will be awarded to a qualified individual to serve as an assistant to the USAID/Honduras Project Manager in implementing this effort. Recruitment and selection of the appropriate individual will be made in accordance with A.I.D. competitive procurement procedures. A.I.D. will also contract FDF local personnel, funded with GOH counterpart, using competitive procurement.

Commodities purchased under the Project will involve both international and local procurements. The international procurements will be carried out by A.I.D. in collaboration with the host country through the formal IFB process. Additional commodity procurement (i.e., vehicles, computers, etc.) will be included in the technical assistance contracted awarded to the firm which provides the long-term technical assistance to the FDF. USAID/Honduras will prepare the technical specifications, prepare and issue the documentation, review the responses and select the most responsive firm in the case of IFB procurement. Local purchase will be effected by the counterpart agency or the FDF in accordance with A.I.D. procedures concerning advertising and competition.

The training element of the Project will consist of short courses, of not more than three months in duration, for approximately 30 officials of the participating intermediary organizations in financial analysis and institutional development. These individuals will be nominated by the institutions for whom they work and selected subject to USAID approval.

E. Evaluation Plan

1. General

The evaluation plan is designed to measure advances toward realization of projected outputs and achievement of overall project purpose. Two evaluations will be carried out during the four-year funding period -- the first one year after the project begins and the second at the end of the third year of implementation. In combination with normal monitoring activities, the evaluation will measure implementation progress and provide the basis for mid-course design corrections as well as estimates for future year funding. The second evaluation will include an intensive review to determine the success of the Project, as well as the appropriateness continuing the on-going activities.

2. Responsibilities

DIFOCOOP will be responsible for overseeing the progress of project implementation. To this end, it will be supported by the USAID/Honduras Evaluation Officer assigned to the Office of Development Programs, who will assist in developing the scopes of work, and in identifying and procuring the technical expertise to conduct the reviews. The Project includes grant funding to underwrite the expenses of the evaluation.

3. Data Requirements

The data requirements for the evaluation exercises are divided into two categories:

a. Baseline Data

Accurate baseline data on the social and economic status of the target population will be necessary to gauge the impact of the Project on the beneficiaries. Some of this information is already available in the Mission. Data that is lacking will be developed during the course of implementation through use of the Area Sample Frame method funded through a parallel A.I.D. activity.

Baseline data on the organization and financial status of the participating intermediaries is needed to determine the impact of the Project on these entities. For the five umbrella organizations, this information (e.g., balance sheets, staffing patterns, policies, objectives) was obtained while designing the Project, however an update of this data will be necessary. Similar information will be gathered on the affiliates as a part of the process of formulating the reorganization treatment packages. Like information will be developed during intermediate points of implementation to determine the degree to which the institutional changes are enhancing intermediary operations and the extent to which further modifications may be necessary.

b. Survey Data

The Area Sample Frame will provide the benchmark statistical data to gauge the impact of Project activities on the recipient farmer population. Included among the items to be measured are:

- yield level of crops
- production credit demand
- participation in intermediary programs
- crop mix
- degree of change from original cropping system
- income
- living conditions
- application of improved farming technologies
- attitudes toward intermediary organizations

These data will be complemented by qualitative information developed through participant observation field techniques.

Annex A

CERTIFICATION PURSUANT TO SECTION (611e) OF THE FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Carl H. Leonard, the principal officer of the Agency for International Development in Honduras, having taken into account among other factors the maintenance and utilization of projects in Honduras previously financed or assisted by the United States, do hereby certify that in my judgement Honduras has both the financial and the human resource capability to effectively maintain and utilize the capital assistance project: Small Farmer Organization Strengthening.

Carl H. Leonard
Acting Mission Director,
USAID/Honduras

Annex B

Summary Institutional Profiles

The organizations that will participate in the Project are DIFOCOOP, FDF, UNIOCOOP, FACACH, FEHCOCAL, FECORAH, and ANACH. The following analyses considers each of these organizations in terms of their: (1) legal status and objectives; (2) membership; (3) organization and personnel; (4) involvement in the Project.

1. DIFOCOOP

a. Legal Status and Objectives

The Directorate of Cooperative Development (DIFOCOOP) is a de-centralized GOH institution created by Decree Law No. 158, dated March 12, 1954. This semi-autonomus organization constitutes the major public sector entity responsible for the organization and supervision of cooperatives in Honduras, and it is attached to the Ministry of Economy. DIFOCOOP has its own Director who has budgetary, administrative and programatic authority within the organization. The specific objectives of the Directorate are to: (1) initiate, promote and coordinate the organization and development of cooperative associations; (2) represent the cooperative movement before BANADESA and other financial institutions and negotiate financial assistance for the cooperative organizations; (3) provide technical assistance for cooperative organizations; (4) inspect and control the cooperative movement; and (5) approve the organization, termination and liquidation of cooperative groups.

2. Organizational Structure and Personnel

The governing body of the Directorate is a Board of Directors which was created by Executive Decree 688 issued on July 27, 1982. The Board is composed of four members representing respectively the Ministry of Economy, the Ministry of Finance and Public Credit, BANADESA and the Cooperative Associations. The principal function of the Board is to provide overall policy guidance for the Directorate. In addition, it oversees the administration of DIFOCOOP's funds and acts to change the Directorate's By-laws when necessary.

Daily operations of the Directorate are the responsibility of an Executive Director who is appointed by the Minister of Economy. The execution of duties is divided among three main departments: (1) logistic support including administration and accounting units; (2) technical support composed of program, legal, audit, inspection, personnel and cooperative registration groups; and (3) operations which includes sub-sector specific cooperative development units as well as training cadre.

c. Capacity to Carryout Assigned Project Tasks.

Throughout its existence DIFOCOOP has exhibited an uneven track record in executing cooperative development programs. During its early years, the Directorate suffered from a chronic shortage of financial support. This limited project implementation capacity, provoked frequent staff turnovers and resulted in little program continuity. With the introduction of substantial GOH and donor assistance in 1980, the Directorate's performance improved markedly. The quality of the staff has been upgraded and policies have been refined to focus only on activities related to carrying-out its mandate.

In 1982, a watershed activity for DIFOCOOP began when it assumed responsibility for the Service Cooperative component of the Agricultural Sector II Program. The Directorate created an Executing Unit, consisting of administrative, technical and support staff, and granted it sufficient latitude to carryout its responsibilities. The success enjoyed by this activity of the Sector II Program is atributable to the Executing Unit's organization and performance. Moreover, the "model" cooperatives developed under this initiative provided the structural basis for this Small Farmer Organization Strengthening Project. DIFOCOOP has also successfully managed a large PL480 Program with great skill. It is the Mission's judgement that DIFOCOOP, on the basis of is performance in prior and on-going A.I.D. and other donor projects, has demonstrated the capacity to adequately carryout its responsibilities in this Project. This is particularly true of the Project Administrative Unit (PAU) which will be attached to the FDF.

3. Financial Development Fund (FDF)

a. Legal Status and Objectives

The FDF will be created and attached to the National Credit Union Federation (FACACH) during the Project's first year. The Fund will be an autonomous entity possessing links to the National Credit Union Federation (FACACH) but with operational independence. This autonomy will be ensured through a contractual relationship (Delegation of Authority) to be provided the FDF by FACACH. It will be guided by a Board of Directors composed of representatives from the agricultural and banking sectors, the Government of Honduras and A.I.D.. The Board will be instrumental in establishing the Fund's policies and operating procedures and will play an active role in defining the terms and conditions of intermediary debt restructuring, approve the disbursal of stabilization and credit resources, and approve all agreements or contracts between the FDF and the participating farmer groups. The FDF will be managed by a salaried, full-time staff headed by an General Manager. The Director will be assisted by a cadre of expatriot and Honduran technical personnel who will conduct financial analyses of the intermediaries making application for financial assistance; review intermediary investment plans; and provide technical support to participating organizations. In addition to the financial unit, the staff will include a second professional unit consisting of agricultural and institutional development experts (e.g., accounting, extension, agricultural marketing, etc.) who will support the participating farmer organizations with the techical expertise required by their particular operational areas.

As described in Section III., the FDF will assume a key role in the implementation of the Project A portion of the Fund's administrative staff will be seconded from DIFOCOOP (i.e., the PAU), thereby providing an element of continuity, while the balance of the staff will be recruited once the FDF is established. This professional cadre, complemented by the grant-funded Technical Assistance Team, will make the FDF capable of carrying out its responsibilities under the Project.

4. National Credit Union Federation of Honduras (FACACH)

a. Legal Status and Objectives

FACACH was established in 1966. The Federation's objectives are to: (1) promote the national credit union movement; (2) design and carryout educational and technical assistance efforts to assist affiliates in serving their constituents; (3) secure and channel economic resources to support the activities of both the umbrella organization and the affiliates; (4) develop credit and insurance activities for the affiliates and; (5) guide FACACH's participation in the design and implementation of a national development program.

b. Membership

The Federation currently serves more than 39,000 thousand members, distributed among 89 union affiliates. It provides technical assistance, wholesale savings, credit and insurance services to its affiliates. In addition it operates three Integrated Agricultural Development projects and is implementing a basic grains marketing program. The most recent financial report indicated that the Federation had total assests in excess of L19.2 million (US $9.6 million).

c. Organizational Structure

Until recently, FACACH operated under an organizational structure which has inhibited its growth and stability. The structure that was in use up to 1984 concentrated the bulk of its personnel in areas which did not generate revenues nor support the provision of the Federation's principle services -- credit and insurance. The structure was so dispersed, that departmental, sectional and individual responsabilities simply could not be clearly assigned nor could performance be monitored. Duplication of function resulted in exceedingly high operating costs, and due to the diffusion of responsibility, there was little accountability for results.

FACACH has reorganized its operations to emphasize functional responsibility. The staff has been streamlined and a significant number of positions have been eliminated, particularly in the area of general administration. The key organizational modification are:

i. A concentration of administration management functions into one department - "controller".

ii. elimination of the Assistant Manager position and a distribution of the functions of that position among the head's of each operating division and the Controller;

iii. an expansion of the Internal Auditor's function to include the entire organization;

iv. a merging of the DAI activities and the Marketing Department to form a single Agricultural Services Division;

v. a concentration of credit functions within the Financial Operations Department, beginning with promotion and application analysis through delinquency control and loan foreclosure/liquidation;

vi. creation of a Savings and Loan Division within the Department of Financial Operations to mobilize and manage funds received from affiliates, including savings deposits, equity capital and central liquidity reserves;

vii. establishment of an Interventions and Merger Section to manage intervened credit unions and stabilization fund operations, and to carryout mergers when necessary; and,

viii. creation of Cooperative Development Department to implement special projects, rural financial systems development, training and promotion.

5. Federation of Honduran Coffe Cooperatives (FEHCOCAL)

a. Legal Status of Objectives

FEHCOCAL was founded and legally established in 1969 at the initiative of AHPOCAFE and five other coffee producer associations. The objectives of the organization, are to:

i. process and market the coffee produced by members of the affiliated cooperatives;

ii. procure and supply member coops with coffee production inputs;

iii. establish and manage lines of credit to coffee producers with membership in the affiliates;

iv. provide technical assistance to the affiliates in administration, production and marketing;

v. establish linkages with private sector and public sector entities to promote the interests of the Federation.

vi. represent affiliates in dealings with GOH entities; and,

vii. ensure that the affiliates comply with the regulations of Honduran cooperative law.

b. Organization Structure and Services

The Federation is currently providing these services to approximately 7,300 members grouped into 28 affiliated cooperatives.

The Federation is guided by a General Assembly and a Board of Directors which establishes general policies, reviews budgets and operating plans. Daily administration is delegated to a full-time General Manager who is assisted by a legal advisor, deputy managers for finance and administration, and the appropriate technical and support staff.

While the functions assigned to the Federation by its By-Laws are both numerous and broad, financial losses incurred through its marketing operations have seriously restricted its operations. Currently, FEHCOCAL is offering limited extension services to the member groups, and especially those targeted by A.I.D. Small Farmer Coffee Improvement Project. In addition it is furnishing accounting and management assistance, including accounting courses and auditing services, to member groups.

c. Participation In Project

The conclusion of analysis carried out during the intensive review is that FEHCOCAL has the organizational base and potential to support the administrative and financial rehabilitation of its affiliates that is proposed in this Project. However, the Federation must revamp its accounting procedures, improve the quality its middle level technical and managerial staff, and enhance its product marketing, processing and storage capabilities. It is the Mission's judgement that these changes are attainable with the support of project-fundeu T.A..

6. Federation of Honduran Agricultural Reform Cooperatives (FECORAH)

a. Legal Status and Objectives

FECORAH grew out of the Honduran land reform movement with the purpose of providing technical and legal assistance to previously landless rural dwellers who had gained access to land and were exploiting it in a collective fashion. The first such "collective" cooperatives were formed in 1965, and the movement expanded gradually over the succeeding five years, giving rise to the Federation in 1970. Available data indicates that the FECORAH membership totals over 6,300 individuals associated with 206 affiliated cooperatives.

b. Organizational Structures

FECORAH is governed by a General Assembly composed of one representative and one alternate from each member affiliate. The Assembly meets once yearly in ordinary sessions to review the general status of the Federation, and to adjust policies or operating procedures as necessary.

The Federation is represented by a Board of Directors which is elected for a period of two years. The Board's responsibilities include establishment of operational policies, to secure financing for the Federation and its affiliates, to approve investment programs, and to monitor the administration of the Federation. The Board is assisted in executing its functions by four Committee's (Education, Executive, Audit and Integration), voluntary units whose members are selected from the General Membership.

c. Organizational Structure

A General Manager, appointed by the Board of Directors, oversees the Federation's day-to-day operations. The manager serves as a liaison with international donor and GOH entities, conducts fund raising activities, and prepares and submits budgetary and planning documents to the Board of Directors for review and approval. Working under the General Manager are technical and administrative personnel grouped into a series of functional divisions including Legal Affairs, Credit Analysis, Administration, Procurement and Marketing, and Regional Operations.

d. On-going Activities and Participation In Project

The Federation's principle activity has been to promote and organize agrarian reform cooperatives among the beneficiaries of the GOH reform programs. As noted, 206 cooperatives, consisting of about 6,000 individuals, have been established. In an effort to service this consistiency, the Federation has established extension and marketing programs and has attempted to procure and distribute agricultural inputs. Its efforts to date have met with mixed success, and to become an effective channel of agricultural services, the Federation, at both the national and affiliate level, must institute a series of policy reforms, upgrade the quality of its professional staff, revise its accounting and administrative systems, and stabilize its financial position. It is anticipated that these changes will require a relatively long period (perhaps two years) of time, but the Mission believes that the effort is worthwhile and that success is attainable with project-financed technical assistance.

7. The National Association of Honduran Peasants (ANACH)

a. Legal Status and Objectives

ANACH was founded by executive decree in 1962. It is a rural-based agrarian union which has traditionally sought to represent the landless poor and to promote the GOH land reform program. Similar to FECORAH, it has emphasized a collective approach to agricultural production and marketing. As the movement evolved, the Association launched a series of programs designed to furnish production, marketing, and credit services to its affilited members. Coinciding with the provision of these services, in 1978 the Association promoted the creation of Regional Agricultural Cooperatives as the means to group together the individual agrarian reform units (asentamientos).

b. Organizational Structure

ANACH policy is guided by the National Convention, an annual meeting of members held in September, immediately following the close of the organization's fiscal year. Convention delegates consist of one or more representative elected from each base group. Biannually, convention delegates elect the Association leadership.

The National Convention elects the 25-member National Directorate whose representatives serve for two years, meet quarterly, and have executive as well as policy-making authority. Its members are "activists" with assigned responsibilities at both national and regional levels. They receive honoraria and per diem travel expenses. Each member is charged with a specific sectoral responsibility, however in practice, budget and organizational constraints have limited the effectiveness of these offices.

This National Executive Committee is the effective power of ANACH. It meets weekly and is composed of the nine principal members of the National Council--President, Vice-President, Fiscal, General Secretary, Recording Secretary, plus the Secretaries of Finance, Cooperatives, Education, and Organization. Members of this committee implement, monitor, and evaluate ANACH policy and activities, and represent ANACH on various GOH executive boards and advisory committee's such as BANADESA, DIFOCOOP, and IHMA.

Three ANACH-related structures exist at the regional level: (1) the economic (CAR's); (2) the political/representative (Seccionales); and (3) the administrative/service (ANACH regional offices).

The 14 Regional Cooperatives (CAR's) are formally independent from ANACH, possessing separate legal status, but in practice the linkages are close, i.e., all 14 CAR presidents serve on the ANACH National Council. Also, 7 of 10 ANACH regional offices share facilities with the local CAR's, and there is considerable overlap of membership among CAR leaders, seccional leaders, and regional and national office staff and leadership.*

In the ten regions where ANACH has five or more base groups an ANACH regional office generally exists to serve them. These offices typically consist of a regional coordinator, two activists, and a secretary. These offices serve as a point of contact for requests for ANACH services and for communication between ANACH, the base groups, or with local representatives of GOH agencies.

The seccionales are the regional organizations for all ANACH base groups. The base groups elect a five-member comité seccional which meets monthly at the ANACH regional office and is a liaison with the regional coordinator.

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* ANACH national and regional offices share facilities with CAR's in Comayagua (CARCOMAL), Colôn (CARCOL), Copân (CAROCCIL), Morazân-Yoro (CARENMOL), San Pedro Sula (ANACH and CARCORTEL), Olanchito-Yoro (CAROL), and Choluteca (CARCHOL). Only the three regional offices in Olancho, Francisco Morazân (Tegucigalpa) and Atlântida occupy separate quarters. The president of CARCOTEL is the ANACH Secretary for Cooperatives; the regional coordinator of ANACH/Comayagua is the president of CARCOMAL; a Copân regional office activista once served as CAROCCIL president, etc.

8. Agricultural Services Cooperatives Union (UNIOCOOP)

1. Legal Status and Objectives

The Union of Agricultural Service Cooperatives Union (UNIOCOOP) was organized in April 1985 by the four "model" cooperatives created under the Agricultural Sector II Program. The Union is guided by a General Assembly composed of representatives of the four "Model" cooperatives. It meets yearly to gauge progress and review operating plans and budgets.

Daily operations are the responsibility of a full-time salaried General Manager supported by technical cadres specialized in administration, technical and marketing services.

2. The Goals of UNIOCOOP are to:

a. act as the legal representative for its affiliates;
b. assist with execution of marketing activities for the local and export markets;
c. procure commodities, agricultural supplies, agricultural machinery services, equipment, parts and supplies, household items, packing supplies, improved seeds, fertilizers, agrochemicals, raw materials and others necessary for the agricultural production;
d. provide and coordinate technical assistance services in administration, cooperative education, fianancial matters, and any other related affairs required by its affiliates;
e. register manufacturing licenses, labeling, trade marks, applicable to the items produced or made by or through the Union;
f. encourage and establish good commercial and cooperation relationships among companies, institutions, government agencies, other entities and or individuals in country, and overseas which will assist in carrying out the Union's negotiations or operations;
g. create and maintain efficiency in the functioning and provision of services to its affiliates;
h. procure and request financial resources for the achievement of the Union's goals and objectives;
i. develop and standardize all administrative and operational policies; and,
j. procure and contract financial and economic assistance from national and international organizations.

ANEXO I

Descripción Ampliada de Proyecto

ARTICULO A

El Proyecto

SECCION A.1. Meta del Proyecto. La meta del Proyecto es incrementar los ingresos y mejorar las condiciones de vida de los pequeños agricultores hondureños.

SECCION A.2. Propósito del Proyecto. El propósito del Proyecto es establecer un mecanismo viable para la entrega de recursos productivos (crédito, teconología, servicios de mercadeo, habilidades gerenciales) a los agricultores, con el propósito de incrementar la productividad agrícola y diversificar la producción básica. Los indicadores son los siguientes: (A) un Fondo de Desarrollo Financiero, capaz de proporcionar asistencia para el desarrollo institucional y la estabilización financiera de las organizaciones intermediarias ya establecidas y en operación; (B) cinco organizaciones agrícolas intermediarias consolidadas, reestructuradas institucionalmente y financieramente estables; (C) un mínimo de 55 organizaciones agrícolas afiliadas, participantes en el proyecto sometidas a reestructuración organizacional, reorientación de sus servicios y estabilización financiera; (D) un mínimo de 2,000 préstamos de crédito para producción, haciendo un total de más de $8.0 millones de dólares, desembolsados a pequenos agricultores; y (E) un grupo de no menos de 30 oficiales de organizaciones intermediarias capacitados en los principios y prácticas de desarrollo institucional.

ANNEX I

Amplified Project Description

ARTICLE A

The Project

SECTION A.1. Project Goal. The goal of the Project is to increase the income and improve the quality of life of Honduran small farmers.

SECTION A.2. Project Purpose. The Project purpose is to establish a viable mechanism for delivering the productive inputs (credit, technology, market services, management skills) to the growers in order to increase agricultural productivity and diversify the production base. Indicators are as follows: (A) a Financial Development Fund, capable of providing institutional development and financial stabilization assistance to intermediary organizations, established and operating; (B) five farmer umbrella intermediary organizations restructured institutionally and stabilized financially; (C) a minimun of 55 farmer organization affiliates participating in the Project and undergoing organizational restructuring, service reorientation and financial stabilization; (D) a minimum of 2,000 production credit loans, totalling over $8.0 million dollars, disbursed to small scale growers; and (E) a cadre of not less than 30 intermediary organization officials trained in the principles and practices of institutional development.

SECCION A.3. Resumen de las Actividades del Proyecto: El Proyecto:

a. tendrá como meta el fortalecimiento de cinco organizaciones intermediarias nacionales, incluyendo FACACH, FEHCOCAL, UNIOCOOP, FECORAH, y ANACH por medio del apoyo a un esfuerzo extraordinario para mejorar la administración gerencial, las capacidades de planeación y formación de capital de estas organizaciones; y facilitar una ampliación de la habilidad en la entrega de servicios por parte de las intermediarias afiliadas, para encarar los problemas de acceso;

b. inyectar capital nuevo a las intermediarias para proporcionarles normalización y estabilidad financiera;

c. iniciar el establecimento de distintos mecanismos de crédito al por mayor que proporcionarán financiamiento a los productores a través de las organizaciones de agricultores participantes.

El Proyecto proporcionará recursos de donación y préstamo, así como una substancial cantidad de fondos en moneda local. Los recursos de préstamo cubrirán el componente de crédito. Los fondos de la donación servirán para financiar asistencia técnica de largo y corto plazo, entrenamiento, evaluaciones y estudios, así como la compra de algunas mercaderías. Los recursos de contraparte en moneda local servirán para financiar los costos de personal, de administración y operación, del equipo y mobiliario y tambien el programa de apoyo para la estabilización financiera de las intermediarias.

SECTION A.3. Summary Project Activities. The Project will:

a. target the strengthening of five national intermediary organizations, including FACACH, UNIOCOOP, FEHCOCAL, FECORAH, and ANACH by supporting a major effort to upgrade the administrative, management, planning and capital formation capabilities of these organizations; and facilitate an expansion of service delivery abilities of intermediary affiliates to address access problems;

b. inject new capital into the intermediaries to provide for financial normalization and stability;

c. initiate establishment of distinct wholesale credit mechanisms which will provide financing to growers through the participating farmer organizations.

The Project inputs will be loan and grant financing as well as substantial local currency funds. The loan funds will cover the credit component. Grant funds will finance long and short-term technical assistance, training, evaluations, and the purchase of some commodities. Counterpart local currency will finance personnel, administrative and operations costs, equipment and furniture, and the resources for the financial stabilization program for the intermediaries.

Ab

SECCION A.4. Financiamiento. Los fondos del Proyecto incluirán un Préstamo de la A.I.D. por $8,500,000; una Donación de la A.I.D. por $7,500,000; y una contribución del Prestatario/Donatario por el equivalente de $19,804,000. La contribución total de la A.I.D. estará sujeta a las condiciones establecidas en la Sección 2.2.a de éste Convenio.

ARTICULO B

Actividades del Proyecto

La agencia principal de la contraparte será el Ministerio de Economía con la participación de la Dirección de Fomento Cooperativo (DIFOCOOP) en aspectos de ejecución. La entidad clave para la ejecución será el Fondo de Desarrollo Financiero (FDF) conjuntamente con las cinco organizaciones intermediarias, la asistencia técnica financiada por el Proyecto y el apoyo administrativo de la A.I.D. Los arreglos administrativos y las actividades de ejecución son más ampliamente discutidos en el Artículo C mas adelante.

Sección B.1. Actividad No.1: Desarrollo Organizativo.

El Proyecto será guiado por una estrategia de expansión controlada de acuerdo a la cual los recursos del Proyecto serán empleados por fases y el número de organizaciones tanto a nivel nacional como de afiliada, será gradualmente incrementado. De todas maneras, se procederá a una expansión solamente después de consolidar éxitos probados.

SECTION A.4. Financing. Project funds will include A.I.D. Loan $8,500,000; A.I.D. Grant $7,500,000; and a contribution from the Borrower/Grantee of the equivalent of $19,804,000. The total A.I.D. contribution is subject to the conditions set forth in Section 2.2.a of this Agreement.

ARTICLE B

Project Activities

The principal counterpart agency will be the Ministry of Economy with the participation of the National Directorate for Cooperative Development (DIFOCOOP) on implementation matters. The key implementation entity will be the Financial Development Fund (FDF) in conjunction with the five intermediary organizations, Project-financed technical assistance and A.I.D. management support. Administrative arrangements and implementation activities are more fully discussed in Article C below.

Section B.1. Activity No.1: Organizational Development.

The Project will be guided by a controlled expansion strategy according to which the application of project inputs will be phased and the number of organizations, both at the national and affiliate levels, will be gradually increased. Throughout, expansion will proceed only after consolidation of established successes.

