BIBLIOGRAPHIC DATA SHEET PN-AAJ-251

PRODUCTION LOANS TO GROUPS OF FARMS: EXPERIMENTS IN HONDURAS

PERSONAL AUTHORS - PARKS, LOREN
TINNERMEIER, RONALD

CORPORATE AUTHORS - OKLAHOMA STATE UNIV. DEPT. OF AGR. ECONOMICS

1980, 37P.
(IN INT. DEVELOPMENT SERIES NO. 80-5) (FUNDED BY AID UNDER COOPERATIVE AGREEMENT AID/TA-CA-1)

ARC NUMBER - HO332.71.P252A
CONTRACT NUMBER - AID/TA-BMA-2
PROJECT NUMBERS - 9311134
SUBJECT CLASS - AE100000G358

DESCRIPTORS - HONDURAS AGRICULTURAL CREDIT
GROUP LOANS

Ho
332.71
P252a

PN-AAJ-251

Production Loans To Groups Of Farms: Experiments In Honduras

Loren Parks
Ronald Tinnermeier

AID/ta - CA - 1
Project No. 931-1134-02

Cooperative Agreement Between
USAID, Oklahoma State University and
Colorado State University

International Development Series
No. 80-5
August, 1980

Department of Agricultural Economics
Oklahoma State University
Stillwater, OK 74078

Production Loans To Groups Of Farms: Experiments In Honduras

Loren Parks
Ronald Tinnermeier

AID/ta - CA - 1
Project No. 931-1134-02

Cooperative Agreement Between
USAID, Oklahoma State University and
Colorado State University

International Development Series
No. 80-5
August, 1980

Department of Agricultural Economics
Oklahoma State University
Stillwater, OK 74078

RELATED REPORTS

Reports in this International Development Series (IDS) are:

IDS No. 80-1 Enterprise Budgets: A Multiple Use Data Base for Agricultural Banks in Developing Countries

IDS No. 80-2 Training Programs for Agricultural Development Bank Personnel: The Honduras Experience

IDS No. 80-3 Records for Small Farms in Honduras: A Development and Critique

IDS No. 80-4 Managing Small Farmer Credit Programs: Experiments in Honduras

IDS No. 80-5 Production Loans to Groups of Farms: Experiments in Honduras

IDS No. 80-6 Enterprise Budgets For Grains in Honduras: 1980

Preface

This report is one of a series emanating from the joint Oklahoma State University - Colorado State University cooperative agreements on Small Farmer Credit with the Agency for International Development. The overall objective of the project was to carry out small farm data collection analysis activities to improve credit use. The specific objectives of the cooperative effort between the two Universities and the agricultural development banks in Honduras and the Dominican Republic are to: (a) develop data collection and analysis approaches for use by credit institutions; (b) test these approaches in developing countries; and, (c) disseminate the results.

The approach envisioned and implemented was to evaluate alternative methodologies for farm level data collection and farm management analyses. These steps led to recommendations for improving credit allocation to small farmers in developing countries. Another major part of the project involved training of counterpart personnel and Bank loan personnel in credit policies and farm management approaches for solving small farmer credit problems.

The in-field phase of the project began in Honduras with the Banco Nacional de Fomento, now the Banco Nacional de Desarrollo Agricola (BANADESA), on July 1, 1978, and in the Dominican Republic with the Banco Agricola on July 1, 1979. Dr. Loren Parks, faculty member in the Department of Agricultural Economics at Oklahoma State University (OSU), was the field staff professional in Honduras for two years. Dr. Tom Dickey, faculty member in the Department of Economics at Colorado State University (CSU), is the field staff professional in the Dominican Republic.

The OSU part of this three year cooperative project was funded by AID under Cooperative Agreement AID/ta-CA-1, Project No. 931-1134-02, Basic

Memorandum of Agreement No. AID/ta-BMA-2; CSU operated under AID/ta-Ca-3 and AID/ta-BMA-6. The Credit Project began in 1977.

Dr. William Merrill, former chief of the Economics and Sector Planning Division, Bureau of Development Support, Agriculture, AID, provided early encouragement and leadership in implementing this project; Ms. Anne Grace-Ferguson, Agricultural Economist in ESP/DSB/AGR/AID helped develop the contractual agreements; and, Mr. Erhard Rupprecht and Ms. Karen Wiese, AID served as project managers and provided guidance and support during the past three years. Many in-country AID personnel provided suggestions and support for the project. Strong support of all AID personnel is greatly appreciated. Special recognition is due Mr. René Cruz, President of the Banco Nacional de Fomento in Honduras, Mr. Roberto Valladares, Vice-President of BNF and BANADESA, and Mr. Alfonso Bonilla, former head of the Technical Division where the OSU project was located. Honduran conterparts on the project were Reynerio Barahona, Ricardo Arias and Rolando Medrano.

Faculty involved in the cooperative agreement, included James Osborn, Odell Walker, Harry Mapp, Michael Hardin, and Joe Williams of the OSU faculty, and Kenneth Nobe of the CSU faculty. In addition, J. D. Longwell, CSU Graduate Research Assistant was stationed in the Dominican Republic, and Kurt Rockeman, OSU Research Associate, was stationed in Honduras.

