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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

PD-AAB-050-A1

CAPITAL ASSISTANCE PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

522-092
522-L-018

HONDURAS: AGRICULTURAL CREDIT AND STORAGE

A.I.D.
Reference Center
Room 1656 NS

6/20/68

AID-DLC/P-744

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HONDURAS--AGRICULTURAL CREDIT AND STORAGE

TABLE OF CONTENTS

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A N N E X E S

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

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AID-DLC/P-744
June 20, 1968

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Honduras: Agricultural Credit and Storage

Attached for your review are the recommendations for authorization of a loan in an amount not to exceed $9,500,000 to the Government of the Republic of Honduras to assist in financing the United States dollar and local currency costs of construction, equipment, materials, agro-chemicals, and services for the following purposes, all in furtherance of a program of improved agricultural credit and storage in Honduras: (a) up to five million United States dollars ($5,000,000) for production credit for food and food grains, livestock and agro-industry; (b) up to three million U.S. dollars ($3,000,000) for construction of two central grain storage facilities and for related technical assistance; and (c) up to one million five hundred thousand United States dollars ($1,500,000) for construction of agricultural cooperative storage facilities, agricultural cooperative production credit, and related technical assistance.

This loan proposal is scheduled for consideration by the Development Loan Staff Committee at a meeting on Monday, June 24, 1968.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachments:
Summary and Recommendations
Project Analysis
ANNEXES I-VII

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HONDURAS - AGRICULTURAL CREDIT AND STORAGE

SUMMARY AND RECOMMENDATIONS

1. Borrower: The Borrower will be the Government of Honduras through its Ministry of Economy and Finance. There will be two executing entities - the autonomous, public National Development Bank (BNF) and the private Federation of Associated Savings and Credit Cooperatives (FACACH).

2. Loan:

   a. Amount - Not to exceed $9,500,000.
   b. Terms - Minimum statutory terms, i.e. 40-year repayment period including a grace period of 10 years, with interest at 2 percent during the grace period and $2\frac{1}{2}$ percent thereafter.
   c. Local cost component - Up to $3,985,000, equal to 42 percent of the loan amount.

3. Description of the Project:

   a. BNF Portion - The project proposed for AID loan financing consists of: (i) a relending program carried out by the BNF and designed to help achieve 1969 and 1970 GOH agricultural production goals for the basic food and feed grains of corn, beans, rice and sorghum and for livestock; (ii) [redacted] and (iii) a small, complementary program of loans and equity investments in new or expanding agro-industries. The proposed loan will assist in financing : the BNF's sub-loans to small and medium size producers of corn, beans, rice and sorghum and livestock; construction and construction supervision of two identical, fully equipped concrete central grain storage facilities of approximately 12,500 metric tons capacity, one each in Tegucigalpa and San Pedro Sula, together with related technical assistance to the BNF in grain storage operation and marketing; and BNF sub-loans to and equity investments in mutually acceptable agro-industries.
   b. FACACH Portion - The project proposed for AID loan financing consists of providing a combination of technical and capital assistance to subsistence and near subsistence farmers of the basic grain crops which will enable substantially increased income through greate production and higher average sales prices. The proposed loan will assist in the financing of:

(i) sub-loans from FACACH to various agricultural cooperatives scattered throughout Honduras for production credit to their members and for construction and operation of cooperatively owned grain storage facilities; (ii) construction and operation of two central facilities, one each in Tegucigalpa and San Pedro Sula, for storing grain in route to the market and for warehousing agricultural inputs; and (iii) the engineering and construction supervision services necessary to carry out the above described construction.

4. Purpose: The primary purpose of this loan is to eliminate or reduce the impediments to achievement of desired agricultural growth goals. These impediments are a lack of sufficient, effective credit to small and medium farmers, [redacted] Secondary, but important, objectives are the encouragement of the agricultural cooperative movement in Honduras and the improvement of the operations and effectiveness of the BNF, the most important single institutions for agricultural credit in Honduras.