La primera fase enfocará la provisión de Asistencia Técnica (A.T.) para ayudar a una reorganización administrativa de los intermediarias a nivel nacional. Al comienzo del Proyecto, las cinco organizaciones cúpula celebrarán un convenio formal con el Fondo de Desarrollo Financiero (FDF) especificando los requisitos que deben ser cumplidos por cada intermediaria a fin de calificar para su completa participación. Los requerimentos para ingresar al Proyecto enfatizarán la adopción y ejecución de efectivos procedimientos y políticas de gerencia empresarial. En términos generales, los criterios incluirán: (1) adopción de estrictas políticas de préstamo con las afiliadas; (2) instaurar sistemas modernos de contabilidad y control presupuestario; (3) incremeto de la capacidad y competencia del personal profesional y establecimiento de políticas claras de personal; (4)/desarrollo de programas de participación de capital para asociados; y (5) creación de suficientes fondos de reserva financiera para cubrir riesgos. Se diseñarán parametros de medición para cada organización participante en base a los análisis institucionales y los progresos serán medidos mensual, trimestral y anualmente. El FDF hará uso de los estados financieros mensuales, los informes trimestrales de progreso y las visitas periódicas de su personal, para supervisar que se alcancen los parámetros establecidos exitosamente y se asegure el cumplimiento de los requisitos de participación del Proyecto. El convenio también especificará el período de tiempo que se otorgará a cada intermediaria para establecer las reformas requeridas.

The first phase will focus on the provision of TA to assist with the administrative reorganization of intermediaries at the national level. At the outset of the Project, all five umbrella organizations will enter into a formal agreement with the Financial Development Fund (FDF) specifying the requisites that must be met by each intermediary to qualify for full participation. The Project entrance requirements will emphasize the adoption and implementation of sound, businesslike management procedures and policies. In general terms, the criteria will include: (1) adoption of strict lending policies with affiliates; (2) installation of modern accounting and budget control systems; (3) enhancement of staff professional competency and institution of enlightened personnel policies; (4) development of member capital participation programs; and (5) creation of sufficient financial reserve funds to develop a hedge against contingencies. Benchmarks, based on the institutional analyses, will be developed for each participating organization, and progress will be measured on a monthly, quarterly and annual basis. The FDF will utilize monthly financial statements and quarterly progress reports, as well as periodic visits by FDF personnel, to track success in meeting the benchmarks, and to ensure compliance with the Project's participation criteria. The agreement will also specify the time period each intermediary will be provided to institute the required reforms.

Luego que la intermediaria haya ejecutado los cambios administrativos hará un pedido formal al FDF para legalizar su situación como participante del paquete total en el Proyecto. Si la petición es concedida, se celebrará un segundo contrato formal entre el FDF y la intermediaria para regular los términos y condiciones, incluyendo la asistencia financiera cuando sea apropiado, así como los procedimientos de participación sobre suspensión y descalificación. Los detalles del segundo convenio formal aparecen en la Sección B.2.c más adelante.

Debe reconocerse que las cinco intermediarias actualmente han logrado diferentes niveles de desarrollo institucional. Además, se anticipa que en diferente grado, procederán a lograr las modificicaciones organizativas y las políticas requeridas.

Toda vez que una entidad particular cúpula ejecute los cambios estructurales recomendados y logre alcanzar elegibilidad para su participación total en el Proyecto, el enfoque de la asistencia técnica se extenderá para incluir a las afiliadas de esa organización. A este nivel, el proceso de modificación institucional será repetido. La organización cúpula, bajo lineamientos provistos por el FDF, actualizará y completará una serie de perfiles institucionales de un grupo seleccionado de afiliadas para determinar los cambios específicos requeridos sobre políticas, procedimientos y estructuras. Con la concurrencia del FDF, la organización cúpula y cada afiliada celebrará un convenio formal para diseñar e instaurar un paquete de tratamiento específicamente diseñado. La ejecución del paquete calificará a

Once the intermediary has implemented the administrative changes it will make a formal application to the FDF to gain the status of a full project participant. If acceptance is granted, a second formal contract will be entered into between the Financial Development Fund and the intermediary to govern the terms and conditions, including financial assistance where appropriate, and suspension and disqualification procedures, of participation. The details of the second formal agreement appear in Section B.2.c below.

It must be recognized that the five intermediaries currently have attained different levels of institutional development. Moreover, it is anticipated that they will proceed at different rates in undertaking the required organizational and policy modifications.

As a particular umbrella entity implements the recommended structural changes and thereby reaches the eligibility threshold for full project participation, the focus of technical assistance will expand to include the affiliates of that organization. At this point the institutional modification process will be repeated. The umbrella organization, under guidelines provided by the FDF, will update or complete a series of institutional profiles of a selected group of affiliates to determine the specific changes required in policies, structures, and procedures. With the concurrence of the FDF, the umbrella organization and each affiliate will enter into a formal agreement to design and install a specifically tailored treatment package. Implementation of the package will qualify the affiliate for full project la afiliada para una participación total en el Proyecto. Nuevamente, tal participación será regida por un segundo contrato entre el FDF y la organización cúpula. En el caso de cooperativas que llenen los criterios de elegibilidad pero que no tengan acceso a una organizacion cúpula calificada como participante del proyecto total, el FDF podrá entrar en relación contractual directa.

En armonía con la estrategia de expansión controlada, solamente un pequeño número de afiliados de una determinada organización nacional será seleccionado en cada ocasión. Los paquetes de tratamiento tomarán lugar en intervalos de seis meses que comenzarán seis meses después del inicio del Proyecto. El proceso será dinámico -- una vez que el primer grupo haya alcanzado un equilibrio institucional, el esfuerzo de la asistencia técnica (A.T.) se concentrará en asistir al segundo grupo, el cual a su vez, será seguido por grupos adicionales durante intervalos subsiguientes. Se estima que para el final del cuarto año del período de financiamiento, 55 grupos se habrán convertido en participantes del proyecto y progresado hacia una estabilización financiera y de entrega efectiva de servicios.

Con el propósito de mejorar la probabilidad del éxito inicial, y por lo tanto generar un factor "multiplicador" para los participantes potenciales, las afiliadas de cada intermediaria serán clasificadas ordenadamente en base a la cercanía de adquirir una estructura administrativa y procedimientos de operación efectivos. Las afiliadas con las calificaciones más altas serán atendidas primero, mientras que los grupos con menor calificación recibirán atención subsiguiente.

participation. Again such participation will be governed by a second contract between the Fund and the umbrella organization. In the case of cooperatives meeting FDF eligibility criteria and lacking access to an umbrella organization qualified as a full Project participant, the FDF may enter into a direct contractual relationship.

In keeping with the controlled expansion strategy, only a small number of affiliates of a given national organization will be addressed at any one time. The treatments will take place in six-month intervals beginning six months after the initiation of the Project. The process will be dynamic -- once the first set has achieved institutional equilibrium, the T.A. effort will concentrate on assisting a second set which, in turn, will be followed by additional sets during subsequent intervals. It is estimated that by the end of the four-year funding period 55 groups will have become Project participants and have progressed toward financial stabilization and effective service delivery.

In order to enhance the probability of initial success, and thereby generate a "multiplier" factor for potential participants, the affiliates of each intermediary will be rank ordered on the basis of proximity to possessing a sound administrative structure and effective operating procedures. The affiliates with the highest rankings will be addressed first while lower rated groups will receive subsequent attention.

SECCION B.2. Actividad No. 2: Estabilización Financiera.

La situación financiera de los intermediarios especialmente al nivel de afiliadas, esta plagada de dificultades. Todas las intermediarias tienen serios problemas de liquidez y tres de las cinco muestran patrimonios negativos en sus balances. Si las organzaciones cúpula y por extensión sus afiliadas van a convertirse en instrumentos viables para la provisión de servicios a los pequeños agricultores, tendrán no sólo que someterse a una completa reestructuración orgánica, sino que además, deberán encaminarse decididamente hacia una estabilización financiera. El Proyecto ha considerado utilizar una compleja mezcla de esquemas financieros o medios para intentar normalizar financieramente a las asociaciones de agricultores participantes, que incluye -- liquidación de las afiliadas seleccionadas o eliminación de los activos no productivos; condiciones de interrupción en el pago de deudas o moratoria; reestructuración de deudas a través de diferir el pago de los intereses o amortizaciones de capital, junta de acreedores y, una reprogramación de los compromisos del préstamo; cancelación de deudas de capital y/o intereses con descuento; el uso de garantías de préstamo; e, inversiones de capital. Dependendiendo de las circumstancias fiscales, que influencian la situación particular de un grupo, se aplicará el uso de uno o la combinación de varios de estos esquemas. La determinación o selección de los vehículos financieros y sus estrategias serán tomadas en forma individual, de acuerdo al grado en el que cada organización cúpula y

SECTION B.2. Activity No. 2: Financial Stabilization.

The financial situation of the intermediaries, especially at the affiliate level, is beset with difficulties. All of the intermediaries have serious liquidity problems and three of the five have negative total net worths. If the umbrella organizations, and by extension their affiliates, are to serve as viable vehicles for providing services to small farmers, they must not only undergo organizational restructuring, but also become financially stabilized. The Project will consider the use of a complex mix of financial tools or mechanisms to bringing about financial normalization of participating farmer associations, including -- liquidation of selected affiliates or elimination of non-performing assets; debt moratoria or forbearance conditions; debt restructuring through the deferral of interest or principal payments, the consolidation of creditors, and a rescheduling of loan committments; interest or principal buy-downs; the use of loan guarantees; and equity financing. The financial circumstances influencing a particular group will determine which of these mechanisms will be applied. The selection of financial tools will also be made on a case by case basis as each umbrella and affiliate unit reaches the full participation threshold, and after a thorough analysis of the group's financial situation. This analysis will be carried out by the technical personnel attached to the Financial Development Fund within FACACH.

afiliada vayan alcanzando una participación total del paquete y por supuesto, después de haberse completado un profundo análisis de la situación financiera de cada grupo. Este análisis será llevado a cabo por el personal de asistencia técnica adjunto al Fondo de Desarrollo Financiero (FDF) dentro de FACACH.

a. Liquidación de la Afiliada y Eliminación de los Activos No Productivos

En algunas situaciones se encontrará que el proceso de estabilización podría utilizarse mejor para la eliminación de los activos no productivos o la liquidación de las afiliadas que adolecen de un potencial económico para llegar a ser intermediarias auto-gestionables y viables dentro de un período razonable de tiempo. En resumen, los costos de los esfuerzos de estabilización financiera (es decir, reestructuración y recapitalización) podrían ser mayores a los excedentes previstos sobre la inversión. En tales situaciones el FDF podría requerir la liquidación de tales afiliadas o su fusión con otras instituciones más fuertes, como una forma de proporcionar medios más efectivos para conseguir la estabilización institucional y financiera. Igualmente, una intermediara podría tener activos no productivos o generadores de pérdidas. Un ejemplo de tales activos no productivos podría ser la maquinaria agrícola inactiva, facilidades de procesamiento inadecuados, capacidad de almacenamiento en exceso, etc. En tales circumstancias el FDF podría requerir que la intermediaria liquidara tales activos no productivos como una precondición para obtener acceso al FDF para una posterior asistencia a su estabilización. En

a. Affiliate Liquidation and Elimination of Non-performing Assets

In some situations it may be found that the stabilization process canbest be served by the elimination of non-performing assets or the liquidation of affiliates which lack the economic potential to become viable, self-sustaining intermediaries within a reasonable period of time. In brief, the costs of the financial stabilization effort (i.e., restructuring and recapitalization) may be greater than the expected return on investment. In such situations, the Fund may require the liquidation of such an affiliate, or its merger with another stronger institution, as providing the most effective means to achieve institutional financial stabilization. Similarly, an intermediary may possess non-performing or loss-generating assets. Examples of such non-performing assets may include agricultural machinery, processing facilities, excess storage capacity, etc. In such instances, the FDF may require that an intermediary liquidate such non-performing assets as a precondition to obtaining access to further stabilization assistance from the Fund. In all instances, the FDF would complete an in-depth analysis of the intermediary prior to determining the degree to which assets must be liquidated.

todos los casos, el FDF completaría un profundo análisis de la intermediaria antes de determinar el grado al cual deben ser liquidados los activos.

b. Moratoria o Interrupción del Pago de Deudas

El propósito de una moratoria de deudas o congelamiento de obligaciones es el de mitigar temporalmente la situación de sobrepeso financiero de la institución deudora que está asociada con obligaciones pendientes excesivas. Tal moratoria es una condición temporal diseñada para mantener los activos intactos durante el lapso en el que las instituciones deudoras y acreedoras buscan una solución a los problemas financieros pendientes. En efecto, esta es sólo una forma de evitar un posible embargo, mientras se realiza el proceso de renegociación.

Dentro del Proyecto, este mecanismo será adoptado en base a una decisión en que la institución deudora acepta trabajar voluntariamente con el acreedor, hasta agotar todas las diferentes estrategias que podrían utilizarse para mejorar la capacidad de pago de los préstamos pendientes. Estas estrategias pueden incluir: reestructurar las deudas; reducir o diferir las amortizaciones al capital y pago de los intereses; Junta de Acreedores, etc. Este proceso requerirá que el deudor demuestre el deseo de trabajar más estrechamente con la institución acreedora para buscar soluciones mutuamente aceptadas a los problemas financieros . El FDF participaría activamente y asistiría tanto a los deudores como a los acreedores para mejorar su disposición y capacidad de llegar a un acuerdo sobre los problemas financieros existentes, donde se incluyan soluciones de largo plazo.

b. Debt Moratoria or Forbearance

The purpose of a debt moratorium or "freeze" of obligations is to temporarily relieve a financially stressed institution from the financial obligations associated with excessive debt. Such moratoria are a temporary condition designed to maintain asset values during the period of time that the creditor and the debtor institutions are negotiating a solution to their outstanding financial problems. In effect, it is a postponement of impending forclosure while the negotiating process is underway.

Within the Project, moratoria or forbearance situations will be voluntary conditions in which the creditor institution agrees to work with the borrower to exhaust the various strategies that could be used to improve the quality of a loan. These strategies may include: restructuring the debt, scaling-down or deferral of principal and interest payments, consolidation of creditors, etc. This process would require creditor willingness to work more closely with the debtor institution in seeking mutually acceptable solutions to financial problems. The FDF would actively participate and assist creditors and debtors in improving the serviceability of outstanding obligations and in reaching an agreement on a long-term solution to the existing financial problems.

c. Reestructuración de Deudas

En general, el esquema de reestructuración de deudas será aplicado en aquellos casos en los que en su conjunto, las condiciones financieras de la institución en cuestión son relativamente solventes (es decir, el análisis financiero debe indicar que luego de considerar el total de sus activos y pasivos, la entidad puede proyectar un patrimonio positivo). El propósito de la reestructuración será hacer más manejable el pago de la deuda mediante: (1) consolidar a todos sus acreedores (Junta de Acreedores); (2) extender el período de pago; y, (3) rebajar las tasas de interés para reducir las cargas por el servicio de la deuda.

d. Cancelación de Deudas de Capital y/o Intereses con Descuento

Una cancelación de deudas de capital y/o intereses con descuento se define como una reducción o liquidación de una porción de la obligación pendiente. Tales cancelaciones requerirán de una negociación previa con los acreedores, en vista de que estas transacciones representan una descapitalización en los libros de las instituciones prestamistas. Sin embargo, si el análisis financiero de la institución deudora indica que su flujo de caja proyectado no le permitirá efectuar amortizaciones del saldo de su nueva deuda bajo condiciones normales, podría suceder que la única solución posible para el prestatario será la renegociación del contrato de préstamo. El Fondo de Desarrollo Financiero (FDF) participará conjuntamente con las instituciones acreedoras y deudoras en este proceso de renegociación, con el objetivo de intentar ayudar al

c. Debt Restructuring

In general, the debt restructuring approach will be applied in those instances in which the complete financial condition of the group in question is relatively sound (i.e., the financial analysis must indicate that, after consideration of total assets and liabilities, the entity can project a positive net worth). The purpose of the restructuring will be to make payment of the debt manageable by: (1) consolidating the number of creditors; (2) extending the repayment period; and (3) adjusting the interest rates downward to reduce the debt service burden.

d. Principal and Interest Write-off

A principal or interest write-off refers to a reduction or elimination of a portion of an outstanding obligation. Such write-downs will require negotiation with creditors, since it does represent a loss of equity on the lender's books; however, if the financial analysis of the debtor institution indicates that the projected cash flow will not permit repayment under current conditions, a renegotiation of the loan contract and a rescheduling of interest and principal payments based upon a lower asset value may be the only solution available to the creditor. The FDF will participate in this renegotiation process between creditor and debtor institutions with the goal of attempting to assist the creditor in recovering a portion of its assets while easing the debt service requirements of the borrower. This negotiation process will be designed acreedor en la recuperación de por lo menos una porción de sus activos, mientras se facilitan al prestatario los requerimientos para el servicio de la deuda. Este proceso de negociación será diseñado a fin de aumentar el interés del acreedor para que participe en el proceso de estabilización, lo que también podría incluir que el FDF le ofrezca al acreedor el proporcionarle una garantía de amortización por una porción de la deuda rebajada.

e. Garantías de Préstamo

Podría ser necesario que el FDF proporcione Garantías de Préstamo a las instituciones financieras, a fin de estimular la reestructuración de las obligaciones perdientes. Esencialmente, el FDF estaría en condiciones de acordar en indemnizar a la institución financiera, en casos en que el prestatario incumpla el pago de una porción o el total de la obligación pendiente. El grado de compromiso de la garantía sería negociado en base al interés del prestamista para reestructurar la deuda y cooperar con el proceso de estabilización. El uso de garantías reducirá los riesgos para el prestamista, incrementará su participación en el proceso de recuperación de los préstamos y posiblemente ayudará a disminuir las necesidades de recursos del Proyecto para el proceso de reestructuración o estabilización.

f. Inversiones de Capital

El mecanismo de inversiones de capital o financiamiento será aplicado en casos que involucre quiebra o proximidad a la quiebra de la intermediaria o en situaciones en las que el acreedor no tenga interés en reestructurar las obligaciones

to increase creditor willingness to participate in the stabilization process, and it may include a Fund offer to provide the creditor with repayment guarantee's for a portion of the reduced debt.

e. Loan Guarantees

It may be necessary for the Fund to provide a loan guarantee to the lending institution to encourage the restructuring of outstanding obligations. The FDF would essentially agree to indemnify the lending institution in the case of default by the borrower on the entire or a portion of the outstanding obligation. The degree of guarantee committment would be negotiated based upon lender willingness to restructure debt and cooperate with the stabilization process. The use of guarantees will reduce the risk to the lender, increase his participation in the recovery process, and possibly lessen the need for Project resources in the restructuring or stabilization process.

f. Equity Participation

Equity participation or financing will be applied in cases involving the bankruptcy or near bankruptcy of the intermediary, or in situations in which the creditor is unwilling to restructure outstanding intermediary obligations. Under this stabilization

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pendientes de la intermediaria. Bajo este mecanismo estabilizador, el FDF negociará con los acreedores de la intermediaria la cancelación de las deudas pendientes con descuento o a tasas rebajadas. Este proceso de negociación será precedido por la celebración de un contrato formal firmado entre las intermediarias participantes y el FDF, donde se acordará que la deuda de las intermediarias será comprada por el FDF y convertidas en aportaciones de capital. Esta inversión de capital puede tomar la forma de aportaciones preferentes de capital, certificados de depósito o reservas especiales de estabilización. El modelo del tratamiento dependerá del problema que está siendo confrontado y la necesidad de operar dentro de la legislación vigente. En todos los casos, estas nuevas inversiones de capital estarán ligadas al hecho de que la intermediaria acepte la participación del FDF en sus operaciones internas.

g. Contratos de Estabilización Financiera

A fin de oficializar las transacciones entre el FDF y las intermediarias, todos los procesos de estabilización financiera irán a converger en un contrato formal entre la intermediaria y el Fondo de Desarrollo Financiero (FDF), especificando las responsabilidades de ambas partes. En casos relacionados con deudas de una organización cúpula y antes de la firma del contrato, se requerirá la aprobación de la Junta Directiva que será refrendada por autorización de la Asamblea General, para asegurar la legalidad del documento. Para la firma del Convenio en los casos concernientes a una de las intermediarias, se requerirá de la aprobación de la Junta Directiva, refrendada por Asamblea General y además de la concurrencia de la Junta de la organización cúpula. En todos

approach, the FDF will negotiate with an intermediary's creditors the cancellation of the outstanding obligations at discounted or reduced rates. This negotiation process will be proceeded by the completion of a formal contract between the participating intermediary and the Fund according to which the debt of the intermediary will be purchased by the FDF and converted to equity shares. This equity investment may take the form of preferred share capital, certificates of deposit, or special stabilization reserves, the mode being dependent upon the problem being addressed and the need to operate within existing legislation. In all cases these new equity investments will be linked to intermediary acceptance of Fund participation in its internal operations.

g. Financial Stabilization Contract

All of the stabilization porcesses will center on a formal contract between the intermediary and the Financial Development Fund (FDF) specifying the responsibilities of both parties. In cases involving the debt of an umbrella group, approval of the general membership will be required prior to signing the agreement to ensure binding legality. In instances concerning an affiliate, approval of the affiliate's membership, as well as agreement of the umbrella organization, will be requisites for signature. In all cases, the intermediary, national entity or affiliate, entering into the contract will be liable only for its own debt; it will incur no responsibility for the outstanding obligations of other units of the same Federation, Association, or Union.

los casos, la intermediaria, sea ésta la entidad nacional o la afiliada que participa en el contrato, será responsable solamente por su propia deuda; no implicará responsabilidad para las obligaciones pendientes de otras unidades de la misma federación, asociación o unión.

En los arreglos de reestructuración de deudas, se negociará con los acreedores el grado hasta el cual el FDF se hará cargo de las deudas pendientes de una intermediaria o el límite de ayuda en la amortización de las mismas. Tendrá la capacidad de proporcionar una "garantía de amortización" a un acreedor, a cambio de reestructurar su deuda o la cancelación de una parte de la misma; o en casos extremos, podría convertirse en el propietario de la deuda total del intermediario. Bajo situaciones donde se asumirá la responsabilidad total de la deuda, el FDF negociará con los acreedores la cancelación de la deuda de la intermediaria. En estas transacciones el FDF negociará la compra de la deuda de los acreedores con descuento, basándose en la premisa de que las deudas existentes son hasta cierto nivel incobrables. A cambio de asumir el riesgo y la responsabilidad de las deudas de los acreedores, el FDF tendrá poder de veto sobre cualquier decisión o práctica administrativa tomada por la intermediaria que no cumpla con los procedimientos administrativos requeridos para una participación total en el Proyecto. El FDF también tendrá preferencia en la distribución de los excedentes (dividendos) u otras utilidades

Under the debt restructuring arrangement, the Fund will negotiate with creditors the degree to which it will assume an intermediary's outstanding obligations or assist in their repayment. It will possess the ability to provide a creditor with a "repayment guarantee" in return for a restructuring or write-off of a portion of the obligation; or, in extreme situations, it may become the holder of the intermediary's outstanding debt in its entirety. Under a complete debt assumption scenario, the FDF will negotiate the cancellation of the intermediary's debt with the creditors. In these negotiations, the Fund will bargain to purchase the debt from the creditors at a discount, based on the premise that the existing obligations are uncollectable. In return for assuming the debt from the creditors, the Fund will have veto power over any management decision or practice by the intermediary that does not comply with administrative procedures required for full participation in the Project. It will also have first call on dividend payment or other earnings generated to retire the debt (it may agree to its retirement on a non-accruing basis), and approval authority over the organization's operating plans and budgets.

generadas, para proceder a la cancelación de la deuda (podría acordarse la cancelación en base al sistema de no cobro de intereses), y tambien tendrá la suficiente autoridad rectora sobre los planes y presupuestos de operación de la organización.

Por su parte la intermediaria acordará la cancelación de la deuda a través de la creación de un fondo de reserva para casos imprevistos, que servirá para balancear las fluctuaciones en los ingresos, como resultado de las variaciones en los niveles de producción entre ciclos agrícolas. Este fondo asegurará que el FDF cuente con un flujo de efectivo contínuo para amortizaciones, por lo que exigirá que las intermediarias amorticen los saldos de sus obligaciones pendientes, mediante cuotas fijas. Estas cuotas serán establecidas en base a flujos de caja proyectados, los que se revisarán anualmente. Adicionalmente, la intermediara estará de acuerdo en proseguir la ejecución de los requisitos de procedimiento gerencial y políticas de operación. Los derechos y obligaciones de ambas partes estarán claramente definidos en un convenio contractual establecido entre el FDF y la intermediaria participante. Es importante indicar que éstas son sólo algunas de las condiciones contractuales. Una lista completa de estas condiciones será revisada durante el período inicial de ejecución y las provisiones que rigen cada convenio serán adecuadas a las circumstancias específicas de la intermediaria en mención.

Se aplicará un procedimiento similar con contratos formales en casos donde se requiera inversión de capital. La inversión de capital del FDF difiere de un esquema de asunción de deudas, en que el FDF toma una posición de asociado mediante la compra de aportaciónes en la intermediaria. El valor de la aportación será igual al precio al que el FDF negocía la transacción con los acreedores. Bajo

For its part, the intermediary will agree to retirement of the debt through a sinking fund arrangement that will take into account fluctuations in earnings resulting from variations in production levels among crop cycles. The sinking fund will assure the FDF of a continuous flow of repayment monies and require the intermediary to amortize the outstanding balance of the obligation at a fixed rate. This rate will based upon projected cash flows and be adjusted on an annual basis. Additionally, the intermediary will agree to continue to implement the required managerial procedures and operating policies. The rights and obligations of both parties will be clearly defined in a binding contractual agreement between the Fund and the participating intermediary, and it is important to note that these contractual conditions are illustrative. The full-range of conditions will be further refined during the initial period of implementation, and the provisions governing each agreement will be tailored to the specific circumstances of the subject intermediary.