Ronald Tinnermeier
CSU Project Coordinator, and
Overall Project Coordinator
Small Farmer Credit Project

Daniel D. Badger
OSU Project Coordinator
Small Farmer Credit Project

TABLE OF CONTENTS

INTRODUCTION 1

Objectives 2

THE EXPERIMENT WITH AGRICULTURAL COMMITTEES 3

The Bank's Role. 3
The Experiment 5
Lessons Learned. 8
The 1980 Program 10
Evaluation 12

THE EXPERIMENT IN AJUTERIQUE 13

The Setting. 13
The First Loan 14
The Second Loan. 26

PROSPECTS FOR FUTURE GROUP LOANS 29

CONCLUSIONS. 30

LIST OF TABLES AND FIGURES

Table 1. Information about Agricultural Committees Selected for the Group Experiment 7

Table 2. Agricultural Committees Receiving Credit for Corn in 1980. . . 11

Table 3. Net Worth and Income of Selected Ajuterique Farmers. 15

Table 4. Tomato Budget - Comayagua. 18

Table 5. Corn Budget - Comayagua. 20

Table 6. First Ajuterique Loan: Amounts Authroized by Participant and Crop 21

Table 7. First Ajuterique Loan: Net Income by Enterprise 24

Table 8. Second Ajuterique Loan: Amounts Authorized by Participant and Enterprise 27

Figure 1. Map of Honduras. 6

INTRODUCTION

In recent years low income countries (LICs) have been searching for ways to effectively channel formal agricultural credit to small farmers, especially those who are very poor. Most countries have found that small farmer credit is expensive to administer, few farmers have adequate collateral, loan repayment rates are unsatisfactory, interest rate controls severely limit the credit institution's revenues, and a small number of farmers are reached. Small farm credit programs in some countries are trying to solve these problems by experimenting with group lending.

A number of potential advantages are listed for group lending. For the lender: (1) administrative costs may be lower since one loan is made instead of many; (2) technical and financial assistance can be provided the group more economically compared with working on an individual basis; (3) repayment is improved through joint liability; (4) lender resources can be spread across more farmers; and (5) transportation and other lender costs of servicing borrowers can be reduced. For the small borrowers: (6) loan transaction costs would be lower; (7) less collateral would be required since the group would guarantee the loan; and (8) illiterate farmers would receive assistance from the more educated to complete the required loan documentation.

These are some of the proposed advantages of group lending but experience in many countries has shown there also are many pitfalls. For example, legally established credit cooperatives have produced very mixed results. Some have been successful while others have struggled and eventually failed. This suggests that a number of important questions must be answered before group lending can be recommended.

What are the characteristics of a successful group? What group size is best? Should groups be informally or voluntarily organized? Is this an important factor to assure trust and self-policing takes place within the group? Should all members be jointly liable for each and every member's loan? What happens when there is delinquency? If one defaults, should all receive no further credit until the defaulted loan is repaid? Are groups more successful if they are legally recognized? Are groups organized just for credit more successful than groups formed for multiple purposes? Many more questions could be raised.

Objective

The objective of this report is to review the experience of the National Agricultural Development Bank (Banco Nacional de Desarrollo Agricola) of Honduras in extending credit to selected organized borrower groups (Agricultural Committees) as well as to an informally organized group of small farmers.

The Bank has been loaning to cooperatives and agrarian reform groups in recent years but it has not been very satisfied with those groups because of delinquency problems. It was willing to experiment with the more informal groups primarily because guidance could be provided by the team associated with the Small Farmer Credit Project.

The experience with loaning to selected Agricultural Committees (farmer groups) is reviewed. Lessons learned in light of the previously mentioned issues on group lending are presented. A loan experiment with a small informal group of farmers keeping farm records is discussed. Finally, we review the prospects for future group lending by the Bank in Honduras.

THE EXPERIMENT WITH AGRICULTURAL COMMITTEES

Impetus for the first experiment in groups loans came from a request by the former Bank President--René Cruz--that Loren Parks accompany a project evaluation team from the International Fund for Agricultural Development (IFAD) to examine the Western Region Development Project (PRODERO). The Project includes programs in agriculture, roads, education and health in the states of Copán, Lempira and Ocotepeque (see Figure 1). The Honduras government organized PRODERO as a planning entity, staffed it with technicians from various government agencies and international institutions, then sought external financing to carry out the plans. Funding was eventually secured, PRODERO was dissolved and the responsibility for implementation was assumed by existing Honduran government institutions. The agricultural development component was assumed by the Ministry of Renewable Natural Resources (MRNR).

The Bank's Role

The Bank has traditionally been a partner in agricultural development schemes, both as a supplier of funds and as an administrator of credit programs. Prior to Parks' visit in May, 1979, the Bank had already provided production credit to cooperative farms set up under the government land reform program. PRODERO wanted the Bank to increase credit availability to those groups plus a new category of groups called Agricultural Committees (Comités Agricolas Regionales). An Agricultural Committee is an association of eight to fifty-seven independent farmers who live in one town; but more than one Committee can be located in a town if there are enough members.

PRODERO was anxious for the Bank to start giving credit to the 54 Agricultural Committees already organized because government funds were insufficient to meet demand created by technical assistance in the use of improved seeds, chemicals and fertilizers; international money was not yet available; and neither PRODERO and MRNR had the personnel or experience to administer the rapidly expanding credit program they had initiated. All parties involved knew that the Bank would take a dim view of loaning money to these groups since they had no legal status, were untested, and had virtually no collateral besides their crops. For these reasons, PRODERO had made no official request for Bank credit, and the Bank did not offer such assistance. Arrival of the IFAD team pressured both sides to end the impasse because Bank administration of the credit program was essential.

Following meetings and discussions with all parties involved, experimental loans to three Agricultural Committees were proposed for the second crop of 1979. This experiment would provide an opportunity to develop administrative procedures, establish a pattern of cooperation with PRODERO and the agricultural extension agents of MRNR, and satisfy all parties that something was being done. There was risk of failure because second-season rainfall is erratic and beans--the principal second crop--are highly vulnerable to pests and moisture imbalances. On the positive side, the groups were already formed and receiving technical assistance, and the MRNR assured that the best of them would be selected for the experiment. The Bank immediately approved the experiment on the conditions that credit would be authorized only for seed, fertilizer and chemicals, and that only physical inputs would be delivered--not cash. These conditions were identical to those set by PRODERO in its incipient credit program.

The Experiment

Three Agricultural Committees--El Porvenir, Vivistorio and Santa Rita (see Figure 1)--were selected by PRODERO and the Bank loan officer who served as liason with PRODERO. The Bank Office in Santa Rosa de Copan--the site of PRODERO headquarters--was authorized to administer the loans with guidance from the Small Farm Credit Project. Routine supervision of the experiment was handled by the loan officer Jose Hector Muñoz, who solved most of the problems that arose.

