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Tegucigalpa, D.C.  
November 17, 1980

# BEST AVAILABLE DOCUMENT

Mr. John R. Oleson, Director  
Agency for International Development (AID)  
Embassy of the United States of America  
His Office

Mr. Director:

In compliance with the provisions of the Public Law 480 (PL-480) Title I/III Agreement, I am pleased to submit for your consideration the annual report under the mentioned agreement.

1) REPORT ON USE OF PRODUCT

The wheat received under PL-480 Title I/III has been negotiated with the Milling Industries of the country in the following form.

1979-1980 CROP CYCLE

Total amount received, 13,164 metric tons.

<u>Milling Industry</u>	<u>Percentage Distribution</u>	<u>Total Volume</u>
Molino Harinero Suia, S.A.	75%	9,873 MT
Industrias Molineras S.A.	25%	3,291

1980-1981 CROP CYCLE

Amount to be received	10,430 MT
* Amount received	<u>2,449 MT</u>
Amount pending receipt	7,981 MT

\* NAME OF SHIP

"LA MINERA"

DATE OF ARRIVAL

OCTOBER 4, 1980

PORT OF ARRIVAL

PUERTO CORTES

<u>Milling Industry</u>	<u>Percentage Distribution</u>	<u>Total Volume to be received</u>
Molino Harinero Sula, S.A.	70%	7.301
Industrias Molineras, S.A.	23%	2,398.90
Molinos Bruni, S.A.	7%	730.10

2) REPORT ON THE UTILIZATION OF FUNDS GENERATED BY THE MARKETING OF WHEAT  
FINANCED UNDER PL-480

For the 1979-1980 crop cycle, the sale of wheat to the mills was for L.3,928,105.66, which amount has been deposited in a special account in the Central Bank of Honduras which was opened on April 17, 1980.

We present below a table of objectives for disbursements of funds generated by PL-480, which was reviewed jointly with personnel of AID in the month of July, 1980.

BREAKDOWN OF ALLOCATIONS AND DISBURSEMENTS  
BY ACTIVITY - PL-480 AGREEMENT (1st. year)

(AMOUNTS IN LEMPIRAS)

	<u>AMOUNT PROGRAMED</u>	<u>ACTUAL AMOUNT DISBURSED</u>	<u>PERCENT DIFFERENCE</u>	<u>% OF EXECUTION</u>
PURCHASE OF GRAIN	2,628,105.66	2,628,105.66		100.00
PERSONNEL	200,000.00		200,000.00	- 0 -
TECHNICAL ASSISTANCE AND TRAINING	400,000.00	34,523.54 *	405,476.46	7.80
REPAIR OF INSTALLATION	200,000.00	200,000.00		100%
NEW EQUIPMENT	200,000.00	200,000.00		100%
OPERATING COSTS	260,000.00	260,000.00		100%
T O T A L	3,928,105.66	3,322,629.20	605,476.46	

\* Actual Amount disbursed which corresponds to the training of six persons, three in the year 1979 and three in the year 1980 under courses for the conservation of grain at Kansas State University, United States of America.

The difference between the amount programmed and the actual amount disbursed is transferred to form part of the Preserved Difference line item of the Personnel, Technical Assistance and Training components.

PERSONNEL. Implies the hiring of extra personnel required by the institution in order to meet the provisions of the National Development Plan in the operating aspect.

TECHNICAL ASSISTANCE AND TRAINING. Implies the hiring of technicians trained in the aspects related to the institution in order to set forth guidelines in support of national development; and the training of IHMA personnel abroad in order that they might apply their learning and thus achieve the social and economic projection of the institution toward the nation.

3) REPORT ON THE FACILITIES FOR STORAGE, PURCHASE AND DISTRIBUTION OF BASIC GRAINS, INCLUDING MACHINERY ACQUIRED, EXPANSIONS AND IMPROVEMENTS MADE.