A similar formal contract procedure will be followed in cases requiring equity financing. FDF equity participation differs from the debt assumption scenario in that the Fund will take an equity position in the intermediary through ownership of stock shares. The value of the stock will be equal to the price at which the FDF negotiates the settlement with creditors. Under this arrangement, este sistema de inversión, el FDF como dueño de la inversión de capitales, tendrá preferencia en la distribución de los excedentes generados, hasta un máximo acordado en base al monto de la inversión de fondos; tendrá el poder de veto sobre las decisiones o prácticas administrativas que no estén de acuerdo con los requerimientos para la reforma institucional de las intermediarias; tendrá autoridad para revisar y aprobar las inversiones y los planes de operación y sus correspondientes presupuestos; y, designará un auditor externo para establecer los programas activos de inspección y verificación. Otras posibles condiciones adicionales estipularán: (1) que el monto de los excedentes preferentes (la inversión de capital es equivalente a las aportaciones preferentes) y el funcionamiento del esquema de recompra del capital (por ejemplo fondos de reserva), serán determinados por el FDF en consulta con la intermediaria y estarán sujetos a límites máximos; (2) el dividendo mínimo a pagarse sobre el capital participativo será del 4% anual, suponiendo que hubo generación de excedentes por operación -- la cantidad real de dividendos pagados por encima de la base del 4% estará en función de los excedentes generados; (3) que la intermediaria haya convenido en un nuevo y apropiado calendario u otros acuerdos con los acreedores, para asegurar el no embargo de las obligaciones pendientes, garantizando de esta manera, la inversión de capital del FDF; (4) que la intermediaria en mención tenga prioridad en la recompra de las aportaciones preferentes del FDF; y (5) que las aportaciones preferentes no sean instrumentos negociables, es decir que no puedan ser vendidas a terceros.

the Fund, as owner of the equity, will have first call on generated earnings, up to an agreed upon maximum return on invested funds; will have veto power over any management decisions or practices that are not in compliance with the institutional reform requirements of that intermediary; will have review and approval authority over investment and operating plans and their related budgets; and will designate an external auditor to establish an on-going program of examination and verification. Possible additional conditions will stipulate: (1) that the amount of preferred dividend (equity capital is equivalent to preferred share capital) and that functioning of the equity repurchase scheme (i.e., sinking fund) will be determined by the Fund in consultation with the intermediary and will be subject to an upper limit; (2) that the minimum dividend to be paid on equity will be at least 4 percent per annum, assuming generation of an operating surplus -- the actual amount of dividend paid above the 4 percent floor will be a function of the surplus earned; (3) that the intermediary have entered into appropriate rescheduling or other agreements with creditors to assure non-foreclosure of outstanding obligations thereby securing FDF equity participation; (4) that the subject intermediary have first call on repurchasing preferred stock from the Fund; and (5) that the preferred stock be a non-negotiable instrument -- i.e., that it cannot be sold to third parties.

Los reflujos de recursos provenientes de la cancelación de deudas y la recompra por inversiones de capital depositados en un fondo rotatorio administrado por el FDF, para utilizarse en la estabilización financiera de las intermediarias que en el futuro vayan ingresando al Proyecto. El excedente o el dividendo base anual del 4% recibido por el FDF sobre las transacciones de las inversiones de capital, servirá para cancelar los costos de operación del FDF.

h. Suspensión - Descalificación

Para reforzar el cumplimiento de los fines del Proyecto, en relación a la creación de las organizaciones intermediarias institucional y financieramente estables que sirvan como mecanismos viables en la provision de servicios a los pequeños agricultores, en los contratos firmados entre el FDF y las intermediarias se incluirán las sanciones establecidas para los casos en que una intermediaria no cumpla con los términos acordados. Los incumplimientos serán juzgados en base a dos modelos -- fallas por interrupción en la ejecución de las reformas administrativas (por ejemplo políticas de capitalización, estrictas políticas internas de crédito, procedimientos contables inflexibles y promociones del personal profesional calificado), y negligencia para controlar la deuda o las condiciones del retiro de las inversiones de capital. Las sanciones consistirán en la suspensión temporal de los recursos y en casos extremos irremediables, la pérdida completa de la elegibilidad para recibir nuevos recursos del Proyecto (por ejemplo, inyecciones de nuevos recursos de crédito). Cuando la situación involucre

The reflows from both debt retirement and repurchase of equity shares will be retained by the FDF and be used to financially stabilize intermediaries that join the Project in the future. The annual four percent dividend floor received by the Fund on equity transactions will be applied to underwrite the FDF's costs of operation.

h. Suspension - Disqualification

To reinforce achievement of the Project Purpose, viz., the creation of institutionally and financially stable intermediary organizations that will serve as a viable mechanism for delivering services for small farmers, the FDF-intermediary contracts will also contain sanctions should an intermediary not comply with the terms of the agreement. Non-compliance will be judged against two standards -- failure to continue to implement the administrative reforms (e.g., capitalization policies, strict internal credit policies, stringent accounting procedures, and upgrading professional staff quality), and failure to observe debt or equity retirement conditions. The sanctions will consist of suspension, and in extreme, non-remedial cases, complete loss of eligibility to receive new project inputs (i.e. injections of new credit resources). In instances involving refinancing, disqualification will also entail debt retirement at accruing (rather than non-accruing) interest rates. The process of employing the sanctions will be multi-staged. If, in carrying out normal monitoring activities, the FDF discovers deficiencies in refinanciamiento, la descalificación incluirá además la reinstalación de la deuda con el cobro (en lugar del "no-cobro") de intereses. El proceso para establecer las sanciones podrá realizarse en cualquiera de las etapas. Si mientras se están llevando a cabo las actividades normales de monitoreo, el FDF descubre deficiencias en el desempeño de las intermediarias relacionadas con cualesquiera de los dos modelos, el FDF notificará formalmente a la institución involucrada y determinará un período prudente de tiempo, dentro del cual deben efectuarse los ajustes. Si las correcciones no se efectúan en la fecha indicada, el FDF suspenderá a la intermediaria y le comunicará que la descalificación total entrará en efecto si no se toman las medidas correctivas de inmediato. Las descalificaciones incluirán una tercera y última notificación formal del FDF a la intermediaria, instante en el que se tomarán las medidas legales para recuperar los activos del FDF.

i. Participación del BANADESA

El Banco Nacional de Desarrollo Agrícola (BANADESA) tendrá un papel en el Proyecto debido a su rol predominantemente histórico en crédito agrícola y a la posibilidad de que este Banco sea el mayor acreedor de las organizaciones intermediarias que se supone participarán en el Proyecto. El tamaño y diversidad de la cartera de préstamos de BANADESA hace que parezca que se llevarán a cabo frecuentes negociaciones entre el BANADESA y el Fondo de Desarrollo Financiero (FDF), conforme se vaya desarrollando el proceso de estabilización o reestructuración de deudas y se haya diseñado una estrategia del Proyecto que asegure un papel positivo y de respaldo para el BANADESA dentro del Proyecto.

intermediary performance relative to either of the two standards, the Fund will formally place the subject institution on notice and specify a prudent time period within which the adjustments must be made. If the corrections are not made by the assigned date, the FDF will suspend the intermediary and advise that complete disqualification will go into effect if the remedial steps are not taken. Cases of disqualification will entail a third and final formal notice from the Fund to the intermediary, at which time legal actions would be taken to recover FDF assets.

i. BANADESA Participation

The National Agricultural Development Bank (BANADESA) will possess a role in the Project due to its historically predominent role in agricultural lending, and to the liklihood that the Bank is one of the major creditor's of the intermediary organizations envisioned as participating in the Project. The size and diversity of the BANADESA loan portfolio makes it likely that frequent negotiations will take place between the Bank and the Financial Development Fund (FDF) as the stabilization or debt restructuring process is undertaken, and, a Project strategy has been designed that will ensure a positive and supportive role for the Bank within the Project.

Históricamente el BANADESA ha usado dos fuentes diferentes de recursos para el financiamiento a las intermediarias, su propio capital y una serie de cuentas de fideicomiso. Mientras se llevan a cabo las negociaciones del FDF para estabilizar financieramente a las intermediarias participantes, tanto el capital del Banco como las cuentas de fideicomiso serán afectadas por los convenios de reestructuración de deudas celebrados por el Fondo. Aún cuando unas pocas intermediarias financiadas por el BANADESA están al día con sus préstamos, la mayoría se encuentran en mora o sus préstamos han sido artificialmente refinanciados bajo términos de pago irreales.

El BANADESA está en el proceso de crear una cuenta especial de fideicomiso para captar los reflujos de los recursos del FDF que estén siendo usados en la cancelación de las obligaciones pendientes de las intermediarias. Este fideicomiso esencialmente será capitalizado por el pago o cancelación de las obligaciones realizadas por el Fondo de Desarrollo Financiero. Este fideicomiso continuará prestando a las organizaciones intermediarias bajo términos similares a aquellos utilizados por los bancos privados con cuentas de fideicomiso descritos en la siguiente sección sobre Crédito Agricola. El FDF ayudará al BANADESA en desarrollar los criterios de elegibilidad, le proporcionará acceso a la asistencia técnica, precalificará a las organizaciones para su participación y, ambos trabajarán en estrecha coordinación durante toda la vida del Proyecto.

Historically, BANADESA has used two different sources of funds for intermediary financing, it's own capital and a series of trust accounts. As FDF negotiations to financially stabilize participating intermediaries are undertaken, both Bank capital and fiduciary trusts will be affected by the debt restructuring agreements sought by the Fund. Although a few Bank-financed intermediaries are current in their accounts, the majority are either delinquent or have been artificially refinanced under unrealistic repayment terms.

BANADESA is in the process of creating a special trust account to capture the reflows of FDF resources that are used to retire intermediary obligations. This fiduciary trust will essentially be capitalized by the retirement or cancellation of obligations undertaken by the Financial Development Fund. This trust fund will relend to intermediary organizations under the same terms as those to be used by the private bank trust accounts described in the following section on Agricultural Credit. The FDF will assist the Bank in developing eligibility criteria, provide it with access to technical assistance, pre-qualify organizations for access, and work in close coordination with the Bank during the life-of-project.

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SECCION B.3. Actividad 3. Crédito Agrícola

a. Estrategías de Crédito

En un esfuerzo por disminuir el problema de la contracción de recursos para crédito discutido en la Sección III e incrementar la previsión de financiamiento a los productores mediante las organizaciones campesina. participantes, el Gobierno de Honduras (GOH) establecerá o capitalizará un mecanismo de fideicomiso en el Banco Central de Honduras (BCH), usando los $8.5 millones en fondos de préstamo de la A.I.D. que serán provistos por el Proyecto. El Banco Central será responsable por los riesgos en el manejo de divisas y la amortización del préstamo. Estas cuentas de fideicomiso serán manejadas por el sistema de la banca privada en coordinación con el Fondo de Desarrollo Financiero (FDF) autónomo, que será establecido dentro de FACACH.

Todos los préstamos de estos fideicomisos a las organizaciones intermediarias, serán concedidos bajo los estrictos criterios de elegibilidad para asegurar que la intermediaria cumpla con el proceso de desarrollo institucional respaldado por el Proyecto. Este proceso enfatiza el uso de los criterios empresariales por parte de las intermediarias, para guiar la provisión de servicios (o sea, costo competitivo de servicios; mantenimiento actualizado de controles de contabilidad y presupuestos; utilización de personal gerencial profesional altamente calificado; etc.) y, requerirá el apego a los principios de estrictas políticas crediticias, participación de los asociados en el capital de la

SECTION B.3. Activity 3. Agricultural Credit

a. Credit Strategy

In an effort to alleviate the credit contraction problem discussed in Section III, and to increase the provision of financing to growers through participating farmer organizations, the Government of Honduras (GOH) will establish or capitalize a trust account mechanism within the Central Bank of Honduras (CBH) using the $8.5 million in A.I.D. loan resources to be provided by the Project. The Central Bank will be responsible for the foreign exchange risks and the repayment of the loan. These trust accounts will be managed by the private banking system in coordination with the Financial Development Fund to be established within FACACH.

All lending from these trust accounts to intermediary organizations will be guided by the use of strict eligibility criteria to ensure intermediary compliance with the Project-supported institutional development process. This process emphasizes intermediary use of businesslike criteria to guide service delivery (i.e., competitive pricing of services; maintainance of up-to-date accounting and budget controls; use of qualified, professional personnel in management; etc.), and, it requires an adherence to the principles of strict lending policies, member capital participation, and reserve creation against contingencies. These principles are considered basic to the institutional development process and to an eventual attainment of financial organización, creación de reservas para imprevistos. Estos principios son considerados básicos para el proceso de desarrollo institucional y para el logro de una eventual autosuficiencia financiera que le proporcione independencia institucional. Los criterios que adicionalmente serán utilizados para determinar la elegibilidad para los recursos de crédito serán los siguientes:

(1) Viabilidad financiera de los proyectos a financiarse; (2) personalidad jurídica como institución intermediaria de servicios; (3) historial crediticio previo; (4) demostrar capacidad gerencial y un programa efectivo de servicio a sus asociados; (5) políticas operacionales consistentes con una economía saludable; (6) capacidad para el pago de préstamos; y, (7) estrategias de inversión coherentes, incluyendo diversificación de cartera, comercialidad de la producción de asociados, infraestructura adecuada, etc.

El Fondo de Desarrollo Financiero (FDF) proporcionará al(los) banco(s) privado(s) que maneje(n) la(s) cuenta(s) de fideicomiso con un "Certificado de Elegibilidad" para cada una de las intermediarias que estén buscando acceso a las fuentes de financiamiento.

El componente de crédito del Proyecto es complementario al proceso de desarrollo institucional. Además del objetivo para el incremento de los flujos de recursos crediticios para el sector agrícola, la provisión del financiamiento está estrechamente ligada al proceso de formación de capital en las organizaciones campesinas intermediarias

self-sufficiency and institutional independence. Additional criteria which will be used to determine credit eligibility will include:

(1) Financial viability of projects to be financed; (2) legal recognition as an intermediate service institution; (3) previous credit history; (4) demonstrated management capabilities and effective member service programs; (5) operational policies consistent with economic health; (6) ability to repay; (7) and, coherent investment strategies, including mixed portfolios, marketability of member production, adequate infrastructure, etc.

The Financial Development Fund (FDF) will provide the private bank(s) which are managing trust account(s) with a "Certificate of Eligibility" for each intermediary seeking access to financing.

The credit component of the Project is complementary to the institutional development process. In addition to the goal of increasing the flows of credit to the agricultural sector, the provision of financing is closely linked to the capital formation process of the participating intermediary farmer organizations. The introduction of sustained and participantes. La introducción de programas sostenidos para la capitalización obligatoria de los asociados en las intermediarias, es un pre-requisito para la aprobación de un préstamo. Los créditos aprobados por medio del sistema de las intermediarias estarán ligados a la participación de capital de los prestamistas en su organización local o cooperativa y el total del patrimonio de la intermediaria servirá de garantía contra posibles incumplimientos de pago del préstamo. La falta de interés de la intermediaria en adoptar estrategias sólidas de largo alcance para la formación de capital, excluirá su acceso a los recursos crediticios. Asimismo, se requerirá que el pequeño agricultor prestamista participe en la formación del capital de su institución intermediaria.

Los créditos de corto plazo de la intermediaria, estarán disponibles para préstamo a los productores a tasas positivas o de mercado y éstos estarán directamente relacionados a la participación del agricultor en la capitalización de su organizacion intermediaria. Los reflujos producto de estos préstamos, después de efectuados los cargos por pago de intereses y otros costos administrativos, serân retenidos por el Banco Central y reservados para futuros préstamos a nuevas participantes en el Proyecto. La administración de estas cuentas de fideicomiso por la banca privada podrá ser renegociada anualmente por el Banco Central, sujeta a un análisis de resultados (o sea, calidad del servicio, informes, administración del fondo, etc.) y de existir el deseo expreso de continuar participando.

obligatory member capitalization programs within the intermediaries is a prerequisite to loan approval. Credit approvals throughout the intermediary system will be linked to the capital participation of the borrower in his local organization or cooperative, and the total equity situation of an intermediary will used as collateral against non-payment. Unwillingness of an intermediary to adopt a sound, long-range capital formation strategy will preclude its access to credit resources. Similiarly, the small farmer borrower will be required to participate in the capital development of his intermediary institution.

Intermediary onlending of short-term credit to producers will be at market or positive interest rates and will be directly linked to grower participation in the capitalization of his intermediary organization. Reflows from these loans, after payment of interest charges and administrative fee's, will be retained by the Central Bank and reserved for future lending to new participants in the Project. Private bank management of these trust accounts will be renegotiated by the Central Bank on an annual basis, and will be subject to renewal following an analysis of results (i.e., quality of service, reporting, fund managment, etc.), and an expressed willingness to continue participation.

1. Cuentas de Fideicomiso en la Banca Privada

La razón fundamental para el uso de la banca privada en la administración de las cuentas de fideicomiso para préstamos a las organizaciones intermediarias, es para estimular la participación de la comunidad bancaria privada en préstamos al pequeño agricultor, sin que se requiera que ésta asuma los riesgos de amortización de préstamos. Las experiencias de la banca privada en crédito agrícola han sido desastrosas, que combinadas por la falta de garantías de los pequeños agricultores y la percepción de la banca privada de los riesgos extremadamente altos que esto involucra, ha dado por resultado la renuencia a proporcionar préstamos ya sea para la producción o para inversiones dentro del sector. El manejo de una cuenta de fideicomiso por la banca privada para financiar a las intermediarias rurales funcionará en un ambiente libre de riesgos, en el que la banca privada podrá observar y evaluar los esfuerzos que realiza el Proyecto patrocinador del desarrollo institucional y la estabilización financiera de las organizaciones participantes. A medida que los bancos se sientan más seguros con respecto a las capacidades de las intermediarias en la administración de los recursos crediticios, posiblemente su deseo de participar en el crédito agrícola aumentará. Una estrategia similar para entusiasmar la participación de la banca privada en crédito agrícola fué exitosamente utilizada bajo el Proyecto para el Mejoramiento de Pequeños Caficultores (522-0176). Durante los tres primeros años de este Proyecto a través del sistema de la banca privada, se canalizaron recursos de crédito de la A.I.D. para préstamos de inversión y

(1) Private Bank Trust Account

The rationale of using private banks to manage trust accounts for onlending to intermediary organizations is to stimulate private banking community involvement in small farmer lending without requiring the banks to assume the risks of loan repayment. Past experience of the private banks in agricultural lending has been poor, and when combined with the lack of collateral among small farmers and the bank perception of the extremely high risks involved, it has resulted in a reluctance to lend for either production or investment within the sector. Private bank management of a trust account to finance rural intermediaries will provide a risk-free enviornment in which the banks may view and evaluate the Project-sponsored institutional strengthening and financial stabilization efforts. As banks begin to feel more secure about the loan management capabilities of an intermediary, their willingness to participate in agricultural lending may increase. A similiar strategy to encourage private bank agricultural lending was successfully utilized under the Small Farmer Coffee Improvement Project (522-0176). During the initial three year's of this Project, A.I.D. credit resources were channeled through the private banking system for onlending to small farmers for investment and production. Private banks were allowed substantial margins (6% overhead and 4.5% for reserves) to encourage their participation. Following three year's of private bank lending and very high loan recovery rates (approximately 96%), the banks have agreed to utilize their own resources to finance the short-term producción de los pequeños caficultores. Se proporcionaron márgenes substancialmente grandes a los bancos privados (6% overhead y 4.5% para reservas) para motivar su participación. Después de tres años bajo este programa y una alta tasa de recuperación de préstamos (aproximadamente 96%) los bancos han aceptado usar sus propios recursos para financiar el componente de créditos de producción de corto plazo, habiendo incrementado la cantidad de los recursos provistos por la A.I.D. que pueden ser usados para expandir las oportunidades de inversión entre los pequeños caficultores.

production component, thus increasing the amount of A.I.D. resources that can be used to expand investment opportunities among the small farmer coffee producers.

La selección de el(los) banco(s) que maneje(n) fideicomiso(s) para respaldo de las actividades del Proyecto, será realizada a través de un proceso competitivo y la selección final será hecha a través de un mutuo acuerdo entre la A.I.D. y el GOH. Se requerirá que los bancos envíen sus propuestas al BCH, de donde podrán obtener información sobre el manejo de estas cuentas, la descripción sobre servicios suplementarios que podrían ser provistos a los prestatarios; y establecer la tarifa de administración a cobrarse. Los criterios adicionales de evaluación que serán utilizados incluirán la experiencia del banco en crédito agrícola, su alcance nacional a través de sucursales, su capacidad empresarial demostrada, etc. Al inicio, el número de bancos privados seleccionados será limitado (uno o dos bancos) para reducir la complejidad de administrar muchas unidades que manejan cantidades limitadas y debido a que se espera que al principio, un número pequeño de intermediarias calificarán para su acceso durante la fase inicial del Proyecto. Sin embargo, una vez que se acelere el desarrollo del proceso, se considerará la inclusión de un mayor número de bancos privados.

Selection of the private bank(s) to manage a trust account(s) in support of Project activities will entail a competitive process, and the final selection will be made by a mutual agreement between A.I.D. and the GOH. The banks will be requested to submit proposals to the Central Bank of Honduras (CBH) in which they would illustrate how the account would be managed; describe supplementary services that would be provided to borrowers; and state the management fee to be charged. Additional evaluation criteria to be used would include bank experience in agricultural lending, national agency outreach, demonstrated management ability, etc.. The initial number of private banks selected will be limited (one or two banks) to reduce the complexity of managing a large number of discrete funds, and due to the expectation that only a small number of intermediaries will qualify for access early during Project initiation. Once the institutional development process has begun to accelerate, however, additional private bank involvement will be considered.

2. Fondo de Desarrollo Financiero

El Fondo de Desarrollo Financiero (FDF) es una unidad autónoma que será creada dentro de la Federación de Asociaciones Cooperativas de Ahorro y Crédito (FACACH). FACACH proporcionará Delegación de Autoridad al FDF para permitirle operar independientemente incluyendo la contratación de personal colocación de recursos de estabilización y administración de los activos del Proyecto.

La FDF sustenta un papel clave en la ejecución del Proyecto, incluyendo: el cumplimiento de los análisis institucionales; el diseño de los paquetes de servicio para las intermediarias; el suministro de asistencia técnica y entrenamiento; la provisión de subsidios institucionales; y el monitoreo general del desarrollo del proceso. Además, el FDF ejecutará el programa de estabilización financiera. El proceso de estabilización es una tarea complicada y requerirá habilidades únicas en análisis financiero, proyecciones de flujo de caja, presupuestación, finanzas y estrategias de reestructuración de deudas.

Corrientemente se espera que todos los créditos, (producción e inversiones) sean canalizados a través del sistema de la banca privada, usando el mecanismo de las cuentas de fideicomiso discutido anteriormente y la participación del FDF en la provisión de recursos crediticios, estará limitada a la emisión de un "Certificado de Elegibilidad" para cada intermediaria que busca acceso al financiamiento. La administración de las cuentas de fideicomiso por la banca privada será evaluada anualmente y si fuese necesario, el FDF tendrá la

(2) Financial Development Fund

The Financial Development Fund (FDF) is an autonomous unit that will be created and attached to the National Credit Union Federation (FACACH). FACACH will provide the Fund with a Delegation of Authority to operate independently, including the contracting of personnel, allocation of stabilization resources, and administration of Project assets.

The FDF has a key role in the implementation of the Project, including: the completion of the institutional analyses; the design of the intermediary service packages; the provision of technical assistance and training; the allocation of institutional support grants; and the overall monitoring of the development process. In addition, the FDF will implement the financial stabilization program. The stabilization process is a complex undertaking and will require unique skills in financial analysis, cash flow projection, budgeting, finance, and debt restructuring strategies.

Currently it is expected that all credit (production and investment) will be channeled through the private banking system using the trust account mechanism discussed previously and FDF participation in credit provision will limited to the emision of a "Certificate of Eligibility" to each intermediary seeking access to financing. Private bank management of these fiduciary accounts will be evaluated on an annual basis, and if found to be necessary, the FDF will also possess the ability to expand into credit provision. In this case, potestad de ampliar su rol, hacia las actividades de crédito. En este caso, todos los términos y condiciones aplicados a las cuentas de fideicomiso de la banca privada sería aplicable al FDF. Las razones para proporcionar esta capacidad al FDF se debe a la estrecha relación que existe entre el proceso de estabilización financiera (o sea, renegociación con los acreedores, reestructuración de deudas, inversión de capital para estabilización, etc.) y la provisión de nuevos recursos a las organizaciones intermediarias participantes. Durante su ejecución, el FDF realizará un estrecho monitoreo del proceso de desarrollo institucional; certificará la elegibilidad de la intermediaria a los recursos del Proyecto; proporcionará a las intermediarias con asistencia técnica y subsidios operativos; y algunas veces invertirá "capital de estabilización" dentro de las organizaciones participantes. Este potencial prestatario asegurará un rápido análisis, aprobación y reserva de recursos, situación que podría llegar a ser necesaria para "garantizar" las inversiones de estabilización del FDF.

b. Clases de Financiamiento

El Proyecto a través de las organizaciones intermediarias, promoverá el crédito de producción a corto plazo y de inversiones a largo plazo para el sector agrícola. Es demasiado prematuro determinar cuáles serán los términos y condiciones de los préstamos dentro de las operaciones de crédito al por mayor; sin embargo, basándose en anteriores experiencias de la A.I.D. y el Banco Mundial sobre financiamiento de líneas de crédito (las dos a través del BCH y la banca privada y de desarrollo), consideramos que por lo menos sería

all terms and conditions applied to the private bank trust account(s) would be applicable to the FDF. The rationale for providing the FDF with this capability is due to the direct link that exists between the financial stabilization process (i.e., renegotiation with creditors, debt restructuring, investment of stabilization capital, etc.) and the provision of new resources to a participating intermediary organization. During implementation the FDF will be closely monitoring the institutional development process; certifying intermediary eligibility to Project resources; providing intermediaries with technical assistance and operational support grants; and at times investing "stabilization capital" within participating organizations. This onlending potential will ensure the rapid analysis, approval and allocation of resources, a situation which may become necessary to "guarantee" FDF stabilization investments.

b. Types of Financing

The Project will promote lending for short-term production and long-term investment credit in the agricultural sector through intermediary organizations. It is too early to anticipate what the exact credit terms and conditions will be within the wholesale credit operations; however, based on the experience of previous A.I.D and World Bank financed credit lines (both through the Central Bank and private and public banks), we anticipate that at a minimum, short-term credit to the ultimate borrower would be extended at, or posible proveer a los prestamistas con créditos de corto plazo a tasas de interés del mercado actual o un poco mayores. Tal estrategia permitirâ crear mayores reservas y consolidar administrativa/financieramente a las instituciones intermediarias.

