

PD-ABW-049

EL PROGRAMA DE CREDITO PARA LA REACTIVACION AGROPECUARIA

113750

CRA

FONDO NACIONAL PARA LA PRODUCCION Y LA VIVIENDA

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Date: Thursday, October 04, 2001
To: John Caracciolo, Banking and Financial Advisor/ANRO
From: Warren Gerber, COP/ARC Program *Warren Gerber*
Subject: September 30, 2001 Quarterly Report: USAID Contract No. PCE-I-00-99-00006-00, Task Order No. 806 Agricultural Reactivation Credit Project

According to the Agricultural Reactivation Credit (ARC or CRA) work plan and budget, the contractor is obligated to submit quarterly progress reports to USAID, through FONAPROVI, beginning June 30, 2000. This quarterly report includes a summary of the accomplishments between June 30, 2001 and September 30, 2001, plans for the upcoming quarter, a description of any changes that might affect the performance of the project in achieving the desired results, and any other information that pertains to the management and oversight of the project.

Recent Accomplishments

In the most recent quarter the ARC program accomplished the following:

1. **Modified the qualifying activities to include agro-industrial and agro-processing enterprises for financing under the ARC program.** The original program description specified that only four crops would be eligible for financing under the ARC program. The range of crops and livestock production activities eligible for financing was later expanded to allow more Mitch affected producers to have access to ARC funding. This quarter the eligibility for ARC funding was further expanded to include the following:
 - a. Milk and milk by-product processing including the purchase of milk cooling tanks, processing, and quality control equipment;
 - b. Fruit and vegetable processing, including the purchase of processing equipment;
 - c. Agricultural and livestock product packaging including the purchase of packaging equipment;



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- d. Transformation of agricultural and livestock by-products into fertilizer and/or livestock feed, including the purchase of processing or packaging equipment.
2. **Increased the size of qualifying broiler producers.** The technology of broiler production has evolved very rapidly in Honduras as the major feed companies introduce contract production and new systems for managing large numbers of birds. Under the production contracts, the producer buys feed and other inputs from the feed company, and then sells the finished broiler to the same company. The concentration of birds in the poultry houses as measured in birds per square meter has more than doubled with the introduction of new management systems and equipment. These changes in technology made the former definition of "medium" sized broiler producers obsolete. Therefore ARC petitioned USAID, and received approval, to increase the definition of "medium" sized broiler producer from 10,000 to 120,000 birds.
3. **Submitted the Post-Completion Date Monitoring Plan for ARC.** Pedro Sevilla, General Manager of FONAPROVI, sent the Post-Completion Monitoring Plan to the Minister of Finance and the Director of USAID for their consideration and approval. The plan defines how FONAPROVI, through an extension of the Management and Oversight Unit for an additional two years, will protect the loans and other assets of the program. The plan includes the following recommendations:
 - ◆ Maintain the Management and Oversight Unit (MOU) of the ARC program for an additional 24 months beginning January, 2002 to manage and supervise the ARC loan portfolio;
 - ◆ Expand the delivery of MOU products and services to a wider target group within FONAPROVI;
 - ◆ Implement a credit supervision program for ARC borrowers and participating banks;
 - ◆ Enhance the training component of the program using MOU personnel
 - ◆ Use the MOU to continue to measure and report on the impact of ARC funds on increased employment, enhanced revenues, and other indicators.

The MOU extension, including the external audits, will be funded exclusively from ARC program reflows, assuming the Ministry of Finance (MOF) agrees. However, the MOU will not have any new funds to loan out after Dec. 31st, unless the MOF and FONAPROVI agree on the sources of the new funds.

4. **Developed and implemented a lending program for beef producers.** The ARC program developed a financing program that is directed to help beef producers recover from losses incurred as a result of Hurricane Mitch. Beef producers generally purchase young livestock that is then grass fed for a period of 12 to 18 months before being sold to local beef packers or exported to Guatemala. The relatively short time period of the loan qualifies them as working capital loans rather than investment loans. The ARC program has always been eligible to make

working capital loans as long as the participating bank agreed to supply 50% of the working capital from their own funding sources.

5. **Measured the ARC program impact.** In addition to the volume and number of loans that have been disbursed, the ARC program also reports on the employment generated and the value of farm production that result from the loans to the producers. Through the third quarter 2001, ARC financing has resulted in the creation of 2,331 full time jobs, and has produced over \$21.5 million annually in increased sales of agricultural products, as shown in Table 1.

Table 1. Direct Employment and Value of Farm Production by Enterprise Through September 2001.

| Enterprise | Hectares or Unit Financed | Employees per Unit | Total Employees per Enterprise | Per Unit Value Of Production | Total Value of Farm Production |
|--------------|---------------------------|--------------------|--------------------------------|------------------------------|--------------------------------|
| Banana | 612 | 1.00 | 612 | \$7,060 | \$4,320,720 |
| Plantain | 288 | 0.55 | 158 | 5,067 | 1,458,283 |
| Shrimp | 860 | 0.22 | 189 | 7,353 | 6,321,154 |
| Watermelon | 114 | 0.66 | 76 | 2,576 | 294,926 |
| Coffee | 515 | 0.55 | 284 | 2,669 | 1,442,968 |
| Milk Cows | 5,634 | 0.0481 | 297 | 444 | 2,501,496 |
| Chickens | 493,576 | 0.00092 | 454 | 8 | 3,948,608 |
| Fish (Ha) | 2 | 1.31 | 2 | 37,926 | 59,165 |
| Horticulture | 118 | 2.30 | 272 | 10,000 | 1,181,200 |
| | | | Total 2,331 | | \$21,528,519 |

In addition to the direct labor added to the workforce as a result of the ARC loans, the project financed the restoration of 1,670 kilometers of livestock fences, provided funds for the production or purchase of 493,576 chickens, and 5,634 head of livestock. ARC funds were also used to rehabilitate, replace or improve \$397,689 in water systems, \$7,975,894 in buildings and installations, and \$1,786,112 in machinery and equipment.