A profile of two Agricultural Committees included in the experiment appears in Table 1. Land is very limited in quantity and quality, as evidenced by the average parcel size and slope. Not all landholdings are included in this enumeration; hillside grazing land and land judged unsuitable for the soil conservation program are excluded. Nevertheless, these are truly subsistence farmers who employ the most rudimentary production methods and live in severe poverty. Before PRODERO they used no fertilizer, insecticide or improved seed, but since the advent of the technical assistance program yields have at least doubled.

There is usually only one Agricultural Committee in a village, and membership is voluntary. The society is traditional and intimate; a half-dozen surnames typically dominate a village. Informal but culturally strong relationships influence every aspect of life, including agricultural production and distribution of the harvest. For example, labor is typically shared on a barter basis, and products are traded among residents at a fraction of the outside market price. These facts are mentioned because they seem to have a strong and positive influence on the willingness and ability of the group to handle credit responsibly.

Figure 1

Group Loan Sites in Honduras

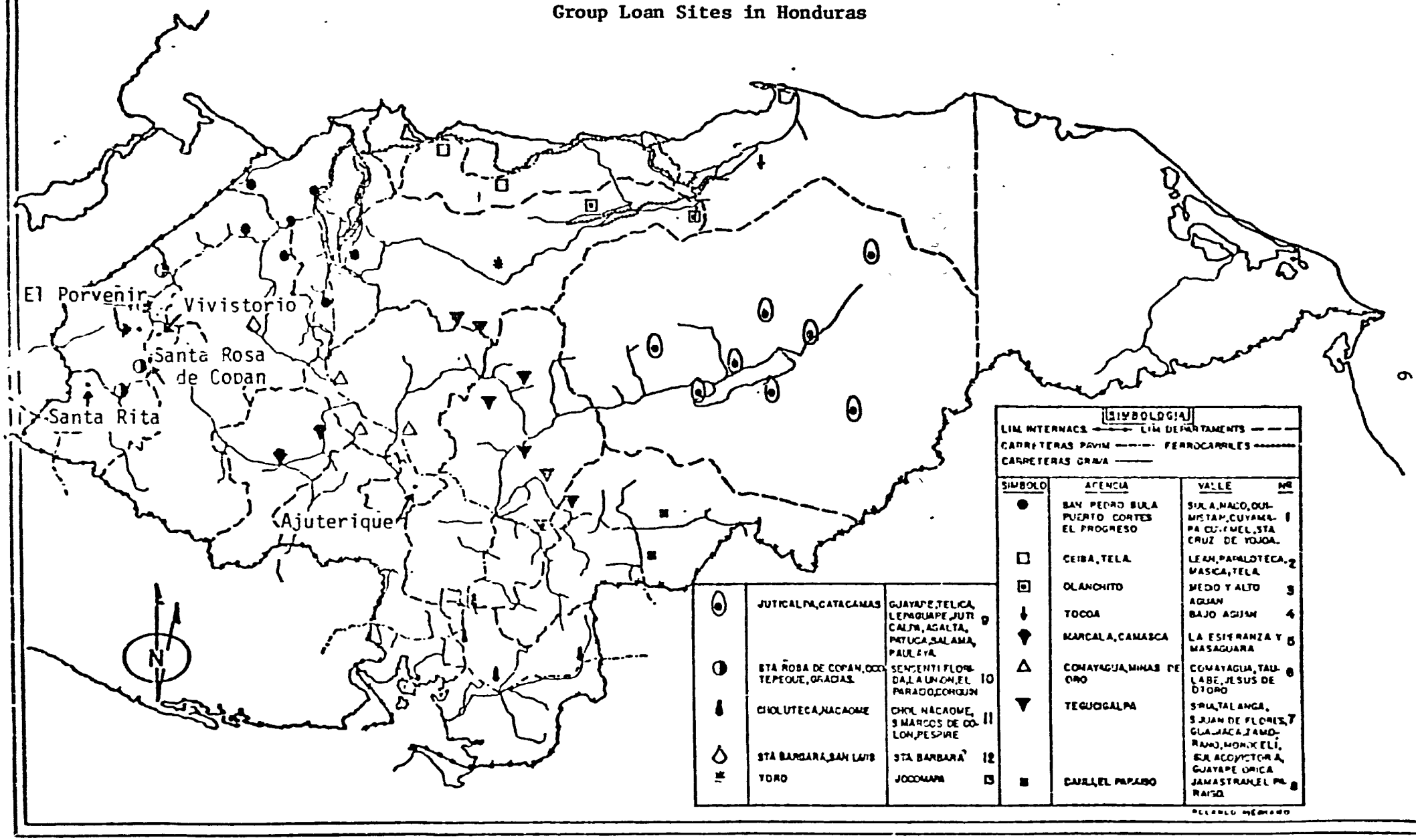

Table 1. Information about Agricultural Committees Selected for the Group Experiment

Information [a]	Name of Committee	
	El Porvenir	Vivistorio
Number of Members	20	23
Total manzanas of land farmed by members	22.8	50
Manzanas of land included in the soil conservation project	6	16.5
Manzanas of land with slope less than 20%	3.5	5
Manzanas of land with slope greater than 20%	19.5	45
Crop yields in 1978		
Corn, cwt./manzana	15	15
cwt./acre	8.8	8.8
Beans, cwt./manzana	8	8
cwt./acre	4.7	4.7
Rice, cwt./manzana	20	20
cwt./acre	11.8	11.8
Estimated inputs needed, first crop 1979		
Improved corn seed, lbs.	175	250
Fertilizer mixture, cwt.	14	20
Urea, cwt.	7	10

a) One manzana = 1.7 acres.

Bank loan officers and MRNR extensionists have repeatedly commented about the contrast between groups in the land reform program and the Agricultural Committees. The latter are generally more cohesive, more responsive to technical assistance, and more responsible. This is not to say that individual members of cooperative farms would not behave equally well in the framework of an Agricultural Committee; it is just that communal ownership, decision-making, and labor have not been successful in this region. The reasons are complex and beyond the scope of this report, but the fact is that Agricultural Committees have a stronger societal base which makes them better prospects for economic development.