(1) Préstamos para Producción

Se proporcionará financiamiento a corto plazo a las intermediarias elegibles, para que éstas provean préstamos a sus miembros para sus requerimientos relacionados con la producción o negocios, es decir, capital a corto plazo para sus operaciones de compra de insumos agrícolas tales como: semillas, fertilizantes, agroquímicos e implementos agrícolas (rociadores, herramientas manuales, materias primas, reposición de inventarios, etc.). La elegibilidad para el financiamiento de cada intermediaria, será determinada por el Fondo de Desarrollo Financiero (FDF). Se espera que las intermediarias utilizen políticas similares a las del FDF en sus préstamos a las afiliadas y/o agricultores asociados y la egibilidad estará basada en criterios tales como: el historial crediticio del prestatario; la aportación de capital efectuada; el acceso a la asistencia técnica y mercados; y, la viabilidad comercial de la inversión propuesta.

(2) Préstamos para Inversión de Capital

La segunda clase de financiamiento nuevo que se proporcionará bajo el Proyecto, consistirá en capital de inversiones a mediano y largo plazo. El crédito se proporcionará para realizar inversiones agrícolas como: establecer facilidades de almacenamiento de granos; sistemas de irrigación, plantas procesadoras, equipo y maquinaria, plantas de

slightly above, current market rates. Such a strategy will permit greater reserve creation and the administrative/financial consolidation of the intermediary institutions.

(1) Production Credit

Short-term financing will be provided to eligible intermediaries for on-lending to their members for production or business-related requirements, i.e., short-term working capital, agricultural input purchases such as seeds, fertilizers, chemicals, and small farm implements (sprayers, hand tools, raw materials, inventory expansion, etc.). Eligibility of each intermediary will be determined by the Financial Development Fund (FDF). Intermediaries will be expected to utilize policies similiar to those of the FDF in their on-lending to affiliates and/or farmer members, and eligibility will be based upon such criteria as, a borrower's past credit history, the amount of share capital possessed, access to technical assistance and markets, and commercial viability of the proposed investment.

(2) Investment Capital

The second type of new financing to be provided under the Project will consist of medium and long-term investment capital. Credit will be made available for agricultural investments such as grain storage facilities, irrigation systems, processing plants, machinery and equipment, packing facilities, vehicles, leasehold improvements, and empaque, vehículos, mejoras de arrendamiento y posiblemente, la compra de tierras. Los términos bajo los cuales se suministrará este financiamiento a las intermediarias calificadas será negociable. Sin embargo, la egibilidad para el acceso a estos recursos, será determinada al comprobar la capacidad de administración financiera, su participación de capital en la intermediaria, la calidad de su cartera de préstamos a corto plazo y su capacidad de pago. El FDF asegurará el cumplimiento de estos criterios de elegibilidad.

Puesto que se espera se proporcionen pequeños préstamos para inversiones durante el primer año de vida del Proyecto, las tasas de interés para los préstamos a mediano y largo plazo serán definitivamente establecidas, una vez que el equipo técnico conjunto formado por AID/W y AID/H haya completado un análisis de la situación crediticia nacional y las políticas sobre tasas de interés a finales de 1986. Un problema a considerarse, es el impacto que las políticas macroeconómicas habran causado por la contracción de las inversiones dentro del sector agrícola. Al presente virtualmente, no existen recursos disponibles para préstamos de mediano y largo plazo, excepto para lineas de crédito especiales creadas mediante donaciones internacionales. Algunos observadores creen que se requieren medidas especiales para promover mayores inversiones, incluyendo una posible reducción de los topes en las tasas de interés, aceptar una tasa relativamente mas alta de inflación como el costo incrementado del crédito ofrecido por el sector privado o, un aumento en la provisión dirigida a los programas de crédito con recursos de la AID, para inversiones de mediano y

perhaps, land purchase. The terms under which such financing is provided to the qualified intermediaries will be negotiable. However, eligibility for access to these resources will be determined by demonstrated financial management capability, member capital participation in the intermediary, the quality of its short-term loan portfolio, and ability to repay. Compliance with these eligibility criteria will be ascertained by the FDF.

Since little investment lending is expected to occur during the first year of Project life, a determination of interest rates to be charged on medium and long-term lending will await the completion of an AID/W-USAID/Honduras joint task force which is expected to complete an analysis of the national credit situation and interest rate policy in late 1986. At issue is the impact that macroeconomic policies have had in constraining investment within the agricultural sector. Presently, virtually no credit resources are available for medium and long-term lending except for special credit lines created by international donors. Some observers believe that special measures are required to further promote investment, including a possible reduction of the ceiling on largo plazo a tasas de interes que reflejen el costo del capital de largo plazo en la economía hondureña, en lugar de las actuales políticas de austeridad. Otros observadores creen que tales medidas podrían socavar el delicado balance del actual programa económico o desbaratar los esfuerzos para estabilizar la economía. Luego de concluído el análisis de crédito a fines de 1986, la Misión negociará con el GOH y establecerá las políticas para el crédito de mediano y largo plazo, las que serán aplicadas por el Proyecto en su programa de préstamos.

c. Aplicación del Proceso

Todos los requerimientos de acceso a las lineas de crédito, que sean manejadas ya sea por el sistema de la banca privada o del FDF, deben ser originados por las organizaciones intermediarias. Las solicitudes serán enviadas al FDF para una revisión preliminar, la que luego será endosada y posteriormente remitida a la correspondiente ventanilla de financiamiento para su final revisión y aprobación. En vista de que el endoso hecho por el FDF será un pre-requisito para la aprobación final del préstamo, la institución financiera analizará y dará la aprobación final a todas las solicitudes de préstamo. El análisis que realice la banca privada a cargo de las cuentas de fideicomiso, reducirá el grado en el trabajo de análisis necesario dentro del FDF, sin embargo, se espera que esos bancos se aseguren que las prestatarias intermediarias cumplan con todos los criterios de participación del Proyecto. Una vez aprobado un préstamo, los desembolsos serán hechos por la institución financiera, a la intermediaria.

interest rates, acceptance of a slightly higher inflation rate as the cost of increased private sector credit supply, or the increased provision of targeted credit programs with A.I.D. resources for medium and long-term investments at interest rates which reflect the long-term cost of capital to the Honduran economy rather than current austerity policies. Other observers believe that such measures would undermine the delicate balance of the current economic program and thwart efforts to stabilize the economy. Upon completion of the credit analysis in late 1986, the Mission will negotiate with the GOH and establish the medium and long-term credit policies to be applied in such lending within the Project.

c. Application Process

All requests for access to the credit lines being managed by either the private banking system or the FDF must originate with the intermediary organizations. They will be submitted to the FDF for preliminary review and endorsement and then forwarded to the appropriate financing window for final review and approval. While Fund endorsement will be a prerequisite to final loan authorization, the financing institution will analyze and provide final approval to all loan requests. The analysis to be undertaken by the private bank trust managers will reduce the degree of analysis work necessary within the FDF, however, such banks will be expected to ensure that intermediary borrowers do meet the performance criteria of the Project. Once approved, loan disbursements will be made directly from the lending institution to the intermediary.

Todas las solicitudes serán analizadas y dictaminadas en base a un conjunto de criterios que incluye lo siguiente: (1)/personalidad jurídica de la organización intermediaria; (2)/certificación del FDF de participación en el Proyecto; (3)/viabilidad finaciera de los préstamos solicitados; (4) historial crediticio anterior; (5) capacidad gerencial; (6) estrategias de inversión coherentes; (7) capacidad de amortización; y, (8) empleo de políticas consistentes con la estabilidad financiera. Los términos y condiciones precisas, variarán dependiendo del tipo de financiamiento requerido. Sin embargo, las experiencias con otros donantes y uso de líneas de crédito financiadas por la AID, indica que el credito de corto plazo será extendido al usuario a tasas un poco por encima de las existentes en el mercado. Tal estrategia permitirá la creación de mayores reservas y respaldo a la estabilidad financiera de la organización intermediaria. El uso de tasas de mercado también generará ingreso institucional que puede ser usado para ampliar los programas de asistencia técnica y entrenamiento para asociados y dirigir la asignación de recursos para el uso de tecnología apropiada e inversiones. La política sobre tasas de interés para préstamos de corto plazo, será revisada regularmente para asegurar que durante toda la vida del Proyecto, las tasas de interés para préstamos estén acompasadas con las que prevalecen en los niveles de mercado.

All loan applications will be judged against a set of criteria which will include the following: (1) legal recognition of the intermediate organization; (2) FDF certification of participation in the Project; (3) financial viability of the requested loans; (4) prior credit history; (5) management capability; (6) coherent investment strategies; (7) ability to repay; and (8) employment of operational policies consistent with financial stability. The exact credit terms and conditions will vary depending upon the type of financing requested. Nevertheless, experience with other donor and A.I.D. financed credit lines indicates that short-term credit will be extended to the ultimate borrower at or slightly above existing market rates. Such a strategy will permit greater reserve creation and support the financial stability of the intermediary organization. The use of market rates will also generate institutional income that can be used to expand technical assistance and training programs for members, and, to direct resource allocation toward the most appropriate technology use and investment. Short-term interest rate policy will be reviewed on a regular basis to ensure that lending rates are in line with prevailing market levels throughout the life-of-project.

ARTICULO C

Ejecución del Proyecto

SECCION C.1. La principal agencia de contraparte del Proyecto será el Ministerio de Economía (MdeE). Oficialmente, en los asuntos de ejecución del Proyecto, el MdeE estará representado por la Dirección de Fomento Cooperativo (DIFOCOOP), una dependencia semiautónoma a cargo del desarrollo, legislación, y regulación del movimiento cooperativo.

a. <u>La Dirección de Fomento Cooperativo</u>

El papel que desempeñará DIFOCOOP en el Proyecto, es una combinación de actividades administrativas y la provisión de asistencia técnica a las organizaciones intermediarias participantes. En su papel administrativo, DIFOCOOP establecerá una Unidad Administradora del Proyecto (UAP) que estará ligada al Fondo de Desarrollo Financiero (FDF). Esta Unidad proporcionará respaldo administrativo al Proyecto, que incluye: servicios contables, remisión y control de solicitudes presupuestarias, monitoreo de las donaciones para respaldo operativo proporcionadas a las intermediarias, etc. La unidad estará constituida de un pequeno personal bien calificado contratado con fondos de contraparte (ESF), quien llevará a cabo sus responsabilidades asignadas bajo la guía de la Dirección Superior de DIFOCOOP. Para la provisión de la asistencia técnica, el personal de DIFOCOOP coordinará estrechamente con el equipo de asistencia técnica del FDF y participará en el proceso de desarrollo institucional que se realizará dentro de cada organización participante. Esto incluirá la

ARTICLE C

Project Implementation

SECTION C.1. The principal counterpart agency for the Project will be the Ministry of Economy (MOE). Officially, on project implementation matters, the MOE will be represented by the Directorate for Cooperative Development (DIFOCOOP), a semi-autonomous dependency charged with the development, legislation, and regulation of the cooperative movement.

a. <u>The Directorate for Cooperative Development</u>

DIFOCOOP's role in the Project is a combination of administrative activities and the provision of technical assistance to participating intermediary organizations. In its administrative role, the Directorate will establish a Project Administrative Unit (PAU) which will be attached to the Financial Development Fund (FDF). This Unit will provide adminstrative support to the Project, including: accounting services, transmittal and control of budget requests, monitoring of operational support grants provided to intermediaries, etc. The Unit will consist of a small, well-qualified staff, financed with ESF counterpart funds, who will carry out their assigned responsibilities under the guidance of the DIFOCOOP General Director. In the provision of technical assistance, DIFOCOOP personnel will coordinate closely with the technical assistance unit of the FDF and participate in the institutional development process to take place within each participating intermediary organization. This will include the preparation and refinment of the organizational treatment preparación y afinamiento de los paquetes de tratamiento organizativo, la asistencia en la introducción de cambios una vez desarrollados los paquetes, la provisión de entrenamiento al personal de las cooperativas y la conducción de una auditoría regular de sus operaciones. Finalmente DIFOCOOP participará en la pre-calificación de las instituciones que buscan entrar al Proyecto, monitoreo de la ejecución de las actividads del Proyecto y, asegurar el cumplimiento de la legislación cooperativa.

b. El Fondo de Desarrollo Financiero (FDF)

De acuerdo a lo indicado en la Sección B.2.2, el papel clave en la ejecución será llevado a cabo por el Fondo de Desarrollo Financiero (FDF)que será creado durante la fase de inicio del Proyecto. El FDF tendrá una completa autonomía de gestión e independencia operativa. Esta autonomía es necesaria debido a la especial relación que existirá entre el FDF y FACACH. El FDF operará bajo la cúpula de FACACH, sin embargo, se requerirá que la Federación cumpla la misma clase de criterios de participación que son requeridos para las otras intermediarias. La autonomía del FDF estará asegurada a través de la Delegación de Autoridad que establecerá claramente la responsabilidad y obligaciones de ambas entidades. Este relación legal será revisada periódicamente para garantizar su cumplimiento.

La conexión entre el FDF y FACACH se hizo debido a: (1)/encarar la preocupación del GdeH que el Proyecto no vaya a crear de inmediato una Fundación nueva e independiente, como se propuso en el diseño original y, (2) proporcionar a la Federación la oportunidad de aprender el manejo de

packages, assisting these organizations in introducing the changes once the package has been developed, providing training to cooperative personnel, and conducting regular audits of their operations. Finally, DIFOCOOP will participate in the pre-qualification of intermediary institutions seeking entry to the Project, monitor implementation of the Project activities, and ensure compliance with cooperative legislation.

b. The Financial Development Fund (FDF)

As discussed in Section B.2.2, the key role in implementation will be carried out by the Financial Development Fund (FDF) to be created during the Project's start-up phase. The Fund will possess complete administrative autonomy and operational independence. This autonomy is necessary due to the unique relationship that will exist between the FDF and FACACH. Although the Fund will operate under the FACACH umbrella, the Federation will be required to meet the same kinds of participation criteria as are required of other intermediaries. FDF autonomy will be ensured through a binding Delegation of Authority which will clearly delineate the responsibilities and obligations of both entities. This legal relationship will be reviewed periodically to ensure compliance.

The linkage between the FDF and FACACH is being made to (1) address the concern of the GOH that the Project not immediately create a new, independent Foundation, as was proposed in the original design, and (2) to provide the Credit Union Federation with the opportunity to los sofisticados mecanismos financieros del FDF, capacidad que será necesaria para estabilizar a muchas de sus afiliadas problemáticas.

El Fondo de Desarrollo Financiero tendrá como objetivo el establecimiento de una base de recursos técnicos para fomentar el desarrollo del sector agrícola hondureño por la promoción del desarrollo institucional de las intermediarias rurales. Bajo el Proyecto, el FDF llevará a cabo una serie completa de actividades relacionadas con el desarrollo y la estabilización financiera de la intermediaria. Una tarea inicial será preparar o actualizar los perfiles institucionales de participantes potenciales del Proyecto para determinar los ajustes administrativos y operacionales que la intermediaria solicitante debe llevar a cabo para calificar como participante del Proyecto total. El FDF diseñará los paquetes de tratamiento administrativos y asistirá a las intermediarias en su adopción. Esta asistencia del FDF en desarrollo institucional incluirá la programación de asistencia técnica financiada por el Proyecto tanto de largo como de corto plazo y comprende el desarrollo de planes de trabajo, distribución de tareas, asignación de contrapartes y monitoreo del impacto de la asistencia técnica. Finalmente, el personal del FDF, en coordinación con DIFOCOOP, proporcionará respaldo en entrenamiento, extensión, mercadeo y crédito para cada intermediaria participante como un respaldo al personal gerencial y de liderazgo.

learn the sophisticated FDF financial mechanisms, skills that will be necessary to stabilize many of its problem affiliates.

The Financial Development Fund will have as its objective the establishment of a technical resource base to foster the development of the Honduran agricultural sector by promoting the institutional development of rural intermediaries. Under the Project, the FDF will carry-out a complete series of activities related to intermediary development and financial stabilization. An initial task will be to draw-up or update institutional analyses of potential project participants to determine the administrative and operational adjustments that an applicant intermediary must undertake to qualify for full project participation. The Fund will design the administrative treatment packages and assist the intermediaries in adopting them. This FDF institutional development assistance will include the programming of Project-funded technical assistance, including both long-term and short-term T.A., and entail the development of work plans, distribution of tasks, assignment of counterparts and monitoring of technical assistance impact. Finally, FDF personnel, in coordination with DIFOCOOP, will provide support in training, extension, marketing, and credit to each participating intermediary as backstop support to their management personnel and leadership.

Una segunda área de interés para el FDF será la estabilización financiera de las intermediarias. Como se describió anteriormente, el FDF completará la normalización financiera de las intermediarias participantes a través del uso de una compleja combinación de mecanismos financieros, incluyendo posibles eliminaciones de afiliadas que no sean viables y también la liquidación de activos no productivos. En estas negociaciones con los acreedores de las intermediarias, el FDF tratará de establecer convenios cuando fuese necesario para la moratoria de las deudas negociadas o interrupción del pago de las mismas y buscará la reestructuración de deudas mediante: el diferimiento de los pagos de intereses o amortización del capital, la Junta de Acreedores y una reprogramación del calendario y los compromisos del préstamo. La reprogramación del calendario de pagos, puede incluir descuentos del principal y los intereses, el uso de garantías de préstamo del FDF y la posibilidad de inversiones de capital del FDF en una intermediaria. En todos los casos, el proceso de estabilización será regido por convenios contractuales garantizados (Contratos de Estabilización) entre el FDF y las organizaciones, sean éstas cúpula o afiliadas. Estos convenios especificarán que, a cambio de la asistencia en el manejo de sus deudas pendientes, las organizaciones darán al Fondo un cierto nivel de control sobre sus políticas, procedimientos y operaciones. Este control incluirá autoridad para la aprobación de presupuestos, planes operacionales, cancelación de deudas y solicitudes para nuevo financiamiento. El grado de participación del FDF en las operaciones internas de una

A second area of concern for the Fund will be the financial stabilization of the intermediaries. As described previously, the FDF will accomplish the financial normalization of participating intermediaries through the use of a complex mix of financial tools, including possible elimination of non-viable affiliates and liquidation of non-performing assets. In its negotiations with intermediary creditors, the FDF will seek negotiated debt moratoria or forbearance agreements where necessary, and will persue debt restructuring through deferral of interest or principal payments, the consolidation of creditors, and a general rescheduling of loan committments. The rescheduling process may include principal and interest buy-downs, the use of FDF loan guarantees, and the possibility of FDF equity participation in an intermediary. In all cases, the stabilization process will be governed by binding contractual agreements (Stabilization Contracts) between the FDF and the participating umbrella and/or affiliate organizations. These agreements will specify that, in return for relief in the management of outstanding debt, the organizations will entrust the Financial Development Fund with a certain level of control over their policies, procedures, and operations. This control will include approval authority over budgets, intermediaria será determinado por la complejidad de la normalización financiera requerida, el nivel de riesgo que será asumido por el Fondo y el grado de desarrollo institucional. Esta participación del FDF será claramente delineada en el Contrato de Estabilización.

Finalmente, el Fondo tendrá la capacidad para expandir y canalizar financiamiento nuevo de corto y mediano plazo para las intermediarias elegibles si esto fuera necesario. Los términos de tales financiamientos serían los mismos que usarán los bancos privados seleccionados para administrar fideicomisos y la intención será desarrollar un esquema de líneas de crédito para préstamos a fin de simplificar el proceso crediticio y el monitoreo. Es también posible que el FDF requerirá participación de capital en el Fondo por parte de la intermediaria al momento de la cancelación del préstamo para promover el crecimiento de recursos disponibles para continuar prestando y permitir la participación activa de las intermediarias en las actividades de una caja central. Si tal requerimiento es adoptado, las aportaciones de capital de la intermediaria ganarían intereses por esa participación, (como un porcentaje de las utilidades generadas) y se proporcionaría a la organización un puesto en la Junta de Directores del FDF. Debería notarse que tal participación de capital es uno de los objetivos de largo plazo del Proyecto y no se espera que esto ocurra durante la etapa inicial del mismo. El énfasis inicial de la actividad crediticia estará dirigido al incremento de los flujos de recursos productivos, su inversión en el sector rural y el fortalecimiento de la capacidad para la formación de capitales en cada organización

operating plans, debt cancellation, and requests for new financing. The degree of FDF participation in the internal operations of an intermediary will be determined by the complexity of the financial normalization required, the amount of risk to be assumed by the Fund, and the degree of institutional development. This FDF participation will be clearly delineated in the Stabilization Contract.

Finally, the FDF will possess the capability to expand and to channel new short and medium-term financing to eligible intermediaries should it be necessary. The terms of such financing would be the same as those to be used by the private bank(s) selected to manage a trust account, and the intent will be to develop a lines-of-credit approach in lending to simplify loan processing and monitoring. It is also possible that the FDF will require intermediary capital participation in the Fund at the time of loan repayment to encourage growth of available resources for relending and active intermediary participation in the central funding activity. If such a requirement is adopted, intermediary share capital will earn interest on its participation (as a percentage of profits generated), and the organization would be provided a seat on the FDF Board of Directors. It should be noted that such capital pariticpation is a long-term goal, and it is not expected to occur during the early life of the Project. The initial emphasis of the credit activity will be on increasing the flow of investment and production resources to the rural sector, and upon the strengthening of the capital formation capabilities of each participating intermediary. The terms of any FDF lending will be clearly defined in a binding Loan Contract which will be similiar in content to the Stabilization Agreements discussed previously.

intermediaria participante. Los términos de préstamo del FDF serán claramente definidos en un Contrato de Préstamo formal que tendrá un formato similar al de los convenios de estabilización discutidos anteriormente.

El Fondo de Desarrollo Financiero será dirigido por una Junta de Directores de seis miembros que proporcionará orientación sobre la política general de la organización; aprobará políticas operacionales específicas del FDF (por ejemplo, crédito, reestructuración de deudas, contratación de personal, presupuestos, etc.); y dará su aprobación final para el desembolso de asistencia crediticia y de estabilización a las intermediarias participantes. La Junta de Directores incluirá representación de la banca privada y del sector agrícola, así como la partipación de personal técnico del Gobierno de Honduras. Al presente, se espera que esta representación incluirá al Ministro de Hacienda y Crédito Público, al Ministro de Economía, a la Federación de Asociaciones de Cooperativas de Ahorro y Crédito de Honduras (FACACH), el Gerente General del Fondo de Desarrollo Financiero, un representante del sistema de la banca privada y el representante de la AID. Se espera que este grupo proporcione servicios voluntarios. La administración diaria del FDF estará a cargo de un Gerente General asistido por un personal de respaldo administrativo de alta calificación profesional. El Gerente será un profesional con sólidas credenciales en las áreas financiera y agrícola y un historial que compruebe sus logros profesionales. El candidato será seleccionado y contratado por la A.I.D. a través de un proceso competitivo y utilizando los procedimientos normales de contratación de personal de la A.I.D.

The Financial Development Fund will be guided by a six member Board of Directors which will furnish the organization's overall policy orientation; approve specific FDF operational policies (i.e., credit, debt restructuring, hiring of personnel, budgets. etc.); and provide final approval for disbursal of stabilization assistance to participating intermediaries. The Board will include representation from the Honduran private banking and agricultural sectors, as well as the participation of the Government of Honduras and USAID/H. Presently it is expected that this representation will include the Minister of Finance and Public Credit, the Minister of Economy, the National Credit Union Federation, the USAID Mission Director, the General Manager of the Financial Development Fund, and one representative from the private banking system. It is expected that this group will serve on a voluntary basis. Daily management of the FDF will be carried out by a General Manager assisted by a highly qualified professional and administrative support staff. The Manager will be an individual with sound credentials in finance and agriculture and proven record of managerial success. The candidate will be selected by A.I.D. through a competitive process and will be contracted using normal A.I.D. procedures.

El personal profesional será asignado a tres unidades funcionales -- una División de Servicios Financieros, una División de Servicios Técnicos y una Unidad Administrativa.

(1) División de Servicios Financieros

La División de Servicios Financieros estará compuesta por un Jefe de División, cuatro Oficiales de Préstamo y un Economista. Las principales tareas de esta Unidad serán conducir, conjuntamente con la División de Servicios Técnicos, los perfiles institucionales de las intermediarias y diseñar los paquetes de tratamiento para las modificaciones administrativas. Además, la Unidad negociará los contratos de estabilización financiera con las intermediarias, realizará el monitoreo para que las intermediarias cumplan los términos y condiciones de estos contratos y negociará la amortización de las deudas de la intermediaria con los acreedores. La División Financiera estará tambien a cargo del análisis preliminar de la solicitud de financiamiento de las intermediarias antes de su presentación al(os) banco(s) fideicomisario(s). Como se indicó, las inversiones hechas por el FDF para estabilización tendrán aprobación final de la Junta de Directores después del análisis hecho por la División de Servicios Financieros.

(2) División de Servicios Técnicos

La División de Servicios Técnicos estará compuesta por un Jefe de División complementado con especialistas en Crédito, Mercadec, Extensión, Agronomía, Proceso y Desarrollo Organizativo. Participará en el desarrollo de los perfiles

The professional staff will be divided into three functional units -- a Financial Services Division, a Technical Services Division and an Administrative Unit.

(1) Financial Services Division

The Financial Services Division will consist of a Division Chief, four Loan Officers, and one Economist. The principal tasks of this unit will be to conduct, in conjunction with the Technical Services Division, the intermediary institutional profiles and design the administration modification treatment packages. In addition, the Unit will negotiate the financial stabilization contracts with the intermediaries, monitor intermediary compliance with the terms and conditions of these contracts, and negotiate the repayment of intermediary debt with creditors. The Financial Division will also be charged with the preliminary analysis of intermediary financing requests prior to their submission to the private bank trust account(s). As discussed, the stabilization investments to be made by the FDF will receive final approval from the Board of Directors following the analysis of the Financial Services Division.