For the purpose of providing broader and better services both to the producer and to the national consumer, IHMA increased its storage capacity by 250,000 quintales during the year 1979. Likewise, it carried out the installation of new drying equipment in each of the following centers: the Prado Alto Terminal in San Pedro Sula, Juticalpa Granaries, Catacamas Granaries, Danli Granaries, Choluteca Granaries, El Porvenir Granaries and lastly Ia Entrada (Copán) Granaries. In all of these centers, the construction of offices for the administrator, guardhouses for the guards and concrete platforms to receive the grain was carried out. During the year 1980, the following improvements and expansions had been realized:

DANLI GRANARY

- 1) Repair of the bases of the Silos.
- 2) Repair of the potable water system

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- 3) Construction of toilets.
- 4) Construction of Sentic Tank.
- 5) Construction of roof for the dryer.
- 6) Construction of roof for the areas for loading and unloading grain.

#### CATACAYAS GRANARIES

- 1) Construction of roof for the dryer.
- 2) Construction of toilets.
- 3) Construction of Septic Tank.
- 4) Installation of potable water system
- 5) Construction of cistern with its respective pump, with roofing of zinc sheeting.
- 6) Construction of sheds for the relocating of the grain processing equipment

#### JUTICALPA GRANARIES

- 1) Construction of small house for offices.
- 2) Repair of electrical system.

#### COMAYAGUA GRANARIES

- 1) Paving of patios and entrance to the granary.
- 2) Fencing of the grounds occupied by the granary.

#### KERRIEDY TERMINAL PLANT, TECUCIGALPA

- 1) Construction of machine shop.
- 2) Construction of roof to cover the dryer.
- 3) Construction of fuel tank.
- 4) Installation of electric and lighting system.
- 5) Installation of pipes for diesel and drainage.
- 6) Construction of curbs.

- 7) Waterproofing of the basement of the receiving hoppers.
- 8) Preparation of plans, specifications and amounts of labor for the employee dining room, for purposes of bidding.

CERRO DE HULA GRANARIES

- 1) Paving of the maneuvering patios.
- 2) Repair of the administrative office.
- 3) Fencing of the front part of the grounds occupied by granaries.
- 4) Repair of the warehouse floors.
- 5) Construction of entrance gates.
- 6) Connecting up of the potable water service.

CHOLUTECA GRANARIES

- 1) Construction of roof to cover the dryer.
- 2) Installation of pre-cleaner.
- 3) Installation of electrical system.

EL PORVENIR GRANARIES

- 1) Construction of drainages.
- 2) Fencing of grounds where granaries are located.
- 3) Installation of siding on the shed where the processing equipment is located.

RICE MILL, PUERTO CORTES

- 1) The contract for the remodeling of the mill was awarded to the company CELTA-7.

STORAGE CAPACITY

- 1) IHMA currently has a total storage capacity of 1,780,400 quintales.
- 2) The RURAL SILOS OF HONDURAS Project will increase the storage capacity by 453,200 quintales, or 25%.

- 3) IHMA will manage the marketing component of the project for the REGIONAL DEVELOPMENT OF THE WESTERN REGION (PRODEPO), which will have a storage capacity of 88,000 quintales distributed in the communities of San Marcos de Ocotepeque, Santa Rita de Copán and Lapaera, Lempira.

4) PRICE STABILIZATION

In order to comply with the objectives of the Price Stabilization Program, IHMA took the following measures and actions during the past 1979-1980 crop cycle:

a) Measures

- 4.a. Stabilization measures were adopted through the direct intervention in the purchase-sale of grains in the majority of the capital city and municipal markets.
- 4.b. A measure for guarantee prices was studied and adopted with the objective that it would form a part, along with other measures of the Agriculture Sector, of a general policy of production incentives.
- 4.c. To continue with the development of the project for the IMPROVEMENT AND EXPANSION OF IHMA CENTERS, which includes all of the existing centers of the Institute, in order to be able to acquire the volumes of grain programmed in each for the effective stabilization of prices.
- 4.d. To manage the donations of grains assigned to the Government of Honduras, for the purpose of carrying out their distribution and/or marketing in an orderly and equitable fashion in the national market.
- 4.e. To provide flexibility and streamlining to the procedures for the purchase of grain by increasing the quality margins.

b) Actions

- 4.a. The broadening of the quality requirements for the purchase of grains, and making them more flexible, as is explained further on.
- 4.b. Production costs were updated in order to establish the new guarantee prices for 1980-1981.
- 4.c. Processing capacity was increased.
- 4.d. Support was given to the marketing programs, especially with regard to the supply of grain for the Agroindustrial Sector (rice mills, poultry farms and processing plants).
- 4.e. Several feasibility studies were prepared, in order to provide greater support to IHMA in its price stabilization program.