The total loan to the three Agricultural Committees was only L 3,126 for 22.5 manzanas of land in 1979.[1] Clearly, the magnitude of a second-season production is minor. It was even difficult to find three Agricultural Committees that wanted credit for a second crop. Since the experiment was important to establish precedent and open the path to credit for the first season of 1980, the Committees agreed to move ahead. The only major problem occurred when the improved bean seed provided to El Porvenir only had a 10 percent germination rate. The cause of failure was never identified. El Porvenir managed to repay its loan on schedule, as did the other two Committees Committees.

Lessons Learned

Some important lessons were learned in the experiment. First, the loan control book designed for the Committees to keep track of the inputs received by each member was too complicated. To their credit, the Bank

---

[1] One Lempira equals U.S. $0.50

loan officer and agricultural extension agents recognized the inappropriateness of the control book and did not introduce it. The farmers had no trouble keeping a simple list of inputs received per person.

A second lesson learned was that the transactions cost of getting a Bank loan is very high, both relative to the loan size and in absolute terms. The Bank required all of the members of each group to complete all the documentation required of a regular client, plus they had to visit the Santa Rosa de Copan office to sign the contract. The documents required are:

1. Birth certificate--available in home town (not necessary if the client already has an identity card).
2. Identity card--available in the state capital.
3. Federal Tax Registration--available in the state capital.
4. Municipal property tax registration--available in home town.
5. Legal recognition of the group--available from the sponsoring agency.

Obtaining documents in the state capital is usually a tedious process which requires more than one visit. The tax registrations are particularly troublesome because many peasant farmers have never registered before, or have failed to pay taxes for some years. When they register they are required to pay assessments in arrears. Although the amounts are very low, they are indeed an obstacle for peasant farmers.

Transportation is a serious problem for farmers who live in the mountains. They typically must walk long distances to a bus route, then spend one or two nights in the state capital. The cost in time and money is formidable. To expedite the experiment the loan officer and the extension agent took people to Santa Rosa de Copan by jeep, helped them obtain their documents from government agencies, nd took care of them every step of the way. This kind of attention will be impossible when all the Agricultural Committees receive credit.

Another problem is that of input quality. Although seed was the only problem in the example, some Agricultural Committees and cooperative farms have purchased adulterated inputs from private vendors.

Transport of inputs from town to village is usually accomplished with a combination of motor vehicles and mules, and it is a particularly difficult task for some isolated communities. The loan officer and the extension agents hauled inputs to the three groups in the experiment, but this will not be possible for all of the Agricultural Committees seeking loans.

The 1980 Program

The Bank authorized expansion of the program to 18 Agricultural Committees seeking production loans in 1980. A total of L47,439 was authorized for the Committees (Table 2). The following policies were implemented in answer to previous problems and changed conditions:

1. Only two representatives from each Committee must have all the documents mentioned, and must sign the loan contract. Reduction of the number of documents required for a loan is prohibited by Bank charter.
2. Each Committee must keep a record of how much each member received, but the form of the record is up to them. The loan officer and extension agent must see the record and understand it.
3. Fertilizer, seed and chemical supplies must be obtained from the Sales Department of the Bank to assure input quality. If the Bank does not have the supplies, the Committees may obtain them elsewhere with approval of the loan officer and extension agent.
4. Inputs can be delivered to five distribution points: Gracias, Ocotepeque, Santa Rosa de Copan, La Entrada and San Marcos. The

Table 2. Agricultural Committees Receiving Credit for Corn Production in 1980[a]

Name	No. of Members	Cultivated Area (Manzanas)	Loan Amount (Lempiras)
Luz y Esfuerzo	8	12.5	1,555
El Progreso	17	13.0	1,842
Nueva Alianza[b]	26	26.0	4,777
El Porvenir	18	20.0	2,226
Superacion	18	16.5	2,725
Nueva Eden	57	50.0	5,300
Nueva Esperanza	27	28.0	3,520
Arenales	19	17.0	1,700
Nueva Vida	13	33.0	3,101
Despertad Libre	9	9.0	1,276
Buena Vista	19	25.0	4,186
Ojos de Agua	17	25.0	3,951
Vistorio	16	21.0	2,116
Carrizal	21	12.8	1,580
El Porvenir	12	14.0	2,226
San Juan	26	20.5	2,415
Riconada	8	8.0	1,186
Los Riñadores	21	20.0	1,757
Total			47,439

[a]As of May 30, 1980

[b]Nueva Alianza included an additional 11 manzanas of beans in the L4,777 credit authorization.

local officer of MRNR will hold the supplies until the Committees can arrange transportation to the villages. Extension agents assigned to Agricultural Committees are expected to help them if necessary.

5. The Bank will finance other inputs such as backpack sprayers, storage sheds, and equipment, but not the labor required to install or use them. Materials for perennial crops will also be financed (principally coffee seedlings).
6. Neither the Bank nor MRNR will assist the groups in marketing their products, but MRNR will continue to provide technical assistance in production.

Evaluation

The experiment in loans to Agricultural Committees was successful in that it broke the impasse between the Bank and PRODERO/MRNR, satisfied international institutions that the Bank would manage the production credit component, and forced development of a methodology to manage this type of loan. One could not help but get the impression that the Bank would be forced to finance Agricultural Committees eventually, but SFC project personnel clearly provided impetus and organization that would otherwise have been missing. Expansion of the program will probably result in new problems of coordination, plus problems not yet foreseen. It is believed, however, that completion of another year of experience will result in a model to be used in similar situations.

THE EXPERIMENT IN AJUTREIQUE

Following the Bank's approval of the group loan experiment with Agricultural Committees it was decided to explore the possibility of getting a loan for the participants in the farm record-keeping program in Ajuterique (Figure 1). A record-keeping program had been underway for 13 farmers there since January, 1979. Some had previously asked about the possibility of credit and three were already Bank clients. In June, 1979, a meeting was held and it was determined that there was sufficient demand to warrant official formation of a group. The three participants who already had Bank credit were willing to join the group once currently outstanding loans were paid off. The Bank promptly approved the idea, and so the group "Ajuterique Independiente" was formed. The modifier "Independent" refers to the fact that they do not comprise a cooperative farm.