(2) The Technical Services Division

The Technical Services Divsion will be composed of a Division Chief plus specialists in Credit, Marketing, Extension, Agronomics, Processing and Organizational Development. It will participate in the development of the institutional profiles and the design institucionales y diseñará los paquetes de tratamiento, también proporcionará respaldo a las intermediarias a través del proceso de desarrollo institucional. Su función de respaldo pondrá énfasis en el análisis de problemas técnicos incluyendo el diseño de políticas, selección y entrenamiento de personal administrativo, orientación y cotizaciones sobre los servicios proporcionados a los miembros y la identificación y adquisición de otros servicios técnicos tanto dentro de Honduras como en el exterior, para resolver las áreas problemáticas.

(3) La Unidad Administrativa

La Unidad Administrativa del Fondo de Desarrollo Financiero está compuesta por un Jefe Administrativo, personal secretarial y la Unidad Administrativa del Proyecto (PAU) de DIFOCOOP. Esta oficina estará a cargo de todos los aspectos administrativos del Proyecto, incluyendo respaldo logístico, contabilidad, control presupuestario, reportes financieros, archivo y compras. La Unidad Administrativa preparará todos los informes financieros trimestrales, se asegurará que todos los archivos (o sea, inventarios, contabilidad, reportes de progreso, etc.) se mantengan actualizados y controlará todos los desembolsos y liquidaciones de los fondos de respaldo operacional proporcionados a las intermediarias participantes. Finalmente, la Unidad Administrativa proporcionará el asesoramiento legal requerido por el Fondo de Desarrollo Financiero que esté relacionado con aspectos contractuales de reorganización administrativa, estabilización financiera y/u operaciones crediticias de las intermediarias.

of the treatment packages, and provide support to the intermediaries' throughout the institutional development process. Their backstopping function will emphasize analysis of technical problems, including policy design, selection and training of management personnel, orientation and pricing of services provided to members, and the identification and procurement of technical services, both within Honduras and overseas to address problem areas.

(3) Administrative Unit

The Administrative Unit of the Financial Development Fund will be composed of an Administrative Chief, secretarial staff, and the DIFOCOOP Project Administrative Unit (PAU). This Office will be charged with all aspects of project administration, including logistic support, accounting, budget controls, financial reporting, filing and procurement. The Administrative Unit will prepare all quarterly financial reports, ensure that all files (i.e., inventories, accounting, progress reports, etc.) are maintained on a current status, and control all disbursement and liquidation of operational support grants provided to participating intermediaries. Finally, the Administrative Unit will procure as needed any legal counsel required by Financial Development Fund on contractual matters related to intermediary administrative reorganization, financial stabilization and/or credit operations.

SECCION C.2. Plan de Ejecución. Un Plan de Ejecución del Proyecto será desarrollado por el personal técnico del FDF asistido por los técnicos del Proyecto de la A.I.D. y DIFOCOOP. Este plan será revisado trimestralmente. El plan y sus revisiones subsiguientes estarán sujetas a la aprobación de la Junta de Directores del FDF y la A.I.D. El plan inicial deberá contener los siguientes elementos a revisarse según sea necesario en la planificación subsiguiente:

a. un calendario de actividades del Proyecto;

b. un plan de adquisiciones que identifique los artículos a adquirirse y las fechas de las actividades para la compra. Este plan debe estar de acuerdo con las regulaciones de la A.I.D.;

c. un plan de asistencia técnica que identifique el tipo de asistencia técnica que dispondrá el FDF para las cinco organizaciones intermediarias y las fechas en que dichos asesores estarán trabajando con la unidad;

d. una resolución para el ordenamiento administrativo que asegure la preparación y presentación oportuna de los informes del Proyecto;

e. un plan financiero consistente en rubros presupuestarios por componente en forma trimestra_ para el primer año calendario del Proyecto y por categoría presupuestaria para la vida restante del mismo; y,

f. un plan de capacitación para el primer año calendario y el rol de la asistencia técnica en este entrenamiento.

SECTION C.2. Implementation Plan. A Project Implementation Plan will be developed by the technical personnel of the FDF, assisted by A.I.D. Project technicians and DIFOCOOP. This plan is to be revised quarterly. The plan, and its subsequent revisions, will be subject to approval by the FDF Board of Directors and A.I.D. The initial plan should contain the following elements to be revised as necessary in subsequent plans:

a. a schedule of Project activities;

b. a procurement plan which identifies items to be procured and dates of procurment activities. This plan should reflect compliance with A.I.D. regulations;

c. a technical assistance plan which identifies the types of technical assistance to be made available to the FDF and the five intermediary organizations and the dates such advisors will be working with the unit;

d. a discussion of administrative arrangements for ensuring the timely preparation and submission of Project reports;

e. a financial plan consisting of a line item budget by component and quarter for the first calendar year of the Project and by budgetary category for the remaining life of the Project; and

f. a training plan for the first calendar year and the role of technical assistance in this training.

SECCION C.3. Coordinación del Proyecto. Para proporcionar una coordinación adecuada entre la A.I.D., el Prestatario/Donatario y las otras entidades participantes con respecto al Proyecto, así como asistir en el cumplimiento de las regulaciones de la A.I.D. y otras estipulaciones de este Convenio, se contratarán a un técnico contratista PASA y un asistente del gerente de Poryecto a tiempo completo. Ellos: (1) coordinarán la documentación oficial y correspondencia de la A.I.D.-DIFOCOOP/FDF, (2) proporcionarán asistencia técnica a las unidades ejecutoras del Proyecto en todos los aspectos del mismo, (3)//verificarán que los procedimientos apropiados sean seguidos para todas las compras, contratación y administración, y (4)/proporcionarán la documentación interna de la A.I.D. (informes trimestrales, enmiendas, etc.) en borrador al gerente de proyecto de la A.I.D. Además, un tercer técnico de largo plazo será contratado por el A.I.D. para proporcionar respaldo a las cooperativas de servicios agropecuarios (UNIOCOOP) por un período de nueve meses mientras los técnicos del FDF son contratados y reclutados.

SECCION C.4. Evaluación del Proyecto. Durante la vida del Proyecto, se llevarán a cabo evaluaciones conjuntas por DIFOCOOP y la A.I.D. para evaluar el progreso en el cumplimiento de las metas.

Información de línea base fidedigna sobre el estado social y económico a nivel de la población meta será necesaria para medir el impacto del Proyecto sobre los beneficiarios. Aunque cierta información está disponible para la Misión y para el Prestatario/Donatario, deben tomarse

SECTION C.3. Project Coordination. To provide adequate coordination between A.I.D. and the Borrower/Grantee and the other participating entities with respect to the Project and to assist in compliance with A.I.D. regulations and other provisions of this Agreement, a full time PASA contractor and a full time assistant project manager will be hired. They will: (1) coordinate A.I.D.-DIFOCOOP/FDF official paperwork and communications, (2) provide technical assistance to the Project implementation units in all aspects of the Project, (3) verify that proper procedures are followed for all procurement, contracting and management, and (4) provide essential in-house A.I.D. documentation (quarterly reports, amendments, etc.) in draft to the A.I.D. project manager. In addition, another long term technician will be contracted by A.I.D. to provide support to the Union of Agricultural Service Cooperatives (UNIOCOOP) for a 9-month period while the FDF technicians are being identified and contracted.

SECTION C.4. Project Evaluation. During the life of the Project, evaluations will be carried out jointly by the FDF and A.I.D. to assess progress in meeting output targets.

Accurate baseline data on the social and economic status of the target population will be necessary to gauge the impact of the Project on the beneficiaries. Although some of this information is available to the Mission and the Borrower/Grantee, further steps must be taken. The Area pasos adicionales. El método de Marco Muestral por Area desarrollará información adicional durante el curso de la ejecución. Se harán disponibles fondos de donación y de contraparte para este propósito.

La información de línea base sobre la organización y el estado financiero de las intermediarias participantes es necesaria para determinar el impacto del Proyecto sobre estas entidades. Para las cinco organizaciones cúpula, esta información (o sea, hojas de balance, patrones de personal, políticas, objetivos) fué obtenida mientras se diseñaba el Proyecto. Se obtendrá información similar de los afiliados como parte del proceso de formulación de los paquetes de tratamiento de reorganización. Esta información será desarrollada durante los puntos intermedios de ejecución para determinar el grado hasta el cual los cambios institucionales están mejorando las operaciones de las intermediarias y hasta donde puedan ser necesarias las modificaciones adicionales.

Después del tercer año del Proyecto, una evaluación en gran escala y una revisión intensiva serán llevadas a cabo. El objetivo básico de esta evaluación será examinar el progreso del Proyecto, si fuese necesario discutir posibles cambios para mejorar la ejecución y determinar la viabilidad de la continuación del Proyecto.

La asistencia técnica a corto plazo será contratada para trabajar en colaboración con el Oficial de Evaluación de la A.I.D., el designado de DIFOCOOP y el FDF para completar las evaluaciones planificadas.

Sample Frame method will develop additional data during the course of implementation. Grant and counterpart funds will be made available for this purpose.

Baseline data on the organization and financial status of the participating intermediaries is necessary to determine the impact of the Project on these entities. For the five umbrella organizations, this information (e.g. balance sheets, staffing patterns, policies, objectives) was obtained while designing the Project. Similar information will be gathered on the affiliates as a part of the process of formulating the reorganization treatment packages. This information will be developed during intermediate points of implementation to determine the degree to which the institutional changes are enhancing intermediary operations and the extent to which further modifications may be necessary.

After the third year of the Project, a large scale evaluation and intensive review will occur. The basic objective of this evaluation will be to examine the progress of the Project, discuss possible changes if necessary to improve performance and determine the viability of continuing the Project.

Short-term technical assistance will be contracted to work in collaboration with the A.I.D. Evaluation Officer and the designate of DIFOCOOP and the FDF to complete the planned evaluations.

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SECCION C.5. Adquisiciones del Proyecto. Los fondos de Donación del Proyecto serán utilizados para adquirir los servicios y bienes requeridos para ejecutar esta iniciativa. El Proyecto financiará la adquisición de asistencia técnica, equipo y materiales y la capacitación en el extranjero y el país en proporción limitada. Toda la asistencia técnica será contratada directamente por la A.I.D. utilizando vías Institucionales, PSC, PASA y normas de contratación del país anfitrión. Un contrato Institucional será otorgado al postor más respondiente y calificado a un RFTP emitido por la Misión. Se formará un comité conjunto de la USAID/Honduras y del País Anfitrión para revisar y clasificar las propuestas y seleccionar al contratista. El Contrato de Servicios Personales (PSC) será otorgado a un individuo calificado para que sirva como asistente al Administrador del Proyecto de la USAID/Honduras en la ejecución de este esfuerzo. El reclutamiento y selección del individuo será hecho de acuerdo con los procedimientos de adquisición competitiva de la A.I.D. Una negociación PASA con la USDA será utilizada para asegurar los servicios de un especialista en Análisis Financiero que también asista al Administrador del Proyecto de la USAID/Honduras en efectuar la ejecución.

SECTION C.5. Project Procurement. Project Grant funds will be used to procure the services and goods required to implement this initiative. The Project will finance the procurement of technical assistance, commodities and a moderate amount of off-shore and in-country training. All technica' assistance will be contracted directly by A.I.D. using Institutional, PSC, PASA and host country contracting modes. An Institutional contract will be let to the most responsive, qualified bidder to an RFTP issued by the Mission. A joint USAID/Honduras - Host Country committee will be formed to review and rank the proposals and select the contractor. The PSC will be awarded to a qualified individual to serve as an assistant to the USAID/Honduras project manager in implementing this effort. Recruitment and selection of the individual will be made in accordance with A.I.D. competitive procuremet procedures. A PASA arrangement with USDA will be used to secure the services of a specialist in Financial Analysis who also assist the USAID/Honduras project manager in effecting implementation.

Los bienes comprados bajo el Proyecto involucrarán compras locales e internacionales. Las compras internacionales también serán llevadas a cabo ya sea por la A.I.D. en colaboración con el país anfitrión a través del proceso formal IFB o el contratista seleccionado comprará los artículos para las instituciones que serán asistidas por el Proyecto. Un comité del Proyecto de la USAID/Honduras preparará las especificaciones técnicas, prepará y emitirá la documentación, revisará las respuestas y seleccionará la firma más respondiente. Las compras locales serán efectuadas por la agencia de contraparte de acuerdo con los procedimientos de la A.I.D. en lo que respecta a publicación y competición.

El elemento de capacitación del Proyecto consistirá en cursos cortos, de no más de tres meses de duración, para aproximadamente 30 oficiales de las organizaciones intermediarias participantes en análisis financiero y desarrollo institucional. Estos individuos serán nominados por las instituciones para las cuales ellos trabajan y su selección estará sujeta a la aprobación de la A.I.D. Ellos serán tramitados a través de los procedimientos normales de los PIO/P.

SECCION C.6. Plan Financiero. El costo total estimado de actividades a ser financiadas bajo este Proyecto es de $35,804,000. De esta cantidad, la A.I.D. proporcionará $7,500,000 en fondos de donación y $8,500,000 en fondos de préstamo. Los recursos de la A.I.D. serán complementados por una contribución de $19,804,000 del Prestatario/Donatario. La contribución de la A.I.D. para el Proyecto es del 45 por ciento de los costos totales, mientras que el Prestatario/Donatario apoyará un 55 por ciento.

Commodities purchased under the Project will involve both international and local procurements. The international procurements either will be carried out by A.I.D. in collaboration with the host country through the formal IFB process or the contractor selected will purchase the commodities for the institutions to be assisted. A USAID/Honduras project committee will prepare the technical specifications, prepare and issue the documentation, review the responses and select the most responsive firm. Local purchase will be effected by the counterpart agency in accordance with A.I.D. procedures concerning advertising and competition.

The training element of the Project, will consist of short courses, not more than three months duration, for approximately 30 officials of the participating intermediary organizations in financial analysis and institutional development. These individuals will be nominated by the institutions for whom they work and selected subject to USAID approval. They will be processed through normal PIO/P procedures.

SECTION C.6. Financial Plan. The total estimated cost of activities to be financed under the Project is $35,804,000. Of this amount, A.I.D. will provide $7,500,000 in grant funds and $8,500,000 in loan funds. The A.I.D. resources will be complemented by a $19,804,000 Borrower/Grantee contribution. The A.I.D. contribution for the Project is 45 percent of total costs while the Borrower/Grantee will support 55 percent.

El dinero de la donación será utilizado para financiar los costos de asistencia técnica (largo-plazo y corto plazo), capacitación, evaluaciones de proyecto y auditoría. Los recursos del préstamo serán utilizados para establecer las cuentas de fideicomiso para préstamos de producción a corto plazo y crédito de inversión a mediano plazo para las organizaciónes intermediarias calificadas. Los fondos de la contraparte financiarán apoyo institucional y la cuenta de estabilización financiera.

The grant monies will be used to finance the costs of technical assistance (long-term and short-term), training, and project evaluations and audits. The loan resources will be used to establish the trust accounts for onlending of short-term production and medium-term investment credit to qualifying intermediary organizations. The counterpart funds will finance institutional support and the financial stabilization account.

FIGURA 1

Distribución Ilustrativa de las Tasas de Interés

A.I.D.

2.0% a 3.0%

BANCO CENTRAL

.5%

FIDEICOMISO PARA CAPITALIZACION

2.0% a 3.5%

ADMINISTRACION DEL FDF Y LA BANCA PRIVADA

2.0% a 4.0%

MARGEN ORGANIZACIONES INTERMEDIARIAS

6.0% a 7.5%

MIEMBROS

15.5% a 17.0%

FIGURE 1

Illustrative Interest Rate Distribution

A.I.D.

2.0% to 3.0%

CENTRAL BANK

.5%

TRUST FUND CAPITALIZATION

2.0% to 3.5%

FDF AND PRIVATE BANK ADMINISTRATION

2.0% to 4.0%

INTERMEDIARY ORGANIZATION MARGIN

6.0% to 7.5%

MEMBERS

15.5% to 17%

FIGURE 12
COST ESTIMATE AND FINANCIAL PLAN
US $ (000)

No.	SOURCE	AID GRANT FX	AID GRANT LC	AID LOAN FX	AID LOAN LC	TOTAL AID	TOTAL GOH	GRAND TOTAL
I.	ORGANIZATIONAL DEVELOPMENT							
	A. Technical Assistance							
	1. Long Term Project Management	900				900		900
	2. Long Term FDF	3,000				3,000		3,000
	3. Short Term - Consultants	550				550		550
	B. Commodities							
	1. Microcomputers	210				210		210
	2. Vehicles	250				250		250
	3. Office Equipment		350			350		350
	4. Miscellaneous Supplies		50			50		50
	C. Training	350	100			450		450
	D. Evaluation and Studies							
	1. Studies (Baseline & Feasibility)	600	150			750		750
	2. Evaluations	100				100		100
	E. Personnel							
	1. FDF - Staff						2,000	2,000
	a) Financial Services Office							
	b) Technical Services Office							
	c) Administrative Office							
	2. DIFOCOOP - Staff						400	400
	3. Institutional Support Staffs						4,000	4,000
	a) FACACH							
	b) FECORAH							
	c) UNIOCOOP							
	d) FECORAH							
	e) ANACH							
	F. Administration & Operation Costs						677	677
	G. Office Equipment & Furniture						90	90
II.	FINANCIAL STABILIZATION						12,637	12,637
III.	CREDIT FUNDS				8,000	8,000		8,000
IV.	CONTINGENCY & INFLATION	804	86		500	1,390		1,390
	Sub-Totals	6,764	736		8,500	16,000	19,804	35,804
	GRAND TOTAL	7,500		8,500		16,000	19,804	35,804

~~FIGURE 12~~

COST ESTIMATE AND FINANCIAL PLAN

US $ (000)

No.	SOURCE	AID GRANT FX	AID GRANT LC	AID LOAN FX	AID LOAN LC	TOTAL AID	TOTAL GOH	GRAND TOTAL
I.	ORGANIZATIONAL DEVELOPMENT							
	A. Technical Assistance							
	1. Long Term Project Management	900				900		900
	2. Long Term FDF	3,000				3,000		3,000
	3. Short Term - Consultants	550				550		550
	B. Commodities							
	1. Microcomputers	210				210		210
	2. Vehicles	250				250		250
	3. Office Equipment		350			350		350
	4. Miscellaneous Supplies		50			50		50
	C. Training	350	100			450		450
	D. Evaluation and Studies							
	1. Studies (Baseline & Feasibility)	600	150			750		750
	2. Evaluations	100				100		100
	E. Personnel							
	1. FDF - Staff						2,000	2,000
	a) Financial Services Office							
	b) Technical Services Office							
	c) Administrative Office							
	2. DIFOCOOP - Staff						400	400
	3. Institutional Support Staffs						4,000	4,000
	a) FACACH							
	b) FECORAH							
	c) UNIOCOOP							
	d) FECORAH							
	e) ANACH							
	F. Administration & Operation Costs						677	677
	G. Office Equipment & Furniture						90	90
II.	FINANCIAL STABILIZATION						12,637	12,637
III.	CREDIT FUNDS				8,000	8,000		8,000
IV.	CONTINGENCY & INFLATION	804	86		500	1,390		1,390
	Sub-Totals	6,764	736		8,500	16,000	19,804	35,804
	GRAND TOTAL	7,500		8,500		16,000	19,804	35,804

ACTION: AID-2 INFO: CHARGE DCM ECON CML/5

28-AUG-86 TOR: 18:07
CN: 52359
CHRG: AID
DIST: AID

VZCZCTG0627
OO RUEHTG
DE RUEHC #1703 2401805
ZNR UUUUU ZZH
O 281801Z AUG 86
FM SECSTATE WASHDC
TO AMEMBASSY TEGUCIGALPA IMMEDIATE 5037
BT
UNCLAS STATE 271703

AIDAC

E.O. 12356: N/A
TAGS:
SUBJECT: AD HOC REDELEGATION OF AUTHORITY - SMALL FARMER ORGANIZATION STRENGTHENING (522-0252)

REF: TEGUCIGALPA 11921

PER MISSION REQUEST, THE AA/LAC HAS APPROVED AN AD HOC REDELEGATION OF AUTHORITY FOR THE SMALL FARMER ORGANIZATION STRENGTHENING PROJECT TO EXTEND THE PROJECT ASSISTANCE COMPLETION DATE (PACD) SIX YEARS FROM THE CURRENT PACD OF SEPTEMBER 30, 1987, TO SEPTEMBER 30, 1993. WHITEHEAD
BT
#1703

NNNN

OFFICE	ACTION	INFO
MD		✓
DMD		✓
MGT		✓
M/CTR		
M/CM		
M/DS		
DP		
DF	DF	
[illegible]		
LD		
[illegible]		
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HRD/P		
HRD/F[illegible]		
PSP		
EPA		
ENCR		
RIG		
RHUDO		
CHRON		✓
READER		✓
OTHER		
C&R		
DUE DATE 08/29		
ACTION TAKEN (DATE)		
ATTACHM. (YES NO)		
INITIALS		

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SUMMARY RESULTS OF ECONOMIC ANALYSIS OF THE FARMER ORGANIZATION STRENGTHENING (FOS) PROJECT

BASIC BENCHMARK SCENARIO

ECONOMIC RESOURCE FLOWS

TOTAL PROJECT: ALL FARMER INTERMEDIARIES	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Coops Participating	0	6	19	36	55	55	55	55	55	55	55	55	55	55	55
Farm Units Participating	0	1200	2875	6169	10343	11390	[illegible]	13820	15226	16777	18482	20368	22393	24624	27072
Average Number of Units Per Coop															
Average Annual Growth Rate															

(Thousands of 1985 Lempiras)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Net Incremental Income Overall	-7434	-6229	-5097	-2355	3469	4604	[illegible]	7351	9012	10906	13068	15407	17376	19592	21956
Internal Rate of Return #/1					-51.46%	-25.01%	-9.73%	0.20%	7.05%	11.96%	15.60%	18.32%	20.34%	21.88%	23.07%
Net Incremental Income: Farm Units	0	2307	3819	6012	9442	10577	11863	13324	14985	16879	19041	21380	23349	25565	27929
Net Incremental Income: Cooperatives	-727	-1095	-2137	-3662	-5973	-5973	-5973	-5973	-5973	-5973	-5973	-5973	-5973	-5973	-5973
Net Incremental Income: Intermediaries	-3279	-4516	-4697	-2399	0	0	0	0	0	0	0	0	0	0	0
Overall Direct Project Costs Attributed to All 5 Intermediaries #/2	-3429	-2925	-2063	-2106	0	0	0	0	0	0	0	0	0	0	0

NOTES: 1. For the period from the first year of the project to the year indicated.

2. Those direct project funded expenses which were designated for real goods and services for specific farmer intermediaries are included under "Net Incremental Income: Intermediaries." Those direct project funded expenses for overall project level activities, e.g. the PIU and the FSF, were allocated among the five participating farmer intermediaries pari passu based on the percentage of the overall total number of participating farm units accounted for by each intermediary.