The studies are as follows:

- 1) Section of General Deposit Warehouses of the Honduran Institute for Agricultural Marketing "ALFAIHMA."
- 2) "Storage centers at the small agricultural community level."
- 3) "Training center and assistance in the construction of storage centers at the cooperative and campesino settlement level."

c) Economic Benefits Received by the Farmers and the Consumers

IHMA has carried out studies on the costs of production, in order to calculate the guarantee prices and the profitability which the latter signify for the producers. Below, a comparison is given between the prices for the 1979-80 and 1980-81 cycles, with their respective production costs and profitability margins.

PROFITABILITY MARGIN ACCORDING TO  
PRODUCTION COSTS AND GUARANTEE PRICES

(AMOUNTS IN LEMPIPAS)

PRODUCT	Production Costs		Guarantee Prices		Profitability	
	<u>1/</u>		Terminal Plants <u>2/</u>		Margin	
	1979-80	1980-81	1979-80	1980-81	1979-80	1980-81
CORN	9.50	10.14	14.75	15.25	55.	57
RED BEANS	25.00	32.15	39.00	40.25	56	55
SORGHUM	9.00	10.96	13.00	14.00	44	27
RICE	15.50	19.72	24.00	24.25	55	53

1/ Cost of Producing one quintal, based on field investigations carried out by the Planning Unit (IHMA) for establishing the guarantee prices, and BANAFINA in the implementation of investment plans for analyzing their credit policy.

2/ Quality requirements for guarantee prices.

d)	CONCEPT	CORN White and Yellow	Beans Red & Black		Sorghum (Maicillo)	Paddy Rice
Humidity						
	1979-1980 Crop	14%	14%	14%	13%	14%
	1980-1981 Crop	26%	24%	-0-	24%	28%
	Difference	12%	10%	-0-	11%	14%
Impurities						
	1979-1980 Crop	3%	4%	4%	3%	3%
	1980-1981 Crop	7%	7%	-0-	7%	7%
	Difference	4%	3%	-0-	4%	4%
Damaged Grain						
	1979-1980 Crop	7%	7%	7%	7%	7%
	1980-1981 Crop	20%	10%	-0-	20%	19%
	Difference	13%	3%	-0-	13%	12%

COMPARATIVE TABLE SHOWING THE INCREASE IN  
AGRICULTURAL YEARS (1979-1980) (1980-1981)

<u>PRODUCT</u>	<u>PRODUCTION COSTS</u>	<u>GUARANTEE PRICES</u>
CORN	6.7%	3.4%
RED BEANS	28.6%	3.2%
SORGHUM	21.6%	7.7%
RICE	27.2%	1.0%

The preceding table illustrates that the increase in the guarantee prices is less than the increase in the production costs, but this factor is offset by the quality requirements demanded, which we have described above.

The procedures for establishing the minimum guarantee prices are presented as an annex.

As can be seen, the production costs have increased; however, the producers still receive fair and adequate profitability margins which help to stimulate the national production of basic grains.

With respect to the consumer, INMA has maintained a constant supply in the markets of the country, which has exercised an influence to avoid greater increases in prices.

e) MOVEMENT OF BASIC GRAINS IN INMA (1979-1980)

IN QUINTALES

<u>PRODUCT</u>	<u>ON HAND</u>	<u>PURCHASES</u>		<u>AVAILABILITY</u>	<u>SALES</u>	<u>ON HAND</u>
	8-31-79	Imported	National			8-31-80
CORN	320,370	664,838	46,048	1,031,256	765,536	265,729
BEANS	13,514	43,419	22,049	78,982	46,449	32,536
RICE (PADDY)	45		59,210	59,255*	24,260	14,464
RICE (MILLED)	1,848	32,289	1/ #	73,430	32,679	40,951
SORGHUM	17,274	- 0 -	933	18,207	17,343	864

\* Process of 20,531 quintales of paddy rice is equivalent to 13,345 quintales of milled rice.

1/ Corresponds to 32,289 quintales of rice purchased and 25,943 quintales of rice donated by the European Economic Community.