5. Financial Plan: ($1,000's or L/C Equivalent)

Purposes	GOH/BNF	IDB	FACACH	AID Loan	AID Grant	TOTAL
BNF: Credit	9,295	1,740	-	5,000	-	16,035
Storage	311	-	-	2,900	134	3,211
FACACH/Agr. Coops.	325	-	270	1,500	-	2,229
Technical Assistance	-	72	-	100	786	958
Subtotals	9,931	1,812	270	9,500	920	22,433
Farmers' Own Inputs						5,870
						28,303

6. Other sources of funds: The Export-Import Bank, the IBRD, and the IDB all indicated that they were not interested in financing the proposed project (see Part Two, Section III, C-5). The Borrower has also indicated to the USAID that appropriate financing of the grain storage sub-project was not available from CABEI. Due to the nature of the project, other U.S. or free world sources of financing are not available.

7. Statutory Criteria: All statutory criteria for this loan have been met; annex VI contains the statutory criteria checklist.

8. Views of Country Team: As described in Part Two of this paper, the proposed loan embodies and will implement the USAID agricultural strategy for Honduras. If successfully carried out, the Country Team's agricultural strategy will result in substantial output and productivity gains for the small and medium farmers of the basic grains and livestock.

9. Issues: Due to the nature of the portion of the project to be implemented through the agricultural cooperatives, waiver of standard AID advertisement requirements and, in the case of procurement from U.S. cooperative organizations, waiver of formal competitive bidding requirements has been requested by FACACH.

10. Loan Administration: For other than the cooperative procurement of goods and services, the standard AID procurement and disbursement procedures will be used. In addition to normal loan implementation and project evaluation procedures, semi-annual in-depth review meetings with BNF and other appropriate GOH officials will be held by the USAID to review progress made in achieving the various goals set forth in the paper.

11. Recommendations: On the basis of the conclusions of the Capital Assistance Committee that the project is technically, economically and financially justified, it is recommended that a loan to the Government of Honduras for an amount not to exceed $9,500,000 be authorized subject to the following terms and conditions:

A. Interest and Terms of Repayment

Borrower shall repay the loan to the Agency for International Development (A.I.D.) in United States dollars within forty (40) years from the first disbursement under the loan, including a grace period of not to exceed ten (10) years. Borrower shall pay to A.I.D. in United States dollars on the disbursed balance of the loan interest of two percent (2%) per annum during the grace period and two and one-half percent (2½%) per annum thereafter.

B. Other Terms and Conditions

(1) Equipment, materials and services (except shipping and marine insurance) financed under the loan shall have their origin in and be procured from the United States. Shipping financed under the loan shall be procured from the United States, and marine insurance financed under the loan shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.

(2) United States dollars utilized under the loan to finance local costs shall be made available through appropriate procedures and shall be identified with procurement in the United States.

C. <u>Condition Precedent to Loan Agreement Signature</u>

Prior to the execution of the Loan Agreement, the BNF shall submit to the USAID satisfactory evidence of arrangements for the sale of the "Sula" Milk Plant.

D. <u>Additional Conditions prior to Disbursement for the BNF Credit Project</u>

Prior to the first disbursement for the BNF credit program the Loan agreement shall required submission by the BNF of:

1. A satisfactory plan for increased technical assistance to farmers of the four basic crops, to include: a) the extent and criteria of assistance to small and medium farmers respectively; b) methods to induce intensive production practices, including the increased use of fertilizers; and c) methods to assure proper use of credit funds.

2. A Plan and schedule for reduction of total loan delinquencies to a maximum of 10% of the overall loan portfolio by December 31, 1969 including:

(a) separation of doubtful and/or uncollectable debts from current delinquencies by no later than December 31, 1968;

(b) criteria and schedule for review of individual delinquent loans to determine if renegotiation and refinancing are justified;

(c) plan of action to liquidate uncollectable loans including final target dates for taking legal title to collaterals and for disposition of such collaterals.

3. An acceptable list of agro-industries to be eligible for AID financing.

4. Criteria and schedule for closing or reducing BNF retail operations.

E. Additional Conditions Prior to Disbursement for the BNF Storage Facilities

1. Prior to first disbursement for supervisory services the BNF will submit to A.I.D. a satisfactory contract for construction supervision services.

2. Prior to disbursement for other than engineering services the BNF will submit to A.I.D.:

(a) satisfactory arrangements for obtaining the services of the two technical advisors in grain storage operations and marketing;

(b) a plan and schedule for hiring and training of local supervisory and technical personnel;

(c) satisfactory final plans, specifications and bidding documents;

(d) evidence of property rights to construction sites.