TABLE 1: SUMMARY RESULTS OF ECONOMIC ANALYSIS OF THE FARMER ORGANIZATION STRENGTHENING (FOS) PROJECT (Continued)

1.a. INTERMEDIARY ORGANIZATION: FEHCOCAL

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Coops Participating		0	0	4	8	13	13	13	13	13	13	13	13	13	13	13
Farm Units Participating		0	0	200	420	712	783	862	948	1042	1147	1261	1387	1526	1679	1847
Average Number of Units Per Coop	50															
Average Annual Growth Rate	10.0%					(Thousands of 1985 Lempiras)										
Net Incremental Income Of Intermediary		-908	-1194	-1018	-339	725	928	1151	1396	1665	1962	2298	2647	3042	3476	3953
Internal Rate of Return #/1						-46.06%	-20.28%	-5.72%	4.38%	10.60%	15.43%	18.74%	21.20%	23.06%	24.49%	25.60%
Net Incremental Income: Farm Units		0	0	569	1195	2025	2228	2451	2696	2965	3262	3588	3947	4342	4776	5253
Net Incremental Income: Cooperatives		0	0	-400	-600	-1300	-1300	-1300	-1300	-1300	-1300	-1300	-1300	-1300	-1300	-1300
Intermediary Level Direct Project Costs		-700	-1005	-1045	-590	0	0	0	0	0	0	0	0	0	0	0
Attributed Costs from PIU, etc. #/2		-208	-189	-142	-145											

1.b INTERMEDIARY ORGANIZATION: ANACH

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Coops Participating		0	0	0	5	9	9	9	9	9	9	9	9	9	9	9
Farm Units Participating		0	0	0	1000	1900	2090	2299	2529	2782	3060	3366	3703	4073	4480	4928
Average Number of Units Per Coop	200															
Average Annual Growth Rate	10.0%					(Thousands of 1985 Lempiras)										
Net Incremental Income Of Intermediary		-812	-1369	-1329	-525	-153	-85	-11	71	161	260	368	488	619	764	923
Internal Rate of Return #/1									-52.50%	-39.65%	-27.79%	-19.40%	-13.15%	-8.34%	-4.56%	-1.53%
Net Incremental Income: Farm Units		0	0	0	355	675	743	817	899	989	1086	1196	1316	1447	1592	1751
Net Incremental Income: Cooperatives		0	0	0	-460	-828	-828	-828	-828	-828	-828	-828	-828	-828	-828	-828
Intermediary Level Direct Project Costs		-478	-957	-995	-41	0	0	0	0	0	0	0	0	0	0	0
Attributed Costs from PIU, etc. #/2		-335	-412	-335	-379											

1.c. INTERMEDIARY ORGANIZATION: FECORAH

		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Coops Participating		0	0	0	1	3	3	3	3	3	3	3	3	3	3	3
Farm Units Participating		0	0	0	450	1395	1535	1688	1857	2042	2247	2471	2718	2990	3289	3618
Average Number of Units Per Coop	450															
Average Annual Growth Rate	10.0%					(Thousands of 1985 Lempiras)										
Net Incremental Income Of Intermediary		-651	-1267	-1272	-877	-56	-7	45	108	174	246	326	414	511	617	734
Internal Rate of Return #/1								-69.36%	-43.32%	-36.43%	-26.73%	-19.46%	-13.85%	-9.43%	-5.99%	-3.01%
Net Incremental Income: Farm Units		0	0	0	160	496	545	600	660	726	798	878	966	1063	1169	1296
Net Incremental Income: Cooperatives		0	0	0	-184	-552	-552	-552	-552	-552	-552	-552	-552	-552	-552	-552
Intermediary Level Direct Project Costs		-700	-1005	-1045	-590	0	0	0	0	0	0	0	0	0	0	0
Attributed Costs from PIU, etc. #/2		-151	-162	-227	-264	0	0	0	0	0	0	0	0	0	0	0

TABLE 1: SUMMARY RESULTS OF ECONOMIC ANALYSIS OF THE FARMER ORGANIZATION STRENGTHENING (FOS) PROJECT (Concluded)

1.d. INTERMEDIARY ORGANIZATION: FACACH		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Coops Participating		0	4	9	14	20	20	20	20	20	20	20	20	20	20	20
Farm Units Participating		0	1000	2350	3835	5719	6290	6919	7611	8372	9210	10131	11144	12258	13484	14832
Average Number of Units Per Coop	250															
Average Annual Growth Rate	10.0%					(Thousands of 1985 Lempiras)										
Net Incremental Income Of Intermediary		-3105	-2551	-2257	-1700	192	396	619	865	1136	1433	1760	2120	2517	2952	3431
Internal Rate of Return #1						-80.15%	-61.50%	-41.64%	-28.14%	-18.54%	-11.47%	-6.11%	-1.97%	1.31%	3.93%	6.05%
Net Incremental Income: Farm Units		0	355	835	1363	2032	2236	2459	2705	2976	3273	3600	3960	4357	4792	5271
Net Incremental Income: Cooperatives		0	-368	-828	-1288	-1840	-1840	-1840	-1840	-1840	-1840	-1840	-1840	-1840	-1840	-1840
Intermediary Level Direct Project Costs		-700	-1005	-1045	-590	0	0	0	0	0	0	0	0	0	0	0
Attributed Costs from PIU, etc. #2		-2405	-1533	-1220	-1185											

1.e. INTERMEDIARY ORGANIZATION: UNIDOCOOP (Models)		Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Coops Participating		0	4	6	8	10	10	10	10	10	10	10	10	10	10	10
Farm Units Participating		0	200	325	464	617	692	778	875	987	1113	1259	1416	1545	1651	1847
Average Number of Units Per Coop	50															
Average Annual Growth Rate	10.0% #3					(Thousands of 1985 Lempiras)										
Net Incremental Income Of Intermediary		-1758	451	779	1087	2756	3372	4083	4911	5877	7005	8225	9737	10688	11783	12914
Internal Rate of Return #1					13.14%	42.14%	55.12%	62.05%	66.05%	68.46%	69.96%	70.92%	71.54%	71.92%	72.15%	72.29%
Net Incremental Income: Farm Units		0	1951	2415	2939	4213	4825	5536	6364	7330	8458	9778	11196	12140	13236	14367
Net Incremental Income: Cooperatives		-727	-727	-929	-1130	-1453	-1453	-1453	-1453	-1453	-1453	-1453	-1453	-1453	-1453	-1453
Intermediary Level Direct Project Costs		-700	-545	-567	-590	0	0	0	0	0	0	0	0	0	0	0
Attributed Costs from PIU, etc. #2		-331	-226	-141	-133	0	0	0	0	0	0	0	0	0	0	0

NOTES: 1. For the period from the first year of the project to the year indicated.
2. Those direct project funded expenses which were designated for real goods and services for specific farmer intermediaries are included under "Net Incremental Income: Intermediaries." Those direct project funded expenses for overall project level activities, e.g. the PIU and the FSF, were allocated among the five participating farmer intermediaries pari passu based on the percentage of the overall total number of participating farm units accounted for by each intermediary.
3. For Fruta del Sol the annual expansion rate is 20%.

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TABLE 2: KEY ASSUMPTIONS EMPLOYED IN THE [illegible] BENCHMARK SCENARIO

FARM UNIT PROTOTYPE USED IN ANALYSIS ACCORDING TO FARMER INTERMEDIARY ORGANIZATION: PARTICIPATING INTERMEDIARY	FARM UNIT PROTOTYPE #/1	NUMBER OF PARTICIPATING AFFILIATES BY THE END OF PROJECT YEAR FOUR	AVERAGE INITIAL SIZE OF AFFILIATE COOPERATIVES (IN FARM UNITS) #/2	ANNUAL GROWTH RATE
UNIOCOOP (MODELS)				
20 de Marzo Prototypes	A	3	50	10%
Nava Occidental Prototypes	B	4	50	10%
CREHSUL Prototypes	C	1	50	10%
Fruta del Sol Prototypes	D	2	50	20%
ANACH	A	9	200	10%
FACACH	A	20	450	10%
FECORAH	A	3	250	10%
FEHCOCAL	E	13	50	10%

NOTES: 1. The characteristics of each farm unit prototype are summarized in Table 2 and are presented with substantial detail in Table 6.a. through 6.e.
2. This represents the estimated number of farm units per affiliated coop which will realize the "with project" scenario yield increases.

TABLE 3: SUMMARY OF FARM UNIT PROTOTYPE CHARACTERISTICS

Prototype A (20 de Marzo, ANACH, FACACH, FECORAH)

FARM UNIT SIZE AND CROPPING PATTERNS

Crops	WITHOUT PROJECT: Actual Manzanas Cultivated	WITHOUT PROJECT: Number of Crop Cycles Per Year	WITHOUT PROJECT: Total Manzanas Cultivated	WITH PROJECT: Actual Manzanas Cultivated	WITH PROJECT: Number of Crop Cycles Per Year	WITH PROJECT: Total Manzanas Cultivated	CROP YIELDS PER MANZANA: WITHOUT PROJECT	CROP YIELDS PER MANZANA: WITH PROJECT
Corn	3.25	2	6.50	3.00	2	6.00	40 qq	50 qq
Beans	0.25	2	0.50	0.25	2	0.50	10 qq	15 qq
Rice	0.50	1	0.50	0.50	1	0.50	60 qq	70 qq
Green Peppers	0.00	1	0.00	0.25	1	0.25	n.a.	200 qq
Total	4.00		7.50	4.00		7.25		

TABLE 3: SUMMARY OF FARM UNIT PROTOTYPE CHARACTERISTICS (Continued)

Prototype B (Nava Occidental)

FARM UNIT SIZE AND CROPPING PATTERNS

Crops	WITHOUT PROJECT Actual Manzanas Cultivated	Number of Crop Cycles Per Year	Total Manzanas Cultivated	WITH PROJECT Actual Manzanas Cultivated	Number of Crop Cycles Per Year	Total Manzanas Cultivated	CROP YIELDS PER MANZANA WITHOUT PROJECT	WITH PROJECT
Corn	2.50	2	5.00	1.75	2	2.50	30 qq	42 qq
Beans	1.50	1	1.50	1.50	1	1.50	15 qq	18 qq
Coffee	1.00	1	1.00	1.00	1	1.00	10 qq	14 qq
Green Peppers	0.00	1	0.00	0.25	1	0.25	n.a.	300 qq
Onions	0.00	2	0.00	0.50	2	1.00	n.a.	90 qq
Cabbage	0.00	1	0.00	0.50	1	0.50	n.a.	400 qq
Total	5.00		7.50	5.00		6.75		

Prototype C (CREHSUL)

FARM UNIT SIZE AND CROPPING PATTERNS

Crops	WITHOUT PROJECT Actual Manzanas Cultivated	Number of Crop Cycles Per Year	Total Manzanas Cultivated	WITH PROJECT Actual Manzanas Cultivated	Number of Crop Cycles Per Year	Total Manzanas Cultivated	CROP YIELDS PER MANZANA WITHOUT PROJECT	WITH PROJECT
Canteloupe	8.00 #/1	1	8.00	8.00 #/1	1	8.00	n.a.	160 boxes #/2
Green Peppers	2.00	1	2.00	2.00	1	2.00	n.a.	70 qq
Total	10.00		10.00	10.00		10.00		

NOTES: 1. Equivalent to 5.6 hectares.
2. Export Only.

TABLE 3: SUMMARY OF FARM UNIT PROTOTYPE CHARACTERISTICS (Concluded)

Prototype D (Fruta del Sol)

FARM UNIT SIZE AND CROPPING PATTERNS

Crops	Without Project: Actual Manzanas Cultivated	Without Project: Number of Crop Cycles Per Year	Without Project: Total Manzanas Cultivated	With Project: Actual Manzanas Cultivated	With Project: Number of Crop Cycles Per Year	With Project: Total Manzanas Cultivated	Crop Yields per Manzana: Without Project	Crop Yields per Manzana: With Project
Corn	3.50	2	7.00	0.00	2	0.00	30 qq	n.a.
Cucumber	0.00	1	0.00	2.50	1	2.50	n.a.	1300 boxes #/3
Tomato	1.00	1	1.00	1.00	1	1.00	12 tons	$ 25 tons
Watermelon	0.50	2	1.00	0.50	2	1.00	1500 ea	2000 ea
Green Peppers	0.00	2	0.00	0.50	2	1.00	n.a.	300 qq
Onions	0.00	2	0.00	0.50	2	1.00	n.a.	90 qq
Total	5.00		9.00	5.00		6.50		

Prototype E (FEHCOCAL)

FARM UNIT SIZE AND CROPPING PATTERNS

Crops	Without Project: Actual Manzanas Cultivated	Without Project: Number of Crop Cycles Per Year	Without Project: Total Manzanas Cultivated	With Project: Actual Manzanas Cultivated	With Project: Number of Crop Cycles Per Year	With Project: Total Manzanas Cultivated	Crop Yields per Manzana: Without Project	Crop Yields per Manzana: With Project
Corn	1.00	2	2.00	1.00	1	1.00	33 qq	42 qq
Coffee	10.00	1	10.00	10.00	1	10.00	10 qq	14 qq
Total	11.00		12.00	11.00		11.00		

1. Equivalent to 5.6 hectares.

TABLE 4: SUMMARY RESULTS OF SENSITIVITY ANALYSES

FARMER ORGANIZATION STRENGTHENING PROJECT: INTERNAL ECONOMIC RATES OF RETURN

	BASIC BENCHMARK SCENARIO	COSTS UNDERESTIMATED BY: 10%	20%	25%	ESTIMATED WITH-PROJECT YIELD GAINS ARE MISSED BY: 10%	20%	SHADOW PRICE ADJUSTMENT FOR LABOR INCREASED FROM .70 TO .85	INCREASED DIVERSIFICATION IN FARM [illegible] [illegible]
OVERALL PROJECT	23.1%	13.5%	2.2%	-5.3%	9.8%	-12.4%	21.0%	[illegible]
INTERMEDIARIES								
FEHCOCAL	25.6%	--	--	--	16.3%	12.6%	23.8%	[illegible]
ANACH	-1.5%	--	--	--	*/1	*/1	-3.5%	[illegible]
FECORAH	-3.0%	--	--	--	*/1	*/1	-4.7%	[illegible]
FACACH	6.1%	--	--	--	-43.7%	*/1	4.3%	41.7%
UNIOCOOP (MODELS)	72.3%	--	--	--	53.6%	34.9%	67.2%	[illegible]

NOTES: 1. A very substantial negative rate.
2. The area under cultivation with chile cavanne was increased from .25 manzanas used in the Basic Benchmark Scenario to .5 manzanas.

ECONOMIC ANALYSIS OF THE FARMER ORGANIZATION STRENGTHENING (FOS) PROJECT
USAID/Honduras. Office of Economic and Program Analysis
25-Jul-[illegible] [illegible]:SENSI[illegible]

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5.a. FEHCOCAL

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Affiliated Cooperatives Participating	0	0	4	8	13	13	13	13	13	13	13	13	13	13	13
Farm Units Participating	0	0	200	420	712	783	862	948	1042	1147	1261	1387	1526	1679	1847

Note: Projected growth in farm unit participation was based on the following:
Each original and additional coop begins its first year of participation with an average of 50 units and expands by 10.0% per year.

ECONOMIC RESOURCE FLOWS

(Thousands of 1985 Lempiras)

TOTAL ECONOMIC RESOURCE FLOWS: FEHCOCAL	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	0	2153	4520	7663	8430	9273	10200	11220	12342	13576	14934	16427	18070	19877
Gross Costs	0	0	1522	3196	5418	5960	6556	7211	7933	8726	9598	10558	11614	12776	14053
Net Income	0	0	631	1324	2245	2470	2717	2988	3287	3616	3977	4375	4813	5294	5823
With Project															
Gross Revenues	0	0	3004	6309	10696	11765	12942	14236	15660	17225	18948	20843	22927	25220	27742
Gross Costs	700	1005	3250	5180	7725	8368	9074	9852	10707	11648	12683	13821	15073	16450	17965
Net Income	-700	-1005	-245	1130	2971	3398	3867	4384	4952	5578	6266	7022	7854	8770	9777
Incremental Flows															
Incremental Revenues	0	0	852	1789	3032	3336	3669	4036	4440	4884	5372	5909	6500	7150	7865
Incremental Costs	700	1005	1728	1984	2307	2408	2519	2640	2774	2922	3084	3262	3459	3675	3912
Net Incremental Income	-700	-1005	-876	-195	725	928	1151	1396	1665	1962	2288	2647	3042	3476	3953

5.a. FEHCOCAL (Concluded)

ECONOMIC RESOURCE FLOWS

(Thousands of 1985 Lempiras)

Economic Resource Flows at Farm Unit Level	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	0	2153	4520	7663	8430	9273	10200	11220	12342	13576	14934	16427	18070	19877
Gross Costs	0	0	1522	3196	5418	5960	6556	7211	7933	8726	9598	10558	11614	12776	14053
Net Income	0	0	631	1324	2245	2470	2717	2988	3287	3616	3977	4375	4813	5294	5823
With Project															
Gross Revenues	0	0	3004	6309	10696	11765	12942	14236	15660	17225	18948	20843	22927	25220	27742
Gross Costs	0	0	1805	3790	6425	7068	7774	8552	9407	10348	11383	12521	13773	15150	16665
Net Income	0	0	1200	2519	4271	4698	5167	5684	6252	6878	7566	8322	9154	10070	11077
Incremental Flows															
Incremental Revenues	0	0	852	1789	3032	3336	3669	4036	4440	4884	5372	5909	6500	7150	7865
Incremental Costs	0	0	283	594	1007	1108	1219	1340	1474	1622	1784	1962	2159	2375	2612
Net Incremental Income of All Farm Units	0	0	569	1195	2025	2228	2451	2696	2965	3262	3588	3947	4342	4776	5253

Economic Resource Flows at Cooperative Level	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	0	0	400	800	1300	1300	1300	1300	1300	1300	1300	1300	1300	1300	1300
Net Incremental Income of All Coops	0	0	-400	-800	-1300	-1300	-1300	-1300	-1300	-1300	-1300	-1300	-1300	-1300	-1300

Economic Resource Flows at Intermediary Level	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	700	1005	1045	590	0	0	0	0	0	0	0	0	0	0	0
Net Incremental Income of Intermediary	-700	-1005	-1045	-590	0	0	0	0	0	0	0	0	0	0	0

5.b. ANACH

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Affiliated Cooperatives Participating	0	0	0	5	9	9	9	9	9	9	9	9	9	9	9
Farm Units Participating	0	0	0	1000	1900	2090	2299	2529	2782	3060	3366	3703	4073	4480	4928

Note: Projected growth in farm unit participation was based on the following:
Each original and additional coop begins its first year of participation with an average of 200 units and expands by 10.0% per year.

ECONOMIC RESOURCE FLOWS

(Thousands of 1985 Lempiras)

TOTAL ECONOMIC RESOURCE FLOWS: ANACH	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	0	0	4013	7624	8386	9225	10147	11162	12278	13506	14857	16342	17976	19774
Gross Costs	0	0	0	2491	4732	5205	5726	6298	6928	7621	8383	9221	10144	11158	12274
Net Income	0	0	0	1522	2892	3181	3499	3849	4234	4657	5123	5635	6199	6819	7500
With Project															
Gross Revenues	0	0	0	5929	11265	12391	13630	14993	16493	18142	19956	21952	24147	26561	29218
Gross Costs	478	957	995	4552	8526	9295	10142	11074	12098	13225	14465	15829	17329	18979	20794
Net Income	-478	-957	-995	1377	2739	3096	3488	3920	4394	4917	5491	6123	6818	7583	8424
Incremental Flows															
Incremental Revenues	0	0	0	1916	3641	4005	4405	4846	5331	5864	6450	7095	7805	8585	9443
Incremental Costs	478	957	995	2062	3794	4090	4416	4775	5170	5604	6082	6607	7185	7821	8520
Net Incremental Income	-478	-957	-995	-145	-153	-85	-11	71	161	260	368	488	619	764	923

5.b. ANACH (Concluded)

ECONOMIC RESOURCE FLOWS

(Thousands of 1985 Lempiras)

Economic Resource Flows at Farm Unit Level	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	0	0	4013	7624	8386	9225	10147	11162	12278	13506	14857	16342	17976	19774
Gross Costs	0	0	0	2491	4732	5205	5726	6298	6928	7621	8383	9221	10144	11158	12274
Net Income	0	0	0	1522	2892	3181	3499	3849	4234	4657	5123	5635	6199	6819	7500
With Project															
Gross Revenues	0	0	0	5929	11265	12391	13630	14993	16493	18142	19956	21952	24147	26561	29218
Gross Costs	0	0	0	4051	7698	8467	9314	10246	11270	12397	13637	15001	16501	18151	19966
Net Income	0	0	0	1877	3567	3924	4316	4748	5222	5745	6319	6951	7646	8411	9252
Incremental Flows															
Incremental Revenues	0	0	0	1916	3641	4005	4405	4846	5331	5864	6450	7095	7805	8585	9443
Incremental Costs	0	0	0	1561	2966	3262	3588	3947	4342	4776	5254	5779	6357	6993	7692
Net Incremental Income of All Farm Units	0	0	0	355	675	743	817	899	989	1088	1196	1316	1447	1592	1751

Economic Resource Flows at Cooperative Level

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	0	0	0	460	828	828	828	828	828	828	828	828	828	828	828
Net Incremental Income of All Coops	0	0	0	-460	-828	-828	-828	-828	-828	-828	-828	-828	-828	-828	-828

Economic Resource Flows at Intermediary Level

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	478	957	995	41	0	0	0	0	0	0	0	0	0	0	0
Net Incremental Income of Intermediary	-478	-957	-995	-41	0	0	0	0	0	0	0	0	0	0	0

5.c. FECORAH

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Affiliated Cooperatives Participating	0	0	0	1	3	3	3	3	3	3	3	3	3	3	3
Farm Units Participating	0	0	0	450	1395	1535	1688	1857	2042	2247	2471	2718	2990	3289	3618

Note: Projected growth in farm unit participation was based on the following:
Each original and additional coop begins its first year of participation with an average of 450 units and expands by 10.0% per year.

ECONOMIC RESOURCE FLOWS

(Thousands of 1985 Lempiras)

TOTAL ECONOMIC RESOURCE FLOWS: FECORAH	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	0	0	1806	5597	6157	6773	7450	8195	9015	9916	10908	11999	13198	14518
Gross Costs	0	0	0	1121	3474	3822	4204	4624	5087	5595	6155	6770	7447	8192	9011
Net Income	0	0	0	685	2123	2335	2569	2826	3108	3419	3761	4137	4551	5006	5507
With Project															
Gross Revenues	0	0	0	2668	8271	9098	10007	11008	12109	13320	14652	16117	17729	19502	21452
Gross Costs	700	1005	1045	2597	6204	6769	7391	8074	8827	9654	10564	11566	12667	13878	15211
Net Income	-700	-1005	-1045	71	2067	2329	2617	2934	3282	3666	4088	4552	5062	5623	6241
Incremental Flows															
Incremental Revenues	0	0	0	862	2673	2940	3235	3558	3914	4305	4736	5209	5730	6303	6934
Incremental Costs	700	1005	1045	1476	2729	2947	3187	3450	3740	4059	4409	4795	5219	5686	6200
Net Incremental Income	-700	-1005	-1045	-614	-56	-7	48	108	174	246	326	414	511	617	734

5.c. FECORAH (Concluded)

ECONOMIC RESOURCE FLOWS

(Thousands of 1985 Lempiras)

Economic Resource Flows at Farm Unit Level	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	0	0	1806	5597	6157	6773	7450	8195	9015	9916	10908	11999	13198	14518
Gross Costs	0	0	0	1121	3474	3822	4204	4624	5087	5595	6155	6770	7447	8192	9011
Net Income	0	0	0	685	2123	2335	2569	2826	3108	3419	3761	4137	4551	5006	5507
With Project															
Gross Revenues	0	0	0	2668	8271	9098	10007	11008	12109	13320	14652	16117	17729	19502	21452
Gross Costs	0	0	0	1823	5652	6217	6839	7522	8275	9102	10012	11014	12115	13326	14659
Net Income	0	0	0	845	2619	2881	3169	3486	3834	4218	4640	5104	5614	6175	6793
Incremental Flows															
Incremental Revenues	0	0	0	862	2673	2940	3235	3558	3914	4305	4736	5209	5730	6303	6934
Incremental Costs	0	0	0	702	2177	2395	2635	2898	3188	3507	3857	4243	4667	5134	5648
Net Incremental Income of All Farm Units	0	0	0	160	496	545	600	660	726	798	878	966	1063	1169	1286

Economic Resource Flows at Cooperative Level	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	0	0	0	184	552	552	552	552	552	552	552	552	552	552	552
Net Incremental Income of All Coops	0	0	0	-184	-552	-552	-552	-552	-552	-552	-552	-552	-552	-552	-552

Economic Resource Flows at Intermediary Level	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	700	1005	1045	590	0	0	0	0	0	0	0	0	0	0	0
Net Incremental Income of Intermediary	-700	-1005	-1045	-590	0	0	0	0	0	0	0	0	0	0	0

5.d. FACACH

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Affiliated Cooperatives Participating	0	4	9	14	20	20	20	20	20	20	20	20	20	20	20
Farm Units Participating	0	1000	2350	3835	5719	6290	6919	7611	8372	9210	10131	11144	12258	13484	14832

Note: Projected growth in farm unit participation was based on the following:
Each original and additional coop begins its first year of participation with an average of 250 units and expands by 10.0% per year.

ECONOMIC RESOURCE FLOWS

(Thousands of 1985 Lempiras)

TOTAL ECONOMIC RESOURCE FLOWS: FACACH	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	4013	9429	15388	22945	25240	27764	30540	33594	36954	40649	44714	49186	54104	59515
Gross Costs	0	2491	5852	9551	14242	15666	17233	18956	20852	22937	25231	27754	30529	33582	36940
Net Income	0	1522	3577	5837	8703	9574	10531	11584	12743	14017	15418	16960	18654	20522	22574
With Project															
Gross Revenues	0	5929	13933	22737	33904	37294	41023	45126	49638	54602	60062	66068	72675	79943	87937
Gross Costs	700	5424	11394	17415	25008	27325	29873	32676	35760	39152	42983	46988	51502	56469	61931
Net Income	-700	505	2539	5322	8896	9969	11150	12449	13878	15450	17179	19081	21173	23474	26006
Incremental Flows															
Incremental Revenues	0	1916	4503	7349	10958	12054	13259	14585	16044	17648	19413	21354	23490	25839	28422
Incremental Costs	700	2934	5541	7863	10766	11658	12640	13720	14908	16215	17652	19234	20973	22886	24991
Net Incremental Income	-700	-1017	-1038	-515	192	396	619	865	1136	1433	1760	2120	2517	2952	3431

5.d. FACACH (Continued)

ECONOMIC RESOURCE FLOWS

(Thousands of 1985 Lempiras)

Economic Resource Flows at Farm Unit Level	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	4013	9429	15388	22945	25240	27764	30540	33594	36954	40649	44714	49186	54104	59515
Gross Costs	0	2491	5853	9551	14242	15666	17233	18956	20852	22937	25231	27754	30529	33582	36940
Net Income	0	1522	3577	5837	8703	9574	10531	11584	12743	14017	15418	16960	18656	20522	22574
With Project															
Gross Revenues	0	5929	13933	22737	33904	37294	41023	45126	49638	54602	60062	66068	72675	79943	87937
Gross Costs	0	4051	9521	15537	23168	25485	28033	30836	33920	37312	41043	45148	49662	54629	60091
Net Income	0	1877	4412	7200	10736	11809	12990	14289	15718	17290	19019	20921	23013	25314	27846
Incremental Flows															
Incremental Revenues	0	1916	4503	7349	10958	12054	13259	14585	16044	17648	19413	21354	23490	25839	28422
Incremental Costs	0	1561	3668	5986	8926	9818	10800	11880	13068	14375	15812	17394	19133	21046	23151
Net Incremental Income of All Farm Units	0	355	835	1363	2032	2236	2459	2705	2976	3273	3600	3960	4357	4792	5271

Economic Resource Flows at Cooperative Level	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	0	368	828	1288	1840	1840	1840	1840	1840	1840	1840	1840	1840	1840	1840
Net Incremental Income of All Coops	0	-368	-828	-1288	-1840	-1840	-1840	-1840	-1840	-1840	-1840	-1840	-1840	-1840	-1840

Economic Resource Flows at Intermediary Level	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	700	1005	1045	590	0	0	0	0	0	0	0	0	0	0	0
Net Incremental Income of Intermediary	-700	-1005	-1045	-590	0	0	0	0	0	0	0	0	0	0	0

TABLE 5: ECONOMIC RESOURCE FLOWS BY FARMER INTERMEDIARY (PARENT) ORGANIZATION

5.e. UNIOCOOP (Model Cooperatives)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Coops Participating															
A. 20 de Marzo Prototype	0	1	2	3	3	3	3	3	3	3	3	3	3	3	3
B. Maya Occidental Prototype	0	1	2	3	4	4	4	4	4	4	4	4	4	4	4
C. CREHSUL Prototype	0	1	1	1	1	1	1	1	1	1	1	1	1	1	1
D. Fruta del Sol Prototype	0	1	1	1	2	2	2	2	2	2	2	2	2	2	2
Total	0	4	6	8	10	10	10	10	10	10	10	10	10	10	10
Farm Units Participating by Prototype															
A. 20 de Marzo Prototype	0	50	105	166	182	200	220	242	267	293	323	355	390	429	472
B. Maya Occidental Prototype	0	50	105	166	232	255	281	309	340	374	411	452	497	547	602
C. CREHSUL Prototype	0	50	55	61	67	73	81	89	97	107	118	130	143	157	173
D. Fruta del Sol Prototype	0	50	60	72	136	164	196	236	283	339	407	479	515	558	600
Total Farm Units	0	200	325	464	617	692	778	875	987	1113	1259	1416	1545	1691	1847

Note: Projected growth in farm unit participation was based on the following:
Each original and additional coop begins its first year of participation with an average of 50 units and expands by 10% per year except for Fruta del Sol Prototypes which grow by 20% per year.