The Setting

Ajuterique is a town of 8,000 persons in the fertile Comayagua Valley. There are few stores or services in Ajuterique proper because it is only 15 kilometers from the city of Comayagua (a suburb of the state capital). Ajuterique is a relatively prosperous town because the surrounding land is irrigated from the El Taladro reservoir. Farms tend to be small but intensively cultivated in vegetables, which are shipped primarily to Tegucigalpa and San Pedro Sula. The town's strategic location between these two population centers, with highway access, is a major marketing advantage.

The farmers who participated in the records program were selected with the assistance of a Bank loan officer, using no criterion except cooperation.

The program was entirely voluntary; a few participants were lost and gained during the six months prior to organizing the loan. A local school teacher, Nereyda Vargas, was hired to visit each farmer weekly and make the entries in his record book. She was subsequently given the additional responsibility of keeping a loan control book, which was simply a listing of the cash received by each farmer, dates of disbursement and repayment date.

The Ajuterique farmers who participated in the program are much more affluent than those in the Agricultural Committees, which are indeed at the bottom of the economic ladder. The principal difference is that Ajuterique farmers have more land of high quality and with irrigation. Net worth and net incomes of nine farmers who completed an entire year with the record book are shown in Table 3. Incomes are understated in some instances because nonfarm incomes were not reported.

The First Loan

A series of meetings were held to discuss the proposed loan. Two farmers who were particularly interested had their hopes dashed when the manager of the Comayagua branch office indicated that they would not be allowed to participate because of prior affiliation with a cooperative farm still in default on a loan. Although they had since left that group, and they personally had not defaulted, they could not escape joint responsbility. In frustration they dropped out of the farm records program for awhile, but rejoined later.

Joint responsibility was the most difficult problem confronted. Eight persons are few when it comes to spreading risk, and vegetables are risky because of the high investment, susceptibility to pest and weather damage, and volatile prices. The prospective participants were

Table 3. Net Worth and Income of Selected Ajuterique Farmers

(In Honduran Lempiras, L1.00 = US $0.50)

	#1	#2	#3	#4	#5	#6	#7	#8	#9	Average
ASSETS										
1. Current										
Personal	2450	717	486	1502	85	1540	528	2204	86	1066
Annual Crops	502	444	297	738	2056	183	387	1352	219	686
Market Live-stock	0	240	-	-	-	-	35	-	-	31
Perennial Crops	0	60	-	195	-	319	135	345	45	122
Total	2952	1461	783	2435	2141	2042	1085	3901	350	1905
2. Intermediate										
Breeding Live-stock	0	2025	-	-	-	-	1320	675	-	446
Tools & Equipment	174	125	91	140	526	74	196	67	91	165
Total	174	2150	91	140	526	74	1516	742	91	611
3. Fixed										
Land & Buildings	8500	8500	2000	11900	6000	4000	7750	14000	4000	7406
TOTAL ASSETS	11626	12111	2874	14475	8668	6116	10351	18643	4441	9922
LIABILITIES										
Current	1200	0	0	0	1668	970	0	1609	0	605
Intermediate	0	0	0	0	0	0	0	0	0	0
Long Term	0	0	0	0	0	0	0	0	0	0
Total Liabilities	1200	0	0	0	1668	970	0	1609	0	605
Net Worth, 12/31/79	10426	12111	2874	14475	6999	5146	10351	17034	4441	9317
Net Income 1979	1878	2051	370	1121	804	638	556	319	60	866

so reluctant to agree to joint responsibility that verbal permission was obtained from the head to the Bank's Credit Division to make an exception fo this experiment. The participants were then told that a defaulter would be responsible for his own debt, but that the Bank would have the option of terminating future loans to the group until the defaulter paid his debt. This policy exemption was not communicated properly to the branch manager, which led to some confusion when default actually was imminent.

A number of conditions were set for the loan:

1. Only direct production inputs for crops would be financed, including labor and materials; equipment and infrastructure loans were not eligible at that time.
2. Participants could select the crops they wanted to produce subject to the approval of the Bank and the other group participants. This forced everyone to consider the risks involved and the expertise of each farmer.
3. The repayment date was set for April 30 except for a yucca plantation, which was set for September 30, 1980.
4. The Bank's policy of requiring tangible loan collateral for vegetable crops would be waived. Collateral for grain production would be, as always, the crop itself.
5. Each participant was required to complete all the documentation normally required for an individual client, and each had to sign the contract in the branch office.

The first loan was essentially a collection of individuals loans because the procedures were no different than for individuals. Each participant was interviewed about his production practices and costs using the standard crop budgets already prepared by the SFC project. Examples

for tomatoes and corn are shown in Tables 4 and 5. Virtually no differences were found between the standard budget costs and actual estimated costs. A summary of amounts authorized by participant by crop appears in Table 6.

Each participant had to personally visit the Bank in Comayagua to obtain his money and repay his portion of the loan, hence there was no saving in transaction costs. In fact it created some confusion because eight persons were included in one loan file. Since the Bank parcels out funds in three installments for each crop (land preparation, cultivation, harvest), there was a great deal of paper generated to handle the transactions. This was complicated by the problem described below.

The three loan disbursements are made according to a predetermined schedule corresponding to the budget. If the client's budget indicates harvest in August, for example, he cannot withdraw the portion of funds allotted for that activity before August. The problem that occurred in Ajuterique was that an extraordinarily heavy rainfall destroyed onion and tomato seedbeds shortly before transplanting, so six of the eight participants had to start anew. They ran afoul of Bank policy by trying to withdraw money intended for cultivation activities to re-invest in seed, labor and chemicals lost in the initial effort. Personal intervention by SFC personnel was necessary to obtain premature disbursement of funds intended for the cultivation stage, but the total amount authorized remained unchanged.