IMPORTATION OF BASIC GRAINS BY IHMA AND

THE AGROINDUSTRY

1979-1980

		<u>AGROINDUSTRY QQ.</u>	<u>TOTAL QQ.</u>
CORN	664,838	364,066	1,028,904
BEANS	43,419	8,490	51,909
PADDY RICE	58,327	8,675	66,912
RICE (GRANZA)	- 0 -	17,341	17,341
WHEAT	- 0 -	1,578,819 <u>1</u>	1,578,819

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1/ Of the total imported by the mills, 554,284 QQ. correspond to the donations to IHMA from:

USAID - PL-480	= 290,135	} = 554,284
Government of Argentina	= 110,200	
European Economic Community.	= 153,949	

f) Purchasing Program 1979-1980

The movement of purchases by IIRMA during the 1979-1980 cycle was as follows:

DOMESTIC PURCHASES OF BASIC GRAINS

1979-1980 CROP

PRODUCT	PURCHASES		% OF EXECUTION
	PROGRAMMED	ACTUAL	
	1979-80 QQ.	1979-80 QQ.	
CORN	800,000	46,042	5.8
BEANS	50,000	22,049	44.1
RICE (PADDY)	80,000	59,210	74.0
SORGHUM	50,000	933	1.9

SOURCE: Department of Operations, IIRMA

As a result of special dispositions of its Board of Directors, IIRMA will handle only corn, beans, rice and sorghum; but only during its first two years of operation. For this purpose, the Planning Unit is completing a pre-feasibility study on the possibility for IIRMA to handle other agricultural products such as: cacao, bee's honey, onions, sesame seed and pepper corn. Once this study has been completed, it will be submitted for consideration to the Board of Directors for a decision in this respect.

g) Effects on the Minimum Guarantee Prices as Incentives for Increasing Production

For the 1980-81 crop cycle, IHMA approved the new minimum guarantee prices, but with a modality which will undoubtedly allow the producer to obtain greater income for the efforts which he makes in the field and which will also motivate him to plant basic grains, a major element in the basic diet of our population. For the 1980-1981 crop cycle, consideration has been given to increases in the current prices and substantial changes in the discount tables traditionally applied, which consisted of offering maximum prices and applying discount tables for humidity and impurities, a system which over the years has been criticized and rejected by the producers, inasmuch as the latter consider that they are really not being paid a fair price due to the application of the aforementioned discounts; this situation has been utilized by the intermediary, who, using arguments in his favor, has told the producer that he offers a better price since he does not apply any discount. Currently, the starting point is a minimum guarantee price which provides the producer with assurances when he offers his grain to IHMA, since the published price is not subject to any discount but rather to increases for the delivery of grain in better conditions of humidity and impurities.

Example

In accordance with the new tables and with respect to the receipt of grain with the qualities of maximum frequency, the price differential is as follows:

	<u>1979-1980</u>	<u>1980-1981</u>	<u>REGIONAL GUARANTEES</u>
			(In lps.)
			<u>INCREASE</u>
CORN	L.12.70	L.14.70	L.2.00
BEANS	34.40	41.25	6.85
RICE	18.55	23.70	5.15
SORGHUM	10.73	13.05	2.32

In conclusion, the Honduran producer will receive greater benefits which will stimulate him to dedicate part or all of his land to the growing of basic grains in order to better satisfy both the human and agroindustrial consumption needs of the country.

h) Incidence of the Guarantee Prices in Relation to the Fluctuations in Market Prices

The fluctuations undergone by the prices of basic grain during the last two crop cycles (1978-1979 and 1979-1980) have not been as sharp (with the exception of beans during the first half of 1980), as in previous years, which is due largely to the dynamic effort made by IHMA in the marketing of these products.

Attached to this report, for purposes of reference, are several graphs, corresponding to the years 1976, 1977, 1978 and 1979, of retail prices, in which the aforementioned fluctuations can be seen.