ECONOMIC RESOURCE FLOWS

(Thousands of 1985 Lempiras)

GRAND TOTAL UNIOCOOP (MODELS)	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	799	1292	1840	2554	2892	3281	3728	4244	4840	5530	6272	6826	7457	8119
Gross Costs	0	681	997	1349	1829	2070	2346	2664	3030	3453	3942	4468	4864	5314	5787
Net Income	0	118	294	491	725	822	935	1064	1214	1387	1588	1804	1962	2143	2332
With Project															
Gross Revenues	0	4478	5929	7566	11136	12801	14742	17009	19661	22769	26416	30315	32858	35801	38825
Gross Costs	1427	3681	4715	5855	7651	8606	9724	11033	12571	14377	16504	18774	20209	21875	23579
Net Income	-1427	797	1214	1711	3485	4195	5018	5975	7091	8392	9913	11541	12650	13926	15246
Incremental Flows															
Incremental Revenues	0	3679	4637	5725	8583	9909	11461	13281	15417	17929	20886	24043	26032	28344	30706
Incremental Costs	1427	3020	3718	4506	5822	6536	7378	8369	9541	10924	12562	14305	15345	16561	17792
Net Incremental Income	-1427	679	920	1220	2760	3372	4083	4911	5877	7005	8325	9737	10688	11783	12914

TABLE 5: ECONOMIC RESOURCE FLOWS BY FARMER INTERMEDIARY (PARENT) ORGANIZATION (Continued)

5.e. UNIOCOOP (Model Cooperatives) (Continued)

ECONOMIC RESOURCE FLOWS

(Thousands of 1985 Lempiras)

Farm Units From All Cooperatives	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	799	1292	1840	2554	2892	3281	3728	4244	4840	5530	6272	6826	7457	8119
Gross Costs	0	683	997	1349	1829	2070	2346	2664	3030	3453	3742	4468	4864	5314	5787
Net Income	0	116	294	491	725	822	935	1064	1214	1387	1788	1804	1962	2143	2332
With Project															
Gross Revenues	0	4478	5929	7566	11136	12601	14742	17009	19661	22769	26416	30315	32858	35801	38825
Gross Costs	0	2409	3219	4135	6198	7153	8271	9580	11118	12924	15051	17321	18756	20423	22127
Net Income	0	2069	2710	3430	4938	5447	6471	7429	8544	9845	11364	12994	14103	15378	16698
Incremental Flows															
Incremental Revenues	0	3679	4637	5725	8583	9909	11461	13281	15417	17929	20886	24043	26032	28344	30706
Incremental Costs	0	1728	2222	2786	4369	5084	5925	6917	8088	9471	11109	12853	13892	15108	16339
Net Incremental Income of All Farm Units	0	1951	2415	2939	4213	4825	5536	6364	7330	8458	9778	11190	12140	13236	14367

Coop Level Net Incremental Revenues

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	727	727	929	1130	1453	1453	1453	1453	1453	1453	1453	1453	1453	1453	1453
Net Incremental Income of All Coops	-727	-727	-929	-1130	-1453	-1453	-1453	-1453	-1453	-1453	-1453	-1453	-1453	-1453	-1453

Intermediary Level Net Incremental Revenues

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	700	545	567	590	0	0	0	0	0	0	0	0	0	0	0
Net Incremental Revenue of Intermediary	-700	-545	-567	-590	0	0	0	0	0	0	0	0	0	0	0

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5.e. UNICCOOP (Model Cooperatives) (Continued)

ECONOMIC RESOURCE FLOWS

5.e.(1) 20 de Marzo Prototypes

(Thousands of 1985 Lempiras)

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
1. Farm Units Only															
Without Project															
Gross Revenues	0	201	421	664	730	804	884	972	1069	1176	1294	1423	1566	1722	1895
Gross Costs	0	125	262	412	453	499	549	603	664	730	803	884	972	1069	1176
Net Income	0	76	160	252	277	305	335	369	406	446	491	540	594	653	719
With Project															
Gross Revenues	0	296	623	981	1079	1187	1306	1437	1580	1738	1912	2103	2314	2545	2800
Gross Costs	0	203	425	671	738	811	892	982	1080	1188	1307	1437	1581	1739	1913
Net Income	0	94	197	311	342	376	414	455	500	550	605	666	733	806	886
Incremental Flows															
Incremental Revenues	0	96	201	317	349	384	422	464	511	562	618	680	748	823	905
Incremental Costs	0	78	164	258	284	313	344	378	416	458	503	554	609	670	737
Net Incremental Income: Farm Units	0	18	37	59	65	71	78	86	95	104	115	126	139	153	166
2. Coop Level Benefits															
Without Project															
Gross Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
With Project															
Gross Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Costs	92	92	184	277	277	277	277	277	277	277	277	277	277	277	277
Net Income	-92	-92	-184	-277	-277	-277	-277	-277	-277	-277	-277	-277	-277	-277	-277
Incremental Flows															
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	92	92	184	277	277	277	277	277	277	277	277	277	277	277	277
Net Incremental Income: Coops	-92	-92	-184	-277	-277	-277	-277	-277	-277	-277	-277	-277	-277	-277	-277

5.e. UNIOCOOP (Model Cooperatives) (Continued)

ECONOMIC RESOURCE FLOWS

5.e.(2) Nava Occidental Prototypes

(Thousands of 1985 Lempiras)

1. Farm Units Only	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	182	383	603	846	931	1024	1126	1239	1363	1499	1649	1814	1995	2195
Gross Costs	0	102	215	339	476	523	575	633	696	766	842	927	1019	1121	1233
Net Income	0	80	168	264	371	408	448	493	543	597	656	722	794	874	961
With Project															
Gross Revenues	0	505	1060	1671	2343	2578	2835	3119	3431	3774	4151	4567	5023	5526	6078
Gross Costs	0	244	512	808	1133	1246	1370	1507	1658	1824	2006	2207	2428	2671	2938
Net Income	0	261	548	864	1211	1332	1465	1612	1773	1950	2145	2359	2595	2855	3140
Incremental Flows															
Incremental Revenues	0	323	677	1068	1497	1647	1812	1993	2192	2411	2652	2918	3209	3530	3883
Incremental Costs	0	142	297	469	657	723	795	875	962	1058	1164	1280	1408	1549	1704
Net Incremental Income	0	181	380	599	840	924	1017	1118	1230	1353	1488	1637	1801	1981	2179
2. Coop Level Benefits															
Without Project															
Gross Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
With Project															
Gross Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Costs	110	110	219	329	438	438	438	438	438	438	438	438	438	438	438
Net Income	-110	-110	-219	-329	-438	-438	-438	-438	-438	-438	-438	-438	-438	-438	-438
Incremental Flows															
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	110	110	219	329	438	438	438	438	438	438	438	438	438	438	438
Net Incremental Income: Coops	-110	-110	-219	-329	-438	-438	-438	-438	-438	-438	-438	-438	-438	-438	-438

5.e. UNIOCOOP (Model Cooperatives) (Continued)

5.e.(3) CREHSUL Prototypes

ECONOMIC RESOURCE FLOWS

(Thousands of 1985 Lempiras)

1. Farm Units Only	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	112	123	136	149	164	180	198	218	240	264	290	320	352	387
Gross Costs	0	242	266	293	322	354	390	429	472	519	571	628	691	760	836
Net Income	0	-130	-143	-157	-173	-190	-209	-230	-253	-279	-307	-337	-371	-408	-449
With Project															
Gross Revenues	0	1658	1824	2006	2207	2428	2670	2937	3231	3554	3910	4300	4731	5204	5724
Gross Costs	0	734	807	888	977	1074	1182	1300	1430	1573	1730	1903	2094	2303	2533
Net Income	0	924	1017	11[illegible]	1230	1353	1488	1637	1801	1981	2179	2397	2437	2901	3191
Incremental Flows															
Incremental Revenues	0	1546	1701	1871	2058	2264	2490	2739	3013	3314	3645	4010	4411	4852	5337
Incremental Costs	0	492	541	595	654	720	792	871	958	1054	1159	1275	1403	1543	1698
Net Incremental Income	0	1054	1160	1276	1403	1544	1698	1868	2055	2260	2486	2735	3008	3309	3640

2. Coop Level Benefits	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
With Project															
Gross Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Costs	312	312	312	312	312	312	312	312	312	312	312	312	312	312	312
Net Income	-312	-312	-312	-312	-312	-312	-312	-312	-312	-312	-312	-312	-312	-312	-312
Incremental Flows															
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	312	312	312	312	312	312	312	312	312	312	312	312	312	312	312
Net Incremental Income: Coops	-312	-312	-312	-312	-312	-312	-312	-312	-312	-312	-312	-312	-312	-312	-312

5.e. UNIOCOOP (Model Cooperatives) (Continued)

ECONOMIC RESOURCE FLOWS

5.e.(4) Fruta del Sol Prototypes

(Thousands of 1985 Lempiras)

1. Farm Units Only	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10	Year 11	Year 12	Year 13	Year 14	Year 15
Without Project															
Gross Revenues	0	304	364	437	828	994	1193	1431	1717	2061	2473	2909	3127	3388	3643
Gross Costs	0	212	254	305	578	693	832	998	1198	1438	1726	2030	2182	2364	2542
Net Income	0	92	110	132	250	300	360	433	519	623	747	879	945	1024	1101
With Project															
Gross Revenues	0	2019	2422	2907	5507	6608	7930	9516	11419	13703	16443	19345	20791	22527	24224
Gross Costs	0	1229	1474	1769	3351	4022	4826	5791	6950	8340	10007	11773	12653	13710	14743
Net Income	0	790	948	1138	2155	2586	3104	3725	4469	5363	6436	7571	8138	8817	9481
Incremental Flows															
Incremental Revenues	0	1715	2058	2470	4679	5614	6737	8085	9702	11642	13970	16435	17664	19139	20581
Incremental Costs	0	1017	1220	1464	2774	3328	3994	4793	5751	6902	8282	9743	10472	11346	12200
Net Incremental Income	0	698	838	1006	1905	2286	2743	3292	3950	4740	5689	6692	7193	7793	8381
2. Coop Level Benefits															
Without Project															
Gross Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Costs	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Net Income	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
With Project															
Gross Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Gross Costs	213	213	213	213	426	426	426	426	426	426	426	426	426	426	426
Net Income	-213	-213	-213	-213	-426	-426	-426	-426	-426	-426	-426	-426	-426	-426	-426
Incremental Flows															
Incremental Revenues	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Incremental Costs	213	213	213	213	426	426	426	426	426	426	426	426	426	426	426
Net Incremental Income: Coops	-213	-213	-213	-213	-426	-426	-426	-426	-426	-426	-426	-426	-426	-426	-426

TABLE 6: FARM UNIT PROTOTYPES - - FINANCIAL AND ECONOMIC RESOURCE FLOWS

6.a. Farm Prototype "A" (20 de Marzo Model)

Part One: Farm Unit Cash Flow (All figures in 1985 Lempiras unless otherwise indicated)	WITHOUT PROJECT SCENARIO Financial Prices	WITHOUT PROJECT SCENARIO Economic Prices	WITH PROJECT SCENARIO Financial Prices	WITH PROJECT SCENARIO Economic Prices
Crop 1: Corn				
Manzanas Cultivated #/1	6.50	6.50	6.00	6.00
Yield (per Manzana) qq	40.00	40.00	50.00	50.00
Price per qq	11.00	12.50	14.00	12.50
Total Crop 1	2860.00	3250.00	4200.00	3750.00
Crop 2: Beans				
Manzanas Cultivated	0.50	0.50	0.50	0.50
Yield (per Manzana) qq	10.00	10.00	15.00	15.00
Price per qq	30.00	32.50	35.00	32.50
Total Crop 2	150.00	162.50	262.50	243.75
Crop 3: Rice				
Manzanas Cultivated	0.50	0.50	0.50	0.50
Yield (per Manzana) qq	60.00	60.00	70.00	70.00
Price per qq	18.00	20.00	22.00	20.00
Total Crop 3	540.00	600.00	770.00	700.00
Crop 4: Chile Cayenne				
Manzanas Cultivated #/1	0.00	0.00	0.25	0.25
Yield (per Manzana) qq	0.00	0.00	200.00	200.00
Price per qq	0.00	0.00	19.00	24.70
Total Crop 4	0.00	0.00	950.00	1235.00
Total Gross Revenue	3550.00	4012.50	6192.50	5928.75
Gross Costs				
Seeds	0.00	0.00	133.75	156.49
Fertilizer	435.00	508.75	733.75	858.49
Herbicides	242.18	283.34	365.68	427.84
Insecticides	0.00	0.00	285.00	333.45
Labor	772.50	540.75	911.25	637.88
Other Operating Services (includes Contingencies)	1157.50	1157.50	1637.25	1637.25
Other Investment	0.00	0.00	0.00	0.00
Total Costs Before Financing	2607.18	2490.54	4066.68	4051.39
Interest	205.43	0.00	326.41	0.00
Total Gross Costs	2812.61	2490.54	4393.08	4051.39
Net Benefits	737.39	1521.96	1759.42	1677.36
Incremental Benefits With Project			1052.03	355.40

TABLE 6: FARM UNIT PROTOTYPES - - FINANCIAL AND ECONOMIC RESOURCE FLOWS (Cont'd)

Part Two: Cash Flow Per Manzana

(All figures in 1985 Lempiras unless otherwise indicated)

Crop 1: Corn

	WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits						
Yield (per Manzana)	40.0		40.0	50.0		50.0
Price per qq	11.0	1.14	12.5	14.0	0.89	12.5 #/2
Total Gross Benefit	440.0		500.0	700.0		625.0
Gross Costs						
Seeds	0.0	1.17	0.0	13.8	1.17	16.1
Fertilizer	62.0	1.17	72.5	94.0	1.17	110.0
Herbicides	25.6	1.17	30.0	42.4	1.17	49.6
Insecticides	0.0	1.17	0.0	29.5	1.17	34.5
Labor	75.0	0.70	52.5	75.0	0.70	52.5
Other Operating Services (Includes Contingencies)	165.0	1.00	165.0	246.0	1.00	246.0
Other Investment	0.0	1.00	0.0	0.0	1.00	0.0
Total Costs Before Financing	327.6		320.0	500.7		508.7
Interest	26.2	0.00	0.0	40.1	0.00	0.0
Total Gross Costs	353.8		320.0	540.7		508.7
Net Benefits	86.2		180.0	159.3		116.3
Incremental Benefits With Project				73.1		-63.7

Crop 2: Beans

	WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits						
Yield (per Manzana)	10.0		10.0	15.0		15.0
Price per qq	30.0	1.08	32.5	35.0	0.93	32.5 #/2
Total Gross Benefit	300.0		325.0	525.0		487.5
Gross Costs						
Seeds	0.0	1.17	0.0	0.0	1.17	0.0
Fertilizer	0.0	1.17	0.0	32.0	1.17	37.4
Herbicides	35.6	1.17	41.6	35.6	1.17	41.6
Insecticides	0.0	1.17	0.0	32.0	1.17	37.4
Labor	200.0	0.70	140.0	200.0	0.70	140.0
Other Operating Services (Includes Contingencies)	0.0	1.00	0.0	70.0	1.00	70.0
Other Investment	0.0	1.00	0.0	0.0	1.00	0.0
Total Costs Before Financing	235.6		181.6	369.6		326.5
Interest	12.5	0.00	0.0	19.7	0.00	0.0
Total Gross Costs	248.1		181.6	389.3		326.5
Net Benefits	51.9		143.4	135.7		161.0
Incremental Benefits With Project				83.9		17.6

Crop 3: Rice

	WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits						
Yield (per Manzana)	60.0		60.0	70.0		70.0
Price per qq	18.0	1.11	20.0	22.0	0.91	20.0 #/2
Total Gross Benefit	1080.0		1200.0	1540.0		1400.0
Gross Costs						
Seeds	0.0	1.17	0.0	84.0	1.17	98.3
Fertilizer	64.0	1.17	74.9	94.0	1.17	110.0
Herbicides	116.0	1.17	135.7	116.0	1.17	135.7
Insecticides	0.0	1.17	0.0	12.0	1.17	14.0
Labor	370.0	0.70	259.0	380.0	0.70	266.0
Other Operating Services (Includes Contingencies)	170.0	1.00	170.0	170.0	1.00	170.0
Other Investment	0.0	1.00	0.0	0.0	1.00	0.0
Total Costs Before Financing	720.0		639.6	856.0		794.0
Interest	57.6	0.00	0.0	68.5	0.00	0.0
Total Gross Costs	777.6		639.6	924.5		794.0
Net Benefits	302.4		560.4	615.5		606.0
Incremental Benefits With Project				313.1		45.6

Part Two: Cash Flow Per Manzana (Concluded)

(All figures in 1985 Lempiras unless otherwise indiciated)

Crop 4: Chile Cayenne

	WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits						
Yield (per Manzana) in qq	0.0		0.0	200.0		200.0
Price per qq	0.0	1.30	0.0	19.0	1.30	24.7
Total Gross Benefit	0.0		0.0	3800.0		4940.0
Gross Costs						
Seeds	0.0	1.17	0.0	37.0	1.17	43.3
Fertilizer	0.0	1.17	0.0	427.0	1.17	499.6
Herbicides	0.0	1.17	0.0	142.0	1.17	166.1
Insecticides	0.0	1.17	0.0	344.0	1.17	402.5
Labor	0.0	0.70	0.0	685.0	0.70	479.5
Other Operating Services (Includes Contingencies)	0.0	1.00	0.0	165.0	1.00	165.0
Other Investment	0.0	1.00	0.0	0.0	1.00	0.0
Total Costs Before Financing	0.0		0.0	1800.0		1756.0
Interest	0.0	0.00	0.0	168.0	0.00	0.0
Total Gross Costs	0.0		0.0	1968.0		1756.0
Net Benefits	0.0		0.0	1832.0		3184.0
Incremental Benefits With Project				1832.0		3184.0

NOTES: 1. In the "with project" scenario the prototypical farmer will plant 6 manzanas of corn and .25 manzanas of green peppers. Without the project, farmers will not plant green peppers and put the extra .25 manzanas (times 2 cycles per year for an additional .50 mz.) into corn production.

2. In the "with project" scenario for the three basic grains, UNIOCOOP representatives expect that participating farm units will receive a higher price per unit of production due to increased prospects of selling their output to IHMA (Honduran Agricultural Marketing Institute) instead of to "coyotes" at prevailing market rates. Financial Prices therefore are adjusted by conversion factors which equate the "with project" economic prices to the midpoint between the "with" and "without project" financial price paid to the coyote.

TABLE 6: FARM UNIT PROTOTYPES -- FINANCIAL AND ECONOMIC RESOURCE FLOWS (Continued)

6.b. Farm Prototype "B"s (Nava Occidental Model)

Part One: Farm Unit Cash Flow (All figures in 1985 Lempiras unless indicated otherwise)	WITHOUT PROJECT SCENARIO Financial Prices	WITHOUT PROJECT SCENARIO Economic Prices	WITH PROJECT SCENARIO Financial Prices	WITH PROJECT SCENARIO Economic Prices
Crop 1: Corn				
Manzanas Cultivated #/1	5.00	5.00	2.50	2.50
Yield (per Manzana) in qq	30.00	30.00	42.00	42.00
Price per qq	12.50	12.50	12.50	12.50
Total Crop 1	1875.00	1875.00	1312.50	1312.50
Crop 2: Beans				
Manzanas Cultivated	1.50	1.50	1.50	1.50
Yield (per Manzana) in qq	15.00	15.00	18.00	18.00
Price per qq	30.00	32.50	35.00	32.50
Total Crop 2	675.00	731.25	945.00	877.50
Crop 3: Coffee				
Manzanas Cultivated	1.00	1.00	1.00	1.00
Yield (per Manzana) in qq	10.00	10.00	14.00	14.00
Price per qq	160.00	104.00	160.00	104.00
Total Crop 3	1600.00	1040.00	2240.00	1456.00
Crop 4: Chile Cayenne				
Manzanas Cultivated #/1	0.00	0.00	0.25	0.25
Yield (per Manzana) in qq	0.00	0.00	300.00	300.00
Price per qq	0.00	0.00	19.00	24.70
Total Crop 4	0.00	0.00	1425.00	1852.50
Crop 5: Onions				
Manzanas Cultivated #/1	0.00	0.00	1.00	1.00
Yield (per Manzana) in qq	0.00	0.00	90.00	90.00
Price per qq	0.00	0.00	40.00	40.00
Total Crop 5	0.00	0.00	3600.00	3600.00
Crop 6: Cabbage				
Manzanas Cultivated #/1	0.00	0.00	0.50	0.50
Yield (per Manzana) in qq	0.00	0.00	400.00	400.00
Price per qq	0.00	0.00	5.00	5.00
Total Crop 6	0.00	0.00	1000.00	1000.00
Total Gross Revenue	4150.00	3646.25	10522.50	10098.50

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6.b. Farm Prototype "B": (Mava Occidental Model) (Continued)

Part One: Farm Unit Cash Flow (Concluded)

(All figures in 1985 Lempiras unless indicated otherwise)	WITHOUT PROJECT SCENARIO Financial Prices	WITHOUT PROJECT SCENARIO Economic Prices	WITH PROJECT SCENARIO Financial Prices	WITH PROJECT SCENARIO Economic Prices
Gross Costs				
Seeds #/5	139.50	163.21	1134.25	1327.07
Fertilizer	586.00	685.62	727.00	850.59
Herbicides	0.00	0.00	186.00	217.62
Insecticides	0.00	0.00	397.75	465.37
Labor	1215.00	850.50	1864.50	1305.15
Other Operating Services (Includes Contingencies)	350.00	350.00	715.00	715.00
Other Investment	0.00	0.00	0.00	0.00
Total Costs Before Financing	2290.50	2049.34	5024.50	4880.80
Interest	183.24	0.00	403.00	0.00
Total Gross Costs	2473.74	2049.34	5427.50	4880.80
[illegible]	1676.3	1596.9	5095.00	5217.70
Incremental Benefits With Project			3418.74	3620.79

TABLE 6: FARM UNIT PROTOTYPES - - FINANCIAL AND ECONOMIC RESOURCE FLOWS (Continued)

6.b. Farm Prototype "B": (Nava Occidental Model) (Continued)

Part Two: Cash Flow Per Manzana

(All figures in 1985 Lempiras unless indicated otherwise)

Crop 1: Corn

	WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits						
Yield (per Manzana)	30.0		30.0	42.0		42.0
Price per qq	12.5	1.00	12.5	12.5	1.00	12.5
Total Gross Benefit	375.0		375.0	525.0		525.0
Gross Costs						
Seeds #/5	0.0	1.17	0.0	0.0	1.17	0.0
Fertilizer	56.0	1.17	65.5	90.0	1.17	105.3
Herbicides	0.0	1.17	0.0	28.0	1.17	32.8
Insecticides	0.0	1.17	0.0	0.0	1.17	0.0
Labor	90.0	0.70	63.0	110.0	0.70	77.0
Other Operating Services (Includes Contingencies)	70.0	1.00	70.0	70.0	1.00	70.0
Other Investment	0.0	1.00	0.0	0.0	1.00	0.0
Total Costs Before Financing	216.0		198.5	298.0		285.1
Interest	17.3	0.00	0.0	24.0	0.00	0.0
Total Gross Costs	233.3		198.5	322.0		285.1
Net Benefits	141.7		176.5	203.0		239.9
				61.3		63.5

Crop 2: Beans

	WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits						
Yield (per Manzana)	15.0		15.0	18.0		18.0
Price per qq	30.0	1.08	32.5 #/2	35.0	0.93	32.5 #/2
Total Gross Benefit	450.0		487.5	630.0		585.0
Gross Costs						
Seeds #/5	93.0	1.17	108.8	45.0	1.17	52.7
Fertilizer		1.17	0.0	42.0	1.17	49.1
Herbicides		1.17	0.0	48.0	1.17	56.2
Insecticides		1.17	0.0	15.0	1.17	17.6
Labor	150.0	0.70	105.0	170.0	0.70	119.0
Other Operating Services (Includes Contingencies)	0.0	1.00	0.0	0.0	1.00	0.0
Other Investment	0.0	1.00	0.0	0.0	1.00	0.0
Total Costs Before Financing	243.0		213.8	320.0		294.5
Interest	19.4	0.00	0.0	26.0	0.00	0.0
Total Gross Costs	262.4		213.8	346.0		294.5
Net Benefits	187.6		273.7	284.0		290.5
				96.4		16.8

Crop 3: Coffee

	WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits						
Yield (per Manzana)	10.0		10.0	14.0		14.0
Price per qq	160.0	0.65	104.0 #/3	160.0	0.65	104.0 #
Total Gross Benefit	1600.0		1040.0	2240.0		1456.0
Gross Costs						
Seeds #/5	0.0	1.17	0.0	0.0	1.17	0.0
Fertilizer	306.0	1.17	358.0	306.0	1.17	358.0
Herbicides	0.0	1.17	0.0	30.0	1.17	35.1
Insecticides	0.0	1.17	0.0	34.0	1.17	39.8
Labor	540.0	0.70	378.0	630.0	0.70	441.0
Other Operating Services (Includes Contingencies)	0.0	1.00	0.0	0.0	1.00	0.0
Other Investment	0.0	1.00	0.0	0.0	1.00	0.0
Total Costs Before Financing	846.0		736.0	1000.0		873.9
Interest	67.7	0.00	0.0	80.0	0.00	0.0
Total Gross Costs	913.7		736.0	1080.0		873.9
Net Benefits	686.3		304.0	1160.0		582.1
				473.7		279.1