In a related problem, one of the participants changed his crop plan from chili peppers to tomatoes after the loan was approved. Delivery of his credit was therefore out of phase with his cash needs, but the paperwork required to change the loan forms was so formidable that the discrepancy was ignored. The other participants were advised not to change their plans.

Table 4. Tomato Budget for Ajuterique

No. 06113 — 1 Manzana — Comayagua

PRODUCTION: 1,200 Boxes (average yield)

PRODUCTION COSTS

LABOR - Days[a] Month		Activity	Total Units	L/ Unit	Total Cost
May	1.	Seedbed preparation	4	3.00	12.00
"	2.	Seedbed maintenance	8	3.00	24.00
June	3.	Fertilizer application	4	3.00	12.00
"	4.	Transplant	30	3.00	90.00
"	5.	Pesticide and fungicide application	4	3.00	12.00
July	6.	Fertilizer application	10	3.00	30.00
"	7.	Pesticide and fungicide application	10	3.00	30.00
"	8.	Placing of stakes and wire	15	3.00	45.00
"	9.	Weeding and cultivation	12	3.00	36.00
"	10.	Attachment of vines	27	3.00	81.00
"	11.	Irrigation and drainage	2	3.00	6.00
Aug.	12.	Fertilizer application	10	3.00	30.00
"	13.	Pesticide and fungicide application	16	3.00	48.00
"	14.	Weeding and cultivation	12	3.00	36.00
"	15.	Placing of stakes and wire	10	3.00	30.00
"	16.	Attachment of vines	18	3.00	54.00
Sept.	17.	Irrigation and drainage	4	3.00	12.00
"	18.	Pesticide and fungicide application	8	3.00	24.00
"	19.	Weeding and cultivation	12	3.00	36.00
"	20.	Harvest and boxing	30	3.00	90.00
Oct.	21.	Harvest and boxing	53	3.00	159.00
OTHER CONTRACTED SERVICES					
May	1.	Plowing	2	17.50	35.00
"	2.	Discing	1	15.00	15.00
"	3.	Furrowing[b]	1	10.00	10.00
MATERIALS			Units		
May	1.	Seed - Variety Napolli	lbs .75	55.00	41.25
"	2.	Fertilizer - formula	qq 2	23.00	46.00
"	3.	Fungicide - Dithane	lbs 2	3.50	7.00
June	4.	Fertilizer - formula	qq 4	23.00	92.00
"	5.	Fungicide - Dithane	lbs 5	3.50	17.50
"	6.	Pesticide - Lannate	lbs .5	31.00	15.50

Table 4 (cont.)

No. 06113 1 Manzana Comayagua

PRODUCTION: 1,200 Boxes

PRODUCTION COSTS

MATERIALS Month	Activity		Units	Total Units	L/ Unit	Total Cost
Jul.	7.	Fertilizer - Foliar	liter	1	17.00	17.00
"	8.	Water	-	1	4.00	4.00
"	9.	Fungicide - Dithane	lbs	10	3.50	35.00
"	10.	Pesticide - Tamarón	liter	.5	27.50	13.75
"	11.	Pesticide - Lannate	lbs	.5	31.00	15.50
Aug.	12.	Fertilizer - Formula	qq	2	23.00	46.00
"	13.	Water	-	2	4.00	8.00
"	14.	Urea	qq	1	21.50	21.50
"	15.	Fertilizer - Foliar	liter	1	17.00	17.00
"	16.	Fungicide - Dithane	lbs	10	3.50	35.00
"	17.	Fungicide - Difolatán	lbs	6	7.50	45.00
"	18.	Pesticide - Tamarón	liter	.5	27.50	13.75
"	19.	Pesticide - Lannate	lbs	.5	31.00	15.50
Sep.	20.	Fungicide - Dithane	lbs	10	3.50	35.00
"	21.	Fungicide - Difolatán	lbs	3	7.50	22.50
"	22.	Pesticide - Tamarón	liter	.5	27.50	13.75
Oct.	23.	Fungicide - Difolatán	lbs	3	7.50	22.50
OTHERS						
	1.	33% Stakes[c]	thou.	5	50.00	83.30
	2.	50% Cord[c]	lbs	100	1.65	82.50
	3.	Interests 12%				73.70
		TOTAL EXPENSES				L. 1.796.50

Notes:
[a] Day = 8 hours
[b] Includes oxen and driver
[c] Stakes, 3 year life and cord, 2 year life

Armando Ramírez
7-5-79

Table 5. Corn Budget for Ajuterique

No. 06011 | 1 Manzana | Comayagua

PRODUCTION: 20 qq. (Low Yields)

PRODUCTION COSTS

LABOR - DAYS[a] Month		Activity		Total Units	L/ Unit	Total Cost
Mar.	1.	Cleaning and burning		14	3.00	42.00
May	2.	Seeding with a stick		3	3.00	9.00
June	3.	First weeding		16	3.00	48.00
"	4.	Pesticide application		1	3.00	3.00
Aug.	5.	Second weeding		5	3.00	15.00
Sept.	6.	Doubling over		4	3.00	12.00
Nov.	7.	Picking and gathering		5	3.00	15.00
OTHER CONTRACTED SERVICES						
Nov.	1.	Shelling by hand		b/	1.50	30.00
MATERIALS			Units			
May	1.	Common seed (selected)	lbs	25	.28	7.00
June	2.	Pesticide - Aldrin granules	lbs	25	.55	13.75
OTHERS						
		Interest 12%				10.20
		TOTAL EXPENSES				L.204.95

Notes: [a] Day = 8 hours
[b] Fixed cost per qq.

