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PROJECT COMPLETION REPORT

COUNTRY : Honduras  
PROJECT : EDUCREDITO 522-L-020  
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PERIOD OF REPORT: 1971 - 1975

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## I. BACKGROUND

This student loan program (EDUCREDITO) was formed in 1968 with funds obtained from A.I.D. on a grant basis, government and private contributions and loans from A.I.D. Payment Agreement funds (Two-Step Loans). It was started as part of the Cooperative Industrial Technical Center (CCTI), an A.I.D. financed private agency.

Prior to 1968 no private or public agency with this purpose existed in Honduras; however, the acute need for a service agency of this type resulted in its creation in order to deal with one of the principal obstacles to Honduras' economic, social and cultural development - the lack of adequately trained human resources, especially at the managerial and professional levels. It was hoped that EDUCREDITO would accelerate the development of these human resources which would lead to a greater level of productivity, expansion of industry and generally improved economic development in Honduras. The acute need for training at these levels is clearly demonstrated by the 1961 statistics relating to people with high level education. Less than 1/2 percent of the people who entered primary school completed University training.

Within a month of EDUCREDITO's inception, the Government officially recognized the organization. EDUCREDITO rapidly gained a broad base of support in all sectors of the Honduran community. Because of the rapid growth and the urgent demand for this service, there arose a need for additional outside funding and in 1970 EDUCREDITO began discussions with A.I.D. about the possibility of a loan. The loan was made in November of 1971. Under the Loan, \$2,000,000 was provided by A.I.D. and the EDUCREDITO Administration was required to raise \$200,000 as a local counterpart.

The breakdown of the five-year loan as originally conceived and as finally disbursed is as follows:

### A. Originally Conceived

	<u>Loan Funds</u>	<u>Counterpart</u>
Student Loans	\$1,800,000	\$200,000
Administrative Costs	125,000	
Technical Assistance	25,000	
TOTAL	<u>\$2,000,000</u>	<u>\$200,000</u>

B. Finally Disbursed

	<u>Loan Funds</u>	<u>Counterpart</u>
Student Loans	\$1,884,047	\$200,000
Administrative Costs	92,400	
Technical Assistance	23,553	
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TOTAL	\$2,000,000	\$200,000

II. PROJECT EXECUTION

A. Purpose

The purpose of the loan was to expand and develop an institution which channels resources to help train increased numbers of Hondurans in professional areas.

It can categorically be said that the purposes of the loan were achieved. By the end of the loan period EDUCREDITO was a viable institution with a staff capable of carrying out its various responsibilities competently. More than 80 percent of its loans were going for training in areas recognized as necessary for future development.

Further, the fact that at the end of the loan disbursement period 90 percent of the loans were going to people with an income of less than \$220 per month demonstrated that EDUCREDITO was providing post-secondary study opportunities for lower income groups which would normally not be able to study at that level for lack of financial resources.

B. Project Design

This loan was made to the Government of Honduras for relending to EDUCREDITO on the same terms and conditions, except for repayments in Lempiras, to finance subloans to students to complete programs of study, technical assistance to EDUCREDITO, and a portion of EDUCREDITO's administrative expenses during the loan disbursement period of five years. The justification was that the low level of economic and social progress in Honduras is related to a lack of skilled and professional human resources required to permit the development of the country at an acceptable rate. Population growth and increased requirements for skilled manpower have outstripped the ability of the educational system to produce the human capital required to keep pace.

The EDUCREDITO loan was to complement and aid the Mission's training effort. Secondary school graduates were to be provided with increased opportunities to specialize and obtain advanced training and an additional source of funds was to be created to assist in technical assistance in Public Administration, Agriculture and Forestry. Furthermore it was to assure that planning, administrative, professional and technical personnel in key development areas such as industry, banking, health and government were continually injected into the Honduran economy. They were to be the persons who would hold the key professional and semi-professional jobs in the government and private sectors in the future.

The overall plan for the expansion of EDUCREDITO included five basic areas of activity:

- Administering the sublending program;
- Coordinating the program with manpower research and planning activities;
- Follow-up activities to evaluate the effectiveness and impact of the EDUCREDITO program and then to keep track of the contributions made by returned students;
- Counseling and assisting the students in the preparation of comprehensive educational plans;
- Maintaining contacts with industry to assure a broad base of support for the program including fund raising and job placement.

The project design was basically very simple. It provided funds for subloans, administration and technical assistance all toward the end of creating a viable institution. No amendments to the loan were necessary and the project design in its simplicity was very adequate to do the task at hand.

### C. Major Conditions and Covenants of Loan Agreement

All major conditions and covenants have been fulfilled.

Some problems encountered in the raising of counterpart will be discussed under the section of implementation.

#### D. Project Implementation

The original disbursement period for this loan was five years. However, EDUCREDITO was able to disburse all funds for subloans under this project within a four-year period. They would have disbursed the loan sooner except for delay in the raising of the counterpart. (Reimbursements were based on the amount of counterpart funds raised.)