TABLE 6: FARM UNIT PROTOTYPES -- FINANCIAL AND ECONOMIC RESOURCE FLOWS (Continued)

6.b. Farm Prototype "B": (Nava Occidental Model) (Concluded)

Part Two: Cash Flow Per Manzana (Concluded)

(All figures in 1985 Lempiras unless indicated otherwise)	Crop 4: Chile Cayenne						Crop 5: Onions						Crop 6: Cabbage					
	WITHOUT Project			WITH Project			WITHOUT Project			WITH Project			WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits																		
Yield (per Manzana)			0.0	300.0		300.0			0.0	90.0		90.0			0.0	400.0		[illegible]
Price per qq		1.30	0.0 #/4	19.0	1.30	24.7 #/4		1.00	0.0	40.0	1.00	40.0		1.00	0.0	5.0	1.00	[illegible]
Total Gross Benefit	0.0		0.0	5700.0		7410.0	0.0		0.0	3600.0		3600.0	0.0		0.0	2000.0		[illegible]
Gross Costs																		
Seeds #/5		1.17	0.0	35.0	1.17	41.0		1.17	0.0	960.0	1.17	1123.2		1.17	0.0	196.0	1.17	[illegible]
Fertilizer		1.17	0.0	184.0	1.17	215.3		1.17	0.0	56.0	1.17	65.5		1.17	0.0	62.0	1.17	[illegible]
Herbicides		1.17	0.0	56.0	1.17	65.5		1.17	0.0	0.0	1.17	0.0		1.17	0.0	0.0	1.17	[illegible]
Insecticides		1.17	0.0	225.0	1.17	263.3		1.17	0.0	224.0	1.17	262.1		1.17	0.0	122.0	1.17	[illegible]
Labor		0.70	0.0	898.0	0.70	628.6		0.70	0.0	260.0	0.70	182.0		0.70	0.0	440.0	0.70	[illegible]
Other Operating Services (Includes Contingencies)		1.00	0.0	200.0	1.00	200.0		1.00	0.0	300.0	1.00	300.0		1.00	0.0	380.0	1.00	[illegible]
Other Investment		1.00	0.0	0.0	1.00	0.0		1.00	0.0	0.0	1.00	0.0		1.00	0.0	0.0	1.00	[illegible]
Total Costs Before Financing	0.0		0.0	1598.0		1413.6	0.0		0.0	1800.0		1932.8	0.0		0.0	1200.0		[illegible]
Interest	0.0	0.00	0.0	128.0	0.00	0.0	0.0	0.00	0.0	144.0	0.00	0.0	0.0	0.00	0.0	96.0	0.00	[illegible]
Total Gross Costs	0.0		0.0	1726.0		1413.6	0.0		0.0	1944.0		1932.8	0.0		0.0	1296.0		[illegible]
Net Benefits	0.0		0.0	3974.0		5996.4	0.0		0.0	1656.0		1667.2	0.0		0.0	704.0		[illegible]
				3974.0		5996.4				1656.0		1667.2				704.0		[illegible]

NOTES:
1. In the "with project" scenario the prototypical farmer will plant 2.5 manzanas of corn, .25 manzanas of green peppers, 1 manzana of onions, and .5 manzanas of cabbage, along with that indicated for beans and coffee. Without the project, farmers will not plant green peppers, onions or cabbage. They will put the extra 2.5 manzanas into corn production.
2. In the "with project" scenario for beans, UNICOOP representatives expect that participating farm units will receive a higher price per unit of production due to increased prospects of selling their output to IHMA (Honduran Agricultural Marketing Institute) instead of to "coyotes" at prevailing market rates. Financial prices therefore are adjusted by conversion factors which equate the "with project" economic prices to the midpoint between the "with" and "without project" financial price paid to the coyote.
3. The .65 conversion factor for coffee was obtained as follows:
   Financial Prices x (a x b) = Economic Prices where:
   a = 1.30. Foreign exchange rate adjustment. According to coop officials, almost 100% of the coffee will be exported.
   b = .50. The volume of Honduran ("quota") coffee exported to countries subscribing to the International Coffee Agreement is fixed. Therefore, additional coffee produced as a result of the project will not increase Honduran exports of quota coffee, but will be exported as non quota coffee for which prices are approximately 50% of quota coffee prices.
4. 100% exported.
5. Includes total input costs for those crops for which data broken down by input type were not available.

TABLE 6: FARMER UNIT PROTOTYPES - - FINANCIAL AND ECONOMIC RESOURCE FLOWS (Continued)

6.c. Farm Prototype "C" (CREHSUL Model)

Part One: Farm Unit Cash Flow (All figures in 1985 Lempiras unless indicated otherwise)	WITHOUT PROJECT SCENARIO Financial Prices	 Economic Prices	WITH PROJECT SCENARIO Financial Prices	 Economic Prices
Crop 1: Cantelope				
Export				
Hectares Cultivated #/4	0.00	0.00	5.60	5.60
Yield (per Hectare) Boxes	0.00	0.00	160.00	160.00
Price per Box	0.00	0.00	18.00	23.40
Total Export Benefits	0.00	0.00	16128.00	20966.40
Domestic				
Hectares Cultivated #/4	5.60	5.60	5.60	5.60
Yield (per Hectare) Units	8000.00	8000.00	4000.00	4000.00
Price per Unit	0.05	0.05	0.07	0.07
Total Domestic Benefits	2240.00	2240.00	1568.00	1568.00
Total Crop 1	2240.00	2240.00	17696.00	22534.40
Crop 2: Chile Peppers (Tobasco) #/5				
Manzanas Cultivated	0.00	0.00	2.00	2.00
Yield (per Manzana) in qq	0.00	0.00	70.00	70.00
Price per qq	0.00	0.00	67.00	87.10
Total Crop 2	0.00	0.00	9380.00	12194.00
Total Gross Revenue	2240.00	2240.00	25508.00	33160.40
Gross Costs				
Seeds/or Total Input Costs	2654.40	3105.65	6754.40	7902.65
Fertilizer	0.00	0.00	292.00	341.64
Herbicides	0.00	0.00	287.20	336.02
Insecticides	0.00	0.00	676.00	790.92
Labor	1400.00	980.00	4946.80	3462.76
Other Operating Services (Includes Contingencies)	756.00	756.00	1842.00	1842.00
Other Investment	0.00	0.00	0.00	0.00
Total Costs Before Financing	4810.40	4841.65	14798.40	14675.99
Interest	448.97	0.00	1381.16	0.00
Total Gross Costs	5259.37	4841.65	16179.56	14675.99
Net Benefits	-3019.4	-2601.6	9328.42	18484.41
Incremental Benefits With Project			12347.79	21086.06

Table 6: FARMER UNIT PROTOTYPES -- FINANCIAL AND ECONOMIC RESOURCE FLOWS (Continued)

Part Two: Cash Flow Per Manzana (Hectares for Cantelope) /2

(All figures in 1985 Lempiras unless indicated otherwise)

	Crop 1: Cantelope						Crop 2: Chile Peppers					
	WITHOUT Project			WITH Project			WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits												
Export												
Yield /1	0.00		0.00	160.00		160.00 /3	0.00		0.00	70.00		70.00
Price /1	0.00	1.30	0.00	18.00	1.30	23.40 /3	0.00	1.30	0.00	67.00	1.30	87.10
Total Export Benefits	0.00		0.00	2880.00		3744.00	0.00		0.00	4690.00		6097.00
Domestic												
Yield /1	8000.00		8000.00	4000.00		4000.00	0.00		0.00	0.00		0.00
Price /1	0.05	1.00	0.05 /6	0.07	1.00	0.07	0.00	1.00	0.00	0.00	1.00	0.00
Total Domestic Benefits	400.00		400.00	280.00		280.00	0.00		0.00	0.00		0.00
Total Gross Benefits	400.00		400.00	3160.00		4024.00	0.00		0.00	4690.00		6097.00
Gross Costs												
Seeds or Local Inputs	474.00	1.17	554.58	1185.00	1.17	1386.45	0.00	1.17	0.00	59.20	1.17	69.26
Fertilizer		1.17	0.00		1.17			1.17		146.00	1.17	170.82
Herbicides		1.17	0.00		1.17			1.17		143.60	1.17	168.01
Pesticides		1.17	0.00		1.17			1.17		338.00	1.17	395.46
Labor	250.00	0.70	175.00	545.00	0.70	381.50	0.00	0.70	0.00	947.40	0.70	663.18
Other Operating Services (Includes Contingencies)	135.00	1.00	135.00	270.00	1.00	270.00	0.00	1.00	0.00	165.00	1.00	165.00
Other Investment	0.00	1.00	0.00	0.00	1.00	0.00	0.00	1.00	0.00	0.00	1.00	0.00
Total Cost Before Financing	859.00		664.58	2000.00		2037.95	0.00		0.00	1799.20		1631.74
Interest	80.17	0.00	0.00	186.67	0.00	0.00	0.00	0.00	0.00	167.93	0.00	0.00
Total Gross Costs	939.17		664.58	2186.67		2037.95	0.00		0.00	1967.13		1631.74
Net Benefits	-539.17		-464.58	973.33		1986.05	0.00		0.00	2722.87		4465.26
Incremental Benefits With Project				1512.51		2450.63				2722.87		4465.26

Notes: 1/ Units of Measurement are indicated in Part One for each crop; prices are per unit of measurement indicated.
2/ One Manzana = .7 hectares
3/ Based on a weighted average of: Export Grade One, 128 boxes (per hectare) @ L19 per box; and
Export Grade Two, 32 boxes (per hectare) @ L14 per box.
4/ The 4000 units sold domestically are grown on the same 5.6 hectares used for export production and represent those cantelopes which do not meet export quality standards.
5/ [illegible] Exported.
6/ The average quality of domestically sold cantelopes will decline in the without project scenario resulting in a lower average price per unit.

6.4. Farm Prototype "B" (Fruta del Sol Model)

Part One: Farm Unit Cash Flow (All figures in 1985 Lempiras unless indicated otherwise)	WITHOUT PROJECT SCENARIO Financial Prices	Economic Prices	WITH PROJECT SCENARIO Financial Prices	Economic Prices
Crop 1: Cucumber (Corn Without Project)				
Domestic				
Manzanas Cultivated	7.00 #/1	7.00 #/1	2.50 #/2	2.50 #/2
Yield (per Manzana) in Boxes (qq for corn)	30.00	30.00	520.00	520.00
Price per box (qq for corn)	12.00	12.00	2.16	2.16
Total Domestic	2520.00	2520.00	2808.00	2808.00
Export				
Manzanas Cultivated	0.00	0.00	2.50 #/2	2.50 #/2
Yield (per Manzana) in Boxes	0.00	0.00	780.00	780.00
Price per box	0.00	0.00	8.00	10.40
Total Export	0.00	0.00	15600.00	20280.00
Total Crop 1	2520.00	2520.00	18408.00	23088.00
Crop 2: Tomato				
Manzanas Cultivated	1.00	1.00	1.00	1.00
Yield (per Manzana) in Tons	12.00	12.00	25.00	25.00
Price per ton	152.00	171.00 #/6	190.00	171.00 #/6
Total Crop 2	1824.00	2052.00	4750.00	4275.00
Crop 3: Watermelon				
Manzanas Cultivated	1.00	1.00	1.00	1.00
Yield (per Manzana) in units	1500.00	1500.00	2000.00	2000.00
Price per unit	1.00	1.00	1.00	1.00
Total Crop 3	1500.00	1500.00	2000.00	2000.00
Crop 4: Chile Cayenne				
Manzanas Cultivated #/3	0.00	0.00	1.00 #/4	1.00 #/4
Yield (per Manzana) in qq	0.00	0.00	300.00	300.00
Price per qq	0.00	0.00	19.00	24.70
Total Crop 4	0.00	0.00	5700.00	7410.00
Crop 5: Onions				
Manzanas Cultivated #/3	0.00	0.00	1.00 #/4	1.00 #/4
Yield (per Manzana) in qq	0.00	0.00	90.00	90.00
Price per qq	0.00	0.00	40.00	40.00
Total Crop 5	0.00	0.00	3600.00	3600.00
Total Gross Revenue	5844.00	6072.00	34458.00	40373.00

6.d. Farm Prototype "B" (Fruta del Sol Model) (Continued)

Part One: Farm Unit Cash Flow (Concluded) (All figures in 1985 Lempiras unless indicated otherwise)	WITHOUT PROJECT SCENARIO		WITH PROJECT SCENARIO	
	Financial Prices	Economic Prices	Financial Prices	Economic Prices
Gross Costs				
Seeds 4/5	1564.00	1829.88	7900.65	9243.76
Fertilizer	0.00	0.00	240.00	280.80
Herbicides	0.00	0.00	56.00	65.52
Insecticides	0.00	0.00	449.00	525.33
Labor	1574.00	1101.80	11150.50	7805.35
Other Operating Services (Includes Contingencies)	1101.20	1101.20	6395.25	6395.25
Other Investment	204.00	204.00	255.00	255.00
Total Costs Before Financing	4443.20	4236.88	26446.40	24571.01
Interest	355.46	0.00	2115.71	0.00
Total Gross Costs	4798.66	4236.88	28562.11	24571.01
Net Benefits	1045.3	1835.1	5895.89	15801.99
Incremental Benefits With Project			4850.54	13966.87

NOTES: 1. 3.5 Manzanas cultivated for two cycles per year.
2. Total cucumber area cultivated is 2.5 manzanas. 60% of the production on those 2.5 manzanas is of export quality and is exported. The remaining 40% is sold in domestic markets.
3. In the "with project" scenario the prototypical farmer will plant 2.5 manzanas of cucumbers, 1 manzana of green peppers, and 1 manzana of onions, along with that indicated for tomatoes and watermelons. Without the project, farmers will not plant cucumbers, green peppers or onions. They will put the extra 3.5 manzanas(times 2 cycles per year = 7 mz.) into corn production.
4. .5 manzanas cultivated for two cycles per year.
5. Includes total input costs for those crops for which data broken down by input type was not available.
6. In the "with project" scenario for tomatoes, UNIOCOOP representatives expect that participating farm units will receive a higher price per unit of production due to increased prospects of selling their output at preferencial prices instead of to "coyotes" at prevailing market rates. Financial prices therefore are adjusted by conversion factors which equate the "with project" economic prices to the midpoint between the "with" and "without project" financial price paid to the coyote.

6.d. Farm Prototype "D" (Fruta del Sol Model) (Continued)

Part Two: Cash Flow Per Manzana

(All figures in 1985 Lempiras unless indicated otherwise)

	Crop 1: Corn Without Project/Cucumber With Project					
	WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits		Corn			Cucumbers	
Domestic						
Yield (per Manzana) #/7	30.0		30.0	520.0		520.0
Price #/7	12.0	1.00	12.0	2.2	1.00	2.2
Total Domestic	360.0		360.0	1123.2		1123.2
Export						
Yield (per Manzana) #/7	0.0		0.0	780.0		780.0
Price #/7	0.0		0.0	8.0	1.30	10.4
Total Export	0.0		0.0	6240.0		8112.0
Total Gross Benefit	360.0		360.0	7363.2		9235.2
Gross Costs						
Seeds #/5	56.0	1.17	65.5	2176.3	1.17	2546.2
Fertilizer		1.17	0.0		1.17	0.0
Herbicides		1.17	0.0		1.17	0.0
Insecticides		1.17	0.0		1.17	0.0
Labor	90.0	0.70	63.0	3525.0	0.70	2467.5
Other Operating Services (Includes Contingencies)	70.0	1.00	70.0	2052.5	1.00	2052.5
Other Investment	0.0	1.00	0.0		1.00	0.0
Total Costs Before Financing	216.0		198.5	7753.8		7066.2
Interest	17.3	0.00	0.0	620.3	0.00	0.0
Total Gross Costs	233.3		198.5	8374.1		7066.2
Net Benefits	126.7		161.5	-1010.9		2169.0
Incremental Benefits With Project				-1010.9		2007.5

	Crop 2: Tomato					
	WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits						
Domestic						
Yield (per Manzana) #/7	12.0		12.0	25.0		25.0
Price #/7	152.0	[illegible]	171.0 #/6	190.0	0.90	171.0 #/6
Total Domestic	1824.0		2052.0	4750.0		4275.0
Total Export	0.0		0.0	0.0		0.0
Total Gross Benefit	1824.0		2052.0	4750.0		4275.0
Gross Costs						
Seeds #/5	888.0	1.17	1039.0	1110.0	1.17	1298.7
Fertilizer		1.17	0.0		1.17	0.0
Herbicides		1.17	0.0		1.17	0.0
Insecticides		1.17	0.0		1.17	0.0
Labor	740.0	0.70	518.0	925.0	0.70	647.5
Other Operating Services (Includes Contingencies)	408.0	1.00	408.0	510.0	1.00	510.0
Other Investment	204.0	1.00	204.0	255.0	1.00	255.0
Total Costs Before Financing	2240.0		2169.0	2800.0		2711.2
Interest	179.2	0.00	0.0	224.0	0.00	0.0
Total Gross Costs	2419.2		2169.0	3024.0		2711.2
Net Benefits	-595.2		-117.0	1726.0		1563.8
Incremental Benefits With Project				2321.2		1680.8

	Crop 3: Watermelon					
	WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits						
Domestic						
Yield (per Manzana) #/7	1500.0		1500.0	2000.0		[illegible]
Price #/7	1.0	1.00	1.0	1.0	1.00	[illegible]
Total Domestic	1500.0		1500.0	2000.0		[illegible]
Total Export	0.0		0.0	0.0		[illegible]
Total Gross Benefit	1500.0		1500.0	2000.0		[illegible]
Gross Costs						
Seeds #/5	284.0	1.17	332.3	355.0	1.17	[illegible]
Fertilizer		1.17	0.0		1.17	
Herbicides		1.17	0.0		1.17	[illegible]
Insecticides		1.17	0.0		1.17	
Labor	204.0	0.70	142.8	255.0	0.70	[illegible]
Other Operating Services (Includes Contingencies)	203.2	1.00	203.2	254.0	1.00	[illegible]
Other Investment	0.0	1.00	0.0	0.0	1.00	
Total Costs Before Financing	691.2		678.3	864.0		[illegible]
Interest	55.3	0.00	0.0	69.1	0.00	[illegible]
Total Gross Costs	746.5		678.3	933.1		[illegible]
Net Benefits	753.5		821.7	1066.9		[illegible]
Incremental Benefits With Project				313.4		[illegible]

6.d. Farm Prototype "D" (Fruta del Sol Model) (Concluded)

Part Two: Cash Flow Per Manzana (Concluded)

(All figures in 1985 Lempiras unless indicated otherwise)

	Crop 4: Chile Cayenne						Crop 5: Onions					
	WITHOUT Project			WITH Project			WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits												
Domestic												
Yield (per Manzana) #/7			0.0	0.0		0.0			0.0	90.0		90.0
Price #/7		1.00	0.0	0.0	1.00	0.0		1.00	0.0	40.0	1.00	40.0
Total Domestic	0.0		0.0	0.0		0.0	0.0		0.0	3600.0		3600.0
Export												
Yield (per Manzana) #/7			0.0	300		300.0						
Price #/7		1.30	0.0	19	1.30	24.7						
Total Export	0.0		0.0	5700.0		7410.0	0.0		0.0	0.0		0.0
Total Gross Benefit	0.0		0.0	5700.0		7410.0	0.0		0.0	3600.0		3600.0
Gross Costs												
Seeds #/5		1.17	0.0	35.0	1.17	41.0		1.17	0.0	960.0	1.17	1123.2
Fertilizer		1.17	0.0	184.0	1.17	215.3		1.17	0.0	56.0	1.17	65.5
Herbicides		1.17	0.0	56.0	1.17	65.5		1.17	0.0	0.0	1.17	0.0
Insecticides		1.17	0.0	225.0	1.17	263.3		1.17	0.0	224.0	1.17	262.1
Labor		0.70	0.0	[illegible]	0.70	628.6		0.70	0.0	260.0	0.70	182.0
Other Operating Services (Includes Contingencies)		1.00	0.0	200.0	1.00	200.0		1.00	0.0	300.0	1.00	300.0
Other Investment		1.00	0.0	0.0	1.00	0.0		1.00	0.0	0.0	1.00	0.0
Total Costs Before Financing	0.0		0.0	1598.0		1413.6	0.0		0.0	1800.0		1932.8
Interest	0.0	0.00	0.0	127.8	0.00	0.0	0.0	0.00	0.0	144.0	0.00	0.0
Total Gross Costs	0.0		0.0	1725.8		1413.6	0.0		0.0	1944.0		1932.8
Net Benefits	0.0		0.0	3974.2		5996.4	0.0		0.0	1656.0		1667.2
				3974.2		5996.4				1656.0		1667.2

NOTES: 7. Units of measurement are indicated in Part One for each crop: prices are per unit of measurement indicated.

6.e. Farm Prototype "E" (FECOCAL Model)

Part One: Farm Unit Cash Flow (All figures in 1985 Lempiras unless otherwise indicated)	WITHOUT PROJECT SCENARIO Financial Prices	Economic Prices	WITH PROJECT SCENARIO Financial Prices	Economic Prices
Crop 1: Corn				
Manzanas Cultivated	1.00	1.00	1.00	1.00
Yield (per Manzana) in qq	33.00	33.00	42.00	42.00
Price per qq #/1	10.00	11.00	12.00	11.00
Total Crop 1	330.00	363.00	504.00	462.00
Crop 2: Coffee				
Manzanas Cultivated	10.00	10.00	10.00	10.00
Yield (per Manzana) in qq	10.00	10.00	14.00	14.00
Price per qq #/2	160.00	104.00	160.00	104.00
Total Crop 2	16000.00	10400.00	22400.00	14560.00
Total Gross Revenue	16330.00	10763.00	22904.00	15022.00
Gross Costs				
Seeds	0.00	0.00	0.00	0.00
Fertilizer	3122.00	3652.74	3150.00	3685.50
Herbicides	25.60	29.95	328.00	383.76
Insecticides	0.00	0.00	340.00	397.80
Labor	5510.00	3857.00	6410.00	4487.00
Other Operating Services (Includes Contingencies)	70.00	70.00	70.00	70.00
Other Investment	0.00	0.00	0.00	0.00
Total Costs Before Financing	8727.60	7609.69	10298.00	9024.06
Interest	698.21	0.00	824.00	0.00
Total Gross Costs	9425.81	7609.69	11122.00	9024.06
Net Benefits	6904.19	3153.31	11782.00	5997.94
	Incremental Benefits With Project		4877.81	2844.63

TABLE 6: FARMER UNIT PROTOTYPES -- FINANCIAL AND ECONOMIC RESOURCE FLOWS (Concluded)

6.5. Farm Prototype "E" (FECOCAL Model) (Concluded)

Part Two: Cash Flow Per Manzana

(All figures in 1985 Lempiras unless otherwise indicated)

	Crop 1: Corn						Crop 2: Coffee					
	WITHOUT Project			WITH Project			WITHOUT Project			WITH Project		
	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices	Financial Prices	Conversion Factor	Economic Prices
Gross Benefits												
Yield (per Manzana)	33.0		33.0	42.0		42.0	10.0		10.0	14.0		14.0
Price per qq	10.0	1.10	11.0 a/1	12.0	0.92	11.0 a/1	160.0	0.65	104.0 a/2	160.0	0.65	104.0 a/2
Total Gross Benefit	330.0		363.0	504.0		462.0	1600.0		1040.0	2240.0		1456.0
Gross Costs												
Seeds	0.0	1.17	0.0	0.0	1.17	0.0	0.0	1.17	0.0	0.0	1.17	0.0
Fertilizer	62.0	1.17	72.5	90.0	1.17	105.3	306.0	1.17	358.0	306.0	1.17	358.0
Herbicides	25.6	1.17	30.0	28.0	1.17	32.8	0.0	1.17	0.0	30.0	1.17	35.1
Insecticides	0.0	1.17	0.0	0.0	1.17	0.0	0.0	1.17	0.0	34.0	1.17	39.8
Labor	110.0	0.70	77.0	110.0	0.70	77.0	540.0	0.70	378.0	630.0	0.70	441.0
Other Operating Services	70.0	1.00	70.0	70.0	1.00	70.0	0.0	1.00	0.0	0.0	1.00	0.0
(Includes Contingencies)			0.0			0.0						
Other Investment	0.0	1.00	0.0	0.0	1.00	0.0	0.0	1.00	0.0	0.0	1.00	0.0
Total Costs Before Financing	267.6		249.5	298.0		285.1	846.0		736.0	1000.0		873.9
Interest	21.4	0.00	0.0	24.0	0.00	0.0	67.7	0.00	0.0	80.0	0.00	0.0
Total Gross Costs	289.0		249.5	322.0		285.1	913.7		736.0	1080.0		873.9
Net Benefits	41.0		113.5	182.0		176.9	686.3		304.0	1160.0		582.1
Incremental Benefits With Project				141.0		63.4				473.7		278.1

NOTES: 1. In the "with project" scenario for corn, UNIOCOOP representatives expect that participating farm units will receive a higher price per unit of production due to increased prospects of selling their output to IHMA (Honduran Agricultural Marketing Institute) instead of to "coyotes" at prevailing market rates. Financial prices therefore are adjusted by conversion factors which equate the "with project" economic prices to the midpoint between the "with" and "without project" financial price paid to the coyote.

2. The .65 conversion factor for coffee was obtained as follows:

Financial Prices x (a x b) = Economic Prices where:

a = 1.30. Foreign exchange rate adjustment. According to coop officials, almost 100% of the coffee will be exported.

b = .50. The volume of Honduran ("quota") coffee exported to countries subscribing to the International Coffee Agreement is fixed. Therefore, additional coffee produced as a result of the project will not increase Honduran exports of quota coffee, but will be exported as non quota coffee for which prices are approximately 50% of quota coffee prices.