Armando Ramirez
10-4-79

Table 6. First Ajuterique Loan: Amounts Authorized by Participant and by Crop

Participant	Onions	Tomatoes	Corn	Beans	Chili	Yucca	Total
1	-	-	-	1,200.00	-	-	1,200.00
2	-	-	671.00	-	-	-	671.00
3	713.00	769.00	-	-	850.00	-	2,332.00
4	713.00	-	-	-	-	-	713.00
5	713.00	-	-	-	-	-	713.00
6	2,140.00	-	-	-	-	491.00	2,631.00
7	713.00	-	-	240.00	-	-	953.00
8	1,425.00	-	-	-	-		1,425.00
	6,417.00	769.00	671.00	1,440.00	850.00	491.00	10,638.00

Several other problems emerged in this group loan. The Bank loan officer assigned to attend the group did not trust some of the participants, and his negative attitude was noticeable. On several visits to the Bank to obtain funds or resolve a problem they were made to wait at least four hours before being attended, contributing to a feeling of frustration and animosity. These incidents resulted from poor communications, disorganization in the Bank, and the participants' failure to adhere to the original credit disbursement schedule. At times SFC project personnel seemed to be playing the role of mediator between the group and the Bank branch office personnel, but as time passed the relationship improved. Project and other Bank personnel were in agreement, however, that some of the group participants exaggerated their problems with the Bank, and that some of the "problems" hardly qualified as such. As one Bank employee put it, "they could drown in a glass of water."

Part of the success and the troubles of the group were due to one participant who became the self-designated spokesman. He is an education man with a history of leadership in the community and a reputation bordering on suspicious. His questions, observations and sagacity helped SFC personnel understand problems and develop policies, but he dominated the "poor country folk" to such an extent that it was sometimes difficult communicating with them directly. This "leader" also was responsible for imagining problems that were in reality trivial, and he soon became suspect of manipulation. The primary evidence was that he failed to pay off his loan by the due date in spite of previous assurances that he had the money to do so.

The financial results of the first loan were not good. All six of those who produced onions suffered losses because of low market prices, resulting in net farm losses for at least three of them as of April 30.

Two of the others might have suffered net farm losses also, but records are incomplete because they repaid their loans and dropped out of the program. One was angered because he did not want to reveal incomes and expenses for enterprises not financed by the loan, and the other would not say why he dropped out. A summary of net income by crop is shown in Table 7.

A very unfortunate event occured during the production season. The son of one of the participants (also a participant) died of leukemia, so his father assumed responsibility for the crop and the loan. Since both father and son had planted onions, the total loss was formidable. The father subsequently had to borrow L625 from the other participants to repay his loan, as explained subsequently. In addition to this incident, one of the participants had a family medical emergency which cost him L300--a very large sum for these farmers.

As the April 30 deadline approached it became obvious that a rescue effort was necessary. The only one who could not marshall resources to repay his loan was the man whose son died, so six other persons loaned him a total of L625. One of the principal lenders (L300) was not even a participant in the first loan, but was one of the original farm records participants who had dropped out. When his father died and he inherited ownership of his land, he became interested again in getting a loan. By this time the second loan was in the process of preparation, but approval was contingent upon repayment of the first loan. It was clear to all parties involved--four remaining members of the first loan plus 13 prospective participants in the second loan--that the first loan had to be paid off or there would be no more credit from the Bank. One week after the April 30 deadline the first loan had still not been repaid, even though the Honduran counterparts of SFC project had visited Ajuterique to

Table 7. First Ajuterique Loan: Net Income By Enterprise

Participant	Onions	Tomatoes	Corn	Beans	Yucca	Net
1	-	-	-	403	-	403
2	-	-	298	-	-	298
3	(142)	382	-	-	-	240
4	(a)	-	-	-	-	(a)
5	(b)	-	-	-	-	(b)
6	(322)	-	-	-	(d)	(d)
7 (c)	(313)	-	-	107	-	(206)
8	(188)	-	-	-	-	(188)

a. Figures in ( ) are losses

b Participant quit the program

c Participant quit the program

d Participant died

e Results not in at the time of this report

exhort immediate repayment. During that visit it was announced that Dr. Parks would arrive May 12 to terminate the program, including the proposed second loan, if they had not paid. As a consequence the participants worked out the aforementioned loan to the man who could not repay and repaid the Bank loan on the morning of May 12.

There were special circumstances at the Bank which influenced the participants' action to delay repayment until the last moment. A law was passed April 1 which affected the demise of the Banco Nacional de Fomento and created the Banco Nacional de Desarrollo Agricola, but maintained the physical assets and loan obligations of the defunct institution. Many debtors erroneously thought that their debts would be written off, but such was not the case. It quickly became evident too that the new Bank was bereft of funds to loan for the new crop year, inciting a rash of defaults by clients who would not have money to plant a new crop if they repaid the Bank. The four remaining participants of the initial group were therefore under pressure from the 13 new entrants in the second loan to repay. If they did not, there would be no credit for any of them.

The overall attitude of the group was very positive with respect to the concept of a group loan. It took time for them to understand how the Bank operates and what their responsibilities are, but except for the two dropouts, they wanted to obtain a second loan for an expanded group. Mixed reactions were obtained from them and non-loan participants at first about keeping farm records, but once they saw the results they realized the value to themselves and the group of making the record book a requirement for participation in in the loan. As one farmer put it, "we want to make sure that participants spend the money as they are supposed to." This concern was quite strongly expressed when it became evident that default was imminent, and that tighter supervision would have to be maintained in another loan.

As the first loan drew to a close SFC personnel came to the conclusion that credit alone is not a strong enough bond to hold this group together. Agricultural Committees have the advantages of a society which borders on an extended family, but Ajuterique farmers are more independent and commercially oriented. An agricultural extension worker in the area expressed willingness to provide technical assistance to the group as a means of improving group identity and their production methods, so this will be done for future group loans. Another way to promote group solidarity would be establishment of a marketing cooperative. As mentioned previously, these farmers are victims of an unpredictable vegetable market. Unfortunately, Project personnel did not have the time or resources to work on this problem.

The Second Loan

Participants in the second Ajuterique loan included four of the first loan participants, three previous record book participants, and ten new members. Admission of new members to the group was left to the discretion of the group. Surprisingly, they denied admission to three prospective entrants on grounds that they did not own the land they farmed. That decision was significant because the three persons are respected friends of the others.

The second loan is for a total of L59,819, L2,580 of which is for bullocks and backpack sprayers with a repayment period greater than one year. The remainder is for the crops shown in Table 8. The record-keeper was retained to keep the individual record books and the loan control book. In deference to a request by Bank management, the participants were requested to pay L50 of the record keeper's L250 salary per month, to which they readily agreed.