The problem was that after Hurricane Fifi in 1974, the economic situation in Honduras was very tight. Further, the accelerated disbursement of the loan called for raising of funds in less time than originally planned in the loan design. No significant problems were caused by this situation, however.

The original loan agreement called for \$1,825,000 to be used for student loans. As finally disbursed, \$1,884,047 was used to finance subloans due to the transfer of other funds from the administrative and technical assistance categories which were not completely utilized. Approximately 1,575 loans were made with this money, plus funds previously received. At the end of the loan period EDUCREDITO had overcommitted the balance of funds available for subloans. However, the regional audit report of April 14, 1975 assured A.I.D. that this would not present problems because subloan repayments could be used to cover future needs. The audit did however recommend that a system of controls be established so as not to overextend the institution's ability to cover loans made.

The following is a breakdown of areas of study of students that had received loans from EDUCREDITO up to the termination of the A.I.D. loan:

<u>Area of Study</u>	<u>No. of Students</u>	<u>Percentage</u>
Agriculture	235	14.9
Engineering	165	11.9
Miscellaneous	277	17.5
Education	187	11.8
Administration	138	8.7
Health	318	20.1
Natural Sciences	91	5.7
Economy	79	5.0
Social Sciences	85	5.3
TOTAL	<u>1,575</u>	<u>100.0</u>

The amount disbursed for the 1,575 loans was \$3,759,125. This figure includes the A.I.D. \$2,000,000 loan, plus other loans and contributions of \$1,759,125. Of those students who received loans 1,001 have completed their studies and returned to Honduras to work. It is expected that of the balance 500 additional trained professionals will be returning. By the end of the loan period 442 students completely repaid their loans.

It is obvious from these figures that EDUCREDITO has made a significant contribution to Honduras' professional work force. At one point the demand for loans in key areas was greater than EDUCREDITO's ability to supply them because of the decline in funds brought about by the total disbursement of the A.I.D. loan. For example, shortly after the loan was completely disbursed in November 1975, EDUCREDITO could only finance 10 of 18 requests for loans to students accepted for studies at INCAE because of lack of funds. To assist EDUCREDITO during the transition period to a new International Development Bank (IDB) loan, A.I.D. approved the granting of an additional \$500,000 two step loan. At present EDUCREDITO is awaiting disbursement of the new IDB loan of \$1,000,000. Only the conditions precedent remain to be met prior to disbursement.

As a condition to receiving the IDB funds, and so that EDUCREDITO could be adequately capitalized, the institution was made a semi-autonomous agency of the GOH and a million dollars in two step loans was transferred as donated capital. The Government of Honduras will also be providing \$1,400,000 in counterpart to the IDB loan.

While no systematic information collection system has been established to ascertain where graduates have been placed upon returning to Honduras, many are in high level positions in the National Agrarian Institute; the Ministries of Health, Economy, Natural Resources, and Communications. Furthermore, many have been employed in banks, INFOP, COHDEFOR and other agencies too numerous to mention.

The loan agreement called for annual audits of EDUCREDITO which revealed various accounting and administrative problems which were corrected over the life of the loan.

Three studies were contracted under the loan to assist in the administrative and technical development of the agency. They were:

1. A study of how to set up a self-insurance system in the case of deaths of students with subloans.
2. A study of the accounting system of EDUCREDITO.
3. A study of EDUCREDITO's administration and personnel systems.

In the case of Number 1, the self-insurance system is functioning well. With regard to study Number 2, most of the recommendations of that study have been implemented. As to study Number 3, the recommendations have been implemented.

During the implementation of the loan, A.I.D. on several occasions became concerned about the rapid growth of EDUCREDITO personnel and the related costs of administration. The study Number 3 on administration and personnel was contracted with Price Waterhouse which found this growth not to be excessive.

The Audit Report dated April 14, 1975 reflected that "A.I.D. funds were being used effectively by EDUCREDITO to make loans to students". It also says that "EDUCREDITO is developing into a potentially viable financial institution capable of providing the funds needed for the development of a trained corps of managers, technicians, professionals and teachers in Honduras as envisioned in the CAP"

Furthermore, the information gathered for this evaluation also reflects that EDUCREDITO has been fulfilling its social and development responsibilities by providing loans in priority study areas to students of limited resources. The rapid disbursement of funds (4 year disbursement of subloans under a Loan Project slated for disbursement over a 5 year period) reflects both a need for this kind of educational service as well as EDUCREDITO's capacity for meeting this need.

### III. RECOMMENDED ACTIONS

As previously stated, this loan was well designed, was disbursed rapidly and fulfilled its purpose. Now that the IDB loan is coming on stream, it is expected that the rate of student loan approvals will be sustained over the next several years. No further actions are recommended at this time.