(e) A plan, satisfactory to AID, describing the arrangements to be made to assure the effectiveness of the minimum guaranteed price at least for corn; this plan shall include, but not be limited to: (1) sources of financing of crop purchases; (2) storage arrangements; (3) procedures for buying and marketing corn; (4) procedures for use of warehouse receipts; and (5) extent and timing of publicity to farmers.

F. Additional Conditions Prior to Disbursement for the Cooperative Project

Prior to the first disbursement for the cooperative project, the Loan Agreement shall require that FACACH submit to the USAID:

(a) Evidence of availability or arrangements for necessary technical and supervisory personnel at FACACH level.

(b) Satisfactory final designs and specifications for two central warehouses and for the standard Stages I and II storage buildings.

(c) A schedule of construction.

Composition of Capital Assistance Committee:

Loan Officers:	J. Mirski/P. Fritz	*
Engineer:	W. Gardner, Jr.	*
Rural Dev.:	C. Deyoe	*
Coop. Adv.:	D. Chaij	*
Economist:	A. Zucca	*
Attorney:	K. Knowles	

Other Advisors and Contributors:

R.J.Minges, USAID Director *
G. Fortune, ROCAP Financial Advisor

* Drafting Officers

Exchange Rate: L.2.00 = $ .0

PART ONE: ECONOMIC AND AGRICULTURAL BACKGROUND

SECTION I. Economic Position of Honduras

A. General Economic Situation

Honduras is still considered the poorest country in Central America both in terms of natural and human resources, and is among the poorest in Latin America. A rather rapid rate of economic growth in the recent past, which in 1965 and 1966 averaged 6.0 percent, was mainly due to a strong performance of agricultural exports. Between 1962 and 1966 export sector accounted for more than one-third of the total increase in GNP and made up for lagging investment expenditures in the public sector. This lag is mainly attributable to delays in project preparation and implementation partly due to the scarcity of qualified personnel to push investment projects at the administrative and executive levels.

A sharp slowdown in the expansion of national exports--a gain of only 4.5 percent in 1967--contributed to growing deficit in the current account of $36.5 million, and caused a fall in foreign exchange reserves by $6.5 million to $15.5 million, less than a month's imports at the current rate. This fall in the export growth rate, not offset by public investment, reduced the rate of GNP growth to 3.8 percent. *

The poor performance of the economy in 1967 and the diminishing trend in traditional agricultural exports induced the GOH to undertake an energetic public investment and export diversification program. The GOH performance in the first few months of 1968 and its short-term program for the expansion and diversification of agricultural production, increased agricultural productivity, price stabilization, and planned levels of public investment in infrastructure, support an optimistic outlook for the future economic growth.

The 1968 public investment performance has been demonstrated by the accelerated drawdowns of foreign credits and local funds, particularly for the construction of the Northern Highway to San Pedro Sula. (See paragraph B-3). Also, the GOH has vigorously pursued negotiations with the International Paper Company for the establishment of a $90 million pulp and paper mill complex which calls for $72 million of foreign investment, and annual sales of $28 million. The completion of this project will add a major economic impetus through the utilization of about 2 million hectares of forest areas, representing natural resources almost untouched to this date.

*from Central Bank estimates

B. Monetary and Fiscal Situation

1. Monetary Policy. Honduras has been following a rather conservative monetary policy and has enjoyed relative price stability. The Central Bank reports that overall prices in Tegucigalpa, San Pedro Sula and other urban areas rose 1.5 percent in 1967. The average price increase from 1960 to 1967 was 1.7 percent. Rising food prices have been primarily responsible for the overall price increases, for speculation in corn and beans have caused country-wide price rises in these essential food products. Meat prices have also risen due to the growing export of meat products. Poultry meat prices, however, have declined considerably in the past year as a result of increased supplies. Barring unforeseen shortages of major food crops, domestic prices in the near future should be relatively stable, providing the GOH internal borrowing continues to be conducted in a non-inflationary manner.

2. GOH Fiscal Performance. The public sector in Honduras consists of the Central Government, a number of semi-autonomous and autonomous institutions and local municipal governments. The Central Government is the principal tax-collecting body within the country, although the local governments have limited taxing powers. The local governments, autonomous agencies, and government enterprises are almost entirely self-supporting, except for moderate budgetary transfers and foreign credits.