Also attached is the document entitled "Price Fluctuations," in which the fluctuations in the wholesale prices of basic grains are analyzed.

i) Financial Capacity of IHMA to Sustain the Current Minimum Guarantee Prices

Working capital at July 31, 1980	L. 23,264,427.75
Grain purchase plan 1980-81 (980,000 QQ. programmed)	L. 16,210,000.00
Available for investments and expenses	L. 7,154,427.36

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PROGRAMMING OF SALES OF BASIC GRAINS 1961

(IN QUINTALS)

MONTH	CORN	BEANS	MILLED RICE	PADDY RICE	SOYBEANS
JANUARY	8,700	900	5,400	- 0 -	- 0 -
FEBRUARY	51,900	2,300	2,800	- 0 -	- 0 -
MARCH	39,200	3,300	3,400	- 0 -	- 0 -
APRIL	50,500	3,900	4,800	- 0 -	- 0 -
MAY	141,500	10,700	5,300	12,000	100
JUNE	142,000	14,300	9,800	12,300	300
JULY	190,500	1,700	13,900	8,200	2,000
AUGUST	210,800	2,300	2,800	3,900	35,100
SEPTEMBER	104,200	700	7,900	1,300	10,000
OCTOBER	25,900	13,300	3,800	2,100	- 0 -
NOVEMBER	3,900	8,300	3,600	2,100	- 0 -
DECEMBER	3,900	8,300	5,100	2,800	- 0 -
T O T A L	973,000	66,000	75,800	45,700	50,000

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PROGRAMMING OF PURCHASES OF BASIC GRAINS 1980-1981

(IN QUINTALES)

MONTH	CORN	BEANS	PADDY RICE	SOYBEAN
SEPTEMBER	166	- 0 -	- 0 -	- 0 -
OCTOBER	122,684	- 0 -	4,920	- 0 -
NOVEMBER	181,500	2,040	26,200	- 0 -
DECEMBER	179,600	12,960	24,000	- 0 -
JANUARY	142,500	4,680	24,980	4,000
FEBRUARY	126,400	27,090	- 0 -	15,700
MARCH	44,250	2,230	- 0 -	22,400
APRIL	2,700	1,000	- 0 -	7,500
MAY	- 0 -	- 0 -	- 0 -	- 0 -
JUNE	- 0 -	- 0 -	- 0 -	- 0 -
JULY	- 0 -	- 0 -	- 0 -	- 0 -
AUGUST	- 0 -	- 0 -	- 0 -	- 0 -
T O T A L	800,000	50,000	80,000	50,000

j) Storage Capacity of IHMA and its Relationship to Net Marketable Production

IHMA currently has a total storage capacity of 1,780,400 quintales, which represents 27% of the net marketable production of the country. The Rural Silos of Honduras project will increase the storage capacity of IHMA by 453,200 quintales, or 25%; therefore, the Institute will increase its total storage capacity to 2,233,600 quintales, which represents 34% of the net marketable production of the country, which totals approximately 6,530,000 quintales (corn, beans, rice and sorghum). The reasons for which IHMA intends to increase its storage capacity are as follows:

- 1) In matters of agricultural production, the increase in the production of basic grains has been established as being of maximum priority, in accordance with the provisions of the document entitled "OVERALL FRAME OF REFERENCE AND GENERAL GUIDELINES OF ECONOMIC POLICY OF THE MINIMUM GOVERNMENT PROGRAM," remitted by the President of the Republic which textually states:

Production and Distribution of Basic Consumption Foods

The production and distribution of basic consumption foods will have first priority, in order to achieve an efficient national supply which will allow for raising the level of income of the campesino population, decrease the tendency toward raising the prices of foodstuffs, improve the nutritional levels of the population and achieve toward the end of the period of the program a self-sufficiency in basic grains and a decrease in the importation of milk.

Basic Grains

In view of the deficit status of basic grains, which is beginning to

become critical 1/, the institutions of the agricultural public sector must grant maximum priority to the basic grains program.

In this sense, these institutions must proceed to jointly program actions, which will form an effective production and distribution plan for basic grains which will permit the achievement of self-sufficiency by 1980. The program must have two components: one short term plan for 1981 and one medium term plan which should seek to eliminate the structural factors which impede the growth of the supply of grains, in order to achieve self-sufficiency and exportable surpluses.

- 2) IHMA is going to handle inputs and agricultural implements as part of its policies to support producers. The corresponding study is being prepared and its completion is anticipated within a period no greater than 90 days.
- 3) IHMA is going to develop the program for Storage Warehouses for agricultural products and it is estimated that it will begin in the month of December of this year.

1/ During the past, the country has been a net importer of milk. In 1970-71, the importation of milk has grown at a rate of 3.7% while increasing from 4.7 to 6.5 million kilograms.