6. **Processed loan applications and disbursed loan funds.** As of September 30, the ARC program disbursed 219,427,011 Lempira in loan funds (\$14,065,834). Eleven banks have participated in the ARC program and have disbursed loans to 486 agricultural producers. Banhcafe is the most active bank with 33 percent of the number of loans, followed by BGA and Atlantida, each with 20 percent of the number of loans. BGA has about 49,000,000 Lempira in loan volume, representing 22 percent of the total volume of loans. Unfortunately, Banhcafe is no longer qualified to participate in the ARC program because they have been removed from the list of approved banks by FONAPROVI.
7. **Collected loans as part of the loan servicing function.** Several loans were collected this quarter as part of the normal loan servicing functions of the ARC Credit and Finance Departments. Since the beginning of the program we have

collected 8 loans for a total principal amount of 6,770,400 Lempira, (\$434,000) and received all the outstanding interest and principal of the original loans. Five of the eight loans, for a total of 2,470,000 Lempira, were paid back by in full by the borrower because they decided they did not want the loan. ARC collected two loans, for a total of 1,300,000 because the borrower did not make the investments that were in the investment plan. Finally, a bank restructured one 3 million Lempira loan, but because ARC did not agree with the restructure plan, the bank repaid the ARC loan. The collections were coordinated with the participating banks to assure they were communicating with the borrowers and ARC about the reason for the repayment or collection, and the collection process.

8. **Developed and printed brochure for FONAPROVI promoting ARC Extension capabilities.** The ARC Extension has several tasks and responsibilities that need to be completed as part of the Post-Completion Date Monitoring Plan described above. None of these responsibilities involve lending more money through the commercial bank system, primarily because there is no source of additional funds for lending at this time. However, several international donor agencies are currently considering FONAPROVI as a possible vehicle through which they can channel additional funds to the private sector. The ARC Extension personnel with their set of lending skills are perfect candidates to manage these trust funds and direct them to whatever sector the donor intends to support. To promote the ARC Extension capabilities, a brochure was developed and printed that describes the features and benefits of using FONAPROVI as a delivery mechanism for directing supervised and monitored credit through financial intermediaries.

Plans for the Upcoming Quarter

1. **Close the KPMG Barents portion of the ARC program and submit the final report for the project.** The USAID contract for the ARC program ends on December 31, 2001. All loan funds will be disbursed by that date and all project supplies and equipment will be turned over to the successor organization. The ARC Chief of Party will be leaving Honduras on or about that date after completing the closing and transfer activities, and filing any documents that are required as part of the Scope of Work.
2. **Implement training program on managing problem loans.** Non-performing loans are becoming a very serious problem for the commercial banks in Honduras. Banhcafe has been disqualified from further participation in FONAPROVI lending because of their high level of non-performing loans. Without an increase in coffee prices in the near future, our expectations are that the Banhcafe non-performing loan volume will continue to increase. The banks are trying to reduce their non-performing loans, but are often transferring the problem to a future time period rather than addressing the problem directly. It is particularly important that the loan officers use the best available techniques to resolve problem loans if some of the ARC portfolio begins to deteriorate in the future.

3. **Implement evaluation of the ARC program.** As the ARC project is nearing its completion date, there is a need to understand what worked well, and what might have been an impediment, in the design and implementation of the project. There are several unique features of the ARC program, including the use of a second tier bank to disburse the funds, and more importantly, using the first tier bank's reserve account to collect loan payments. The ARC program is not expected to experience any loan losses because of the features that assure repayments are received from the participating banks. In addition, implementing credit projects that respond to emergency situations brought on by severe environmental or economic shocks may require using different tools, techniques, and procedures during the design and implementation stages. The need to respond quickly, especially where seasonal demand for credit makes timelessness a primary concern, may also require a modification in the decision making process. This evaluation will be useful to managers who are directing projects that involve credit components, particularly when the credit projects are being implemented in response to external shocks to the production or financial sectors.

Changes that might affect the performance of the project

The new legislation that is designed to provide assistance to agricultural producers who have severe debt repayment problem is already having an impact on the ARC program. The volume of new loans being submitted for ARC financing has fallen slowly but steadily since the legislation was under consideration. The banks are being more cautious with new borrower requests and are selecting only the borrowers that have a good repayment history with the bank. However, most of the originally approved \$15 million in loan funds have been disbursed by the project so the slowdown will affect only the new money allocated to the ARC program.

Other management and oversight information

1. The voting for the President of Honduras is scheduled for November 25. We believe the outcome of the election will have a large impact on FONAPROVI. Many of the FONAPROVI senior officers are subject to being replaced with the incoming of a new administration, which will result in the expected human resource disruptions, as well as potential changes in strategies and operating procedures within the organization. The disruptions will affect the productivity of FONAPROVI beginning in the upcoming quarter and will last at least through the first quarter of next year. The ARC program, and its extension activities may be affected by these changes, though any adverse consequences will be mitigated by the contractual agreements and working procedures that are in place to protect ARC assets and operations.
2. By the end of September 2001, the ARC program had disbursed nearly all of the project funds. As of October 1st there were only \$261,000 in project funds remaining for disbursement from the original \$15 million. A request has been made

to USAID to increase the available funds for the ARC program by approximately \$1 million, and these funds are expected to be available for disbursement beginning in mid October. The rate of disbursement of loan funds has slowed over the past quarter, but the reduction in volume may be in part due to the reduction in marketing effort on the part of the ARC staff and the loan originators.