Table 8 Second Ajuterique Loan: Amounts Authorized by Participant and Enterprise

Participant No.	Tomatoes	Onions	Corn	Cucumbers	Chili Pepper	Yucca	Rice	Watermelon	Crop Total	Backpack Sprayer	Pair of Bullocks	Totals
1	3680	–	762	–	–	–	–	1019	5461	–	–	5461
2	1840	1295	2096	–	–	–	–	–	5231	–	–	5231
3	–	–	762	667	–	1030	–	–	2459	160	700	3319
4	1840	–	–	667	–	515	–	–	3022	160	700	3882
5	1840	1295	381	–	–	–	–	–	3516	–	–	3516
6	2760	–	–	–	1288	–	1793	–	5841	–	–	5841
7	1840	–	381	–	644	–	–	–	2865	–	–	2865
8	920	647	381	–	–	–	–	–	1948	–	–	1948
9	–	1295	381	–	–	515	–	–	2191	–	–	2191
10	1840	–	762	–	–	515	–	–	3117	–	–	3117
11	–	647	381	–	–	–	–	–	1028	–	–	1188
12	–	–	1524	–	–	–	–	–	1524	–	–	1524
13	3680	1295	762	667	–	–	–	–	6404	–	700	7104
14	3680	–	1524	667	–	–	–	–	5871	–	–	5871
15	–	1295	381	–	–	–	–	–	1676	–	–	1676
16	–	647	762	–	–	–	–	–	1409	–	–	1409
17	3680	–	–	–	–	–	–	–	3680	–	–	3680
	27600	8416	11240	2668	1932	2575	1793	1019	57243	480	2100	59823

To avoid the high transactions costs associated with the first loan, a new system of disbursements was designed. One disbursement of funds is made to the group on the first weekday of each month. The group selects two to four persons to pick up the money and bring it to Ajuterique for disbursement. Each person knows in advance exactly how much he is to receive because it is all calculated in advance using the crop budgets. The first two disbursements went smoothly, and the Bank helped by putting the exact amount for each participant in a separate sealed envelope.

Since repayment deadlines occur at different times for different crops, the monthly visit to the Bank will eventually require exchange of funds in both directions; as one participant receives cash for production expenses another might be repaying all or part of his loan.

It appears that this group should not include more members in the future. It is getting difficult to manage that many record books and maintain vigilance over the activities of the participants.

PROSPECTS FOF FUTURE GROUP LOANS

The reputation of the Bank is superb in Ajuterique and among Agricultural Committees receiving credit. Although start-up costs have been relatively high, the potential benefits to the Bank and to independent small farmers are enormous. The methodologies developed for the two distinct situations can be adapted to other areas and situations in Honduras and in other countries.

Among the general lessons learned are the following;

1. The most difficult objective to achieve in group loans is reducing transactions costs to the farmer and the Bank;
2. Groups should ideally consist of ten to twenty participants;
3. Joint responsibility for repayment is essential;
4. The rules and conditions of the loan should be explicit at the outset, leaving nothing of importance for resolving later;
5. Additional reasons other than credit should exist for maintaining group solidarity; and,
6. Each group has its own personality and credit needs, so there should be some flexibility for adjusting policies to fit the situation.

Prospects for continued organization of group loans by the Bank are not good in the short run because of personnel shortages. It takes a lot of time to organize and educate a group about how to estimate credit needs, control the funds, and resolve problems. Formation of new groups as done in Ajtuerique is therefore unlikely to occur for some time, but prospects are somewhat better for providing credit to groups like the Agricultural Committees which are already organized.

CONCLUSIONS

A number of potential advantages have been listed for extending agricultural credit through organized farmer groups. This report indicates the experience of the Honduran National Agricultural Development Bank in extending credit to selected organized borrower groups (Agricultural Committees) and to an informally organized group of small farmers.

Generally, the experience of the Bank with these groups has been positive, especially when compared with the serious problems which arose in the past when the Bank made loans to agrarian reform farmer groups. Nevertheless, this positive experience covers a relatively short period (less than two years) and serious, unanticipated problems could arise in the future. Certainly, many of the assumed or proposed advantages of group lending did not completely materialize over the life of the project. Bank administrative costs did not significantly decline, repayment problems continued even with joint farmer liability, limited Bank resources (especially personnel) restricted the number of groups reached, loan transaction costs for the borrowers continued to be relatively high, and loan collateral and other requirements were not significantly reduced. Even so, those involved with the group lending experiment still feel considerable improvements are possible which would produce the expected potential benefits from group lending. Five tentative conclusions can be summarized from this experience.

First, the dynamics of borrower groups are complex and not completely understood. Individual farmers sometimes dominate group decisions. Also, groups tend to be less stable if organized just for obtaining credit. This implies that much attention needs to be placed on identifying group functions and in forming groups.

Second, a reduction in loan forms, requirements, collateral, etc. does not result automatically from group lending. Some loan requirements are set by statute or law while others are deeply ingrained in the credit institution itself. As a consequence, changes are slow in coming.

Third, joint farmer liability, although logically sound, is not easily accepted by farmers nor easily implemented by a credit institution. When default occurs, farmers are reluctant to cover another's debt while the lending institution may eliminate many potentially good borrowers because their group was delinquent.

Fourth, exogenous factors outside the group's control may be critical to the success of the group. For example, poor quality or unavailability of required inputs may cause serious delinquency problems for the group.

Finally, farm record keeping (a part of the experiment for one group) was more readily accepted by the group receiving credit since the records provided information which could be used by the group to determine credit needs and to serve as a check on members of the group. This benefit was not anticipated at the time the project was initiated.

In summary, group lending still appears to hold promise based on the Honduran experience but it is no panacea for small farm development. With time and careful nurturing, group lending can lead to many benefits for the lending institution and the borrowers but these benefits do not come automatically. Well-trained personnel are needed to guide a program in such a way that these potential benefits actually materialize. This is the challenge facing those who wish to reach more small farmers through group lending.