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k) Rotation of Inventories

Crop	1978 - 1979		
	<u>Movement in QQ.</u>	=	<u>200,000</u> = 0.2 (Actual)
	Capacity of Warehouses in QQ.		970.200
Crop	1979 - 1980		
	<u>Movement in QQ.</u>	=	<u>804,270</u> = 0.5 (Actual)
	Capacity of Warehouses in QQ.		1,411,000
Crop	1980 - 1981		
	<u>Movement in QQ.</u>	=	<u>973,000</u> = 0.7 (Projected)
	Capacity of Warehouses in QQ.		1,411,000

l) Operational Profitability of the Terminal Plants, 1980

Kennedy Terminal Plant, Tegucigalpa: 10%

Prado Alto Terminal Plant, San Pedro Sula: 6%

No financial profit is calculated for the Regional Granaries, inasmuch as their primary function is to transfer the grain purchased to the nearest Terminal Plant. The profitability of the 12 INHA Regional Granaries is determined as a function of the profitability of the Terminal Plants in their area.

PROFITABILITY OF THE OPERATION OF THE SIICS, 1980

Tegucigalpa Terminal Plant:	<u>Net profitability</u>	= L.	<u>628,458</u>
	Gross products	L.	6,211,970
S.P.S. Terminal Plant:	<u>Net profitability</u>	L.	<u>198,442</u>
	Gross products	L.	3,135,000

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n) Operational Capacity IHMA

m.1. 1979-1980 Crop cycle

m.1.1 Storage

<u>Purchases in QQ.</u>	<u>204,270</u>	=	57%	<u>1/</u>
Storage Capacity in QQ.	1,411,000			

m.1.2 Financial

<u>Value of Purchases in Lps.</u>	=	<u>15,725,240</u>	=	76%
Working capital Lps.		20,691,925		

m.2 1980-1981 Crop cycle

m.2.1 Storage

<u>Purchases in QQ.</u>	<u>973,000</u>	=	69%
Storage Capacity in QQ.	1,411,000		

m.2.2 Financial

<u>Value of Purchases in Lps.</u>	=	<u>18,379,890</u>	=	73%
Working capital Lps.		23,264,427		

n) Influence of IHMA in Honduran Agriculture

IHMA, through its Extension Section, stimulates the participation of the sectors involved in the production process through working sessions, courses and seminars in which information is provided on the objectives and goals of the Institute, the benefits of the minimum guarantee prices, marketing concepts, etc.

The participation of IHMA includes the organization, supervision and administration of said events in coordination with the Ministry of Natural Resources and other Government agencies.

The courses and seminars are given to campesino associations, agricultural cooperatives, farmers' associations, rural extension agents and others.

Elsewhere, an intensive advertising campaign has been undertaken with national coverage through the radio and newspaper media. This campaign is implemented by the Rural Extension Section.

o) Capacity of INMA to Supply the Domestic Market with Current Inventories

With current inventories, INMA has the capacity to supply the national market for a period of three months, in accordance with what BANASURPO supplies of the national demand.

Nevertheless, the Institute has contemplated, in its purchase programming for 1980-1981, the acquisition of a sizable amount of grain through its 16 storage centers and the purchase brigades which will be authorized opportunistically by the Office of the General Manager to carry out purchases at the field level.

NATIONAL DEMAND FOR BASIC GRAINS BY MONTH IN QQ.

PRODUCT	HUMAN CONSUMPTION	AGROINDUSTRIAL		SEED	ANIMAL	TOTAL
		CONSUMPTION	CONSUMPTION			
CORN	542,167	183,333	9,567	42,315	777,493	
RICE	76,542		2,508		79,050	
BEANS	79,725		6,733		86,458	
SORGHUM	22,917	28,750	975	16,666	69,308	

SOURCE: National Basic Grains Program, March, 1980

AVAILABILITY OF GRAINS IN IHMA IN QO.

THRU 10-31-1980

CORN	134,528
BEANS	38,396
RICE	45,193
SORGHUM	

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SOURCE: Department of Operations, IHMA

With the hope that this report fulfills all of the requirements stipulated in the PL-480 Title I/III Agreement, I am

Very truly yours,

JULIO A. USTAPIZ  
Sub-General Manager

cc: General Manager  
cc: Operations  
cc: Finance  
cc: Folder  
cc: File

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