   Between 1960 and 1963, the growth of both GOH current revenues and expenditures was rather slow; income grew at an average rate of 3.4 percent while expenditures 4.8 percent. The current account gap and modest investment expenditures were financed and even exceeded by domestic and foreign borrowings. Beginning in 1964, however, governmental income mushroomed, primarily as a result of reforms in the income tax law and imposition of sales tax. From 1964 to 1967, current revenues increased annually at a 17 percent rate while current expenditures, because of higher wages for government employees--particularly teachers--rose 12 percent. This higher revenue resulted in the increase of current account surplus for the entire public sector from $5.15 million in 1964 to an estimated $17.65 million in 1967.

   Because of poor performance of the public sector, investment budgets for 1964 through 1967 proved to be overestimated. The current account surpluses, which together with domestic non-inflationary borrowings to finance investment expenditures, were not fully utilized and resulted in the GOH cash balances at the Central Bank. On the basis of the latest report of the Central Bank, it could be estimated that the cumulative total of the Government's cash balance was in excess of $7 million at the end of 1967.

The revised GOH estimates for the 1968 budget project a surplus on current account (without amortization) of $10.45 million and domestic costs of the overall investment expenditures of $15.88 million. The gap is to be covered from net domestic borrowings of $2.4 million and a reduction in cash balances of $3.0 million.

The remaining cash balances of the GOH are earmarked for previously budgeted capital expenditures on investments which have been delayed but which are expected, beginning in 1968, to utilize both past and current public savings as well as to draw upon domestic borrowing capacity of the GOH.

3. Investment Absorption Capacity of the GOH. Experience thus far in 1968 indicates that the GOH is substantially overcoming its past problem of public under-investment. During the first four months of 1968, utilization of public loans from international public and private sources amounted to more than $4.0 million. Investment projects representing some 40 percent of the existing loan pipeline of $74.5 million as of April 30, 1968, are moving without serious difficulties or delays. The main projects in this portion of the pipeline include: the IBRD loan for expansion of port facilities at Puerto Cortes; the A.I.D. secondary education loan; and the IDB loans for housing, agricultural credit and the Tegucigalpa water supply. Disbursements under these loans either have already begun or will begin in 1968.

The other 60 percent of the foreign loan pipeline is for road construction. To a large extent, this portion of the existing pipeline has been created by the GOH past emphasis on road building which has resulted in a temporary over-extension of the capacity of the Ministry of Public Works. Although occasional delays may still be expected as a reminiscence of the past, the main problems have largely been overcome. All construction contracts for the Northern Highway, involving some $20 million of the IDB, IBRD, and IDA financing, have been awarded, payments have already been initiated, and expenditures should increase rapidly during the balance of 1968 as the pace of construction intensifies. Design is virtually completed on the Tela La-Ceiba Highway, financed by CABEI, and contract for about half of the entire construction has been awarded, with the balance of work scheduled for contracting later in 1968. Construction work is also expected to begin shortly on paving of the Western Highway, financed by IBRD.

Assuming an average disbursement period of three to four years for all the projects, an optimum disbursement level for the existing international loans for 1968 would be between $19 and $26 million. While the present disbursement rate is still slightly behind this average, a significantly increased rate of drawdown can be expected in view of increasing construction progress.

With respect to future pipeline, the most likely projects to obtain foreign financing would include: the second stage of the the Rio Lindo Hydroelectric Project (IBRD); the Aguan Valley Development and Resettlement (IDB); expansion of National University (IDB); and the proposed A.I.D. loan for agricultural credit and storage. All of these projects are basically outside the road sector and no serious implementation problems should be expected.

The USAID Mission is fully aware of the GOH's past poor performance and will continue to insist on an energetic action to improve the pipeline situation. Among immediate improvements insisted by USAID would be the naming of a full-time Minister of Public Works and the adoption of the "special paymaster" disbursement procedure recently developed by Clapp and Mayne under an A.I.D. grant-funded activity. With respect to the proposed A.I.D. loan, the Mission has carefully reviewed capability of the executing agencies, coordinated technical assistance with the IDB, provided for close monitoring where necessary, and believes that all the necessary arrangements have been made to assure the loan utilization on schedule.

4. Financing of Future Investment. If Honduras is to achieve her economic growth goals and to develop at Alliance for Progress rates, much greater public investment is necessary. The GOH's four-year Immediate Action Plan for 1969-72 calls for $222 million in new investment during the period. Domestic resources will finance $56 million of this investment, while foreign financial sources are expected to provide $166 million or about $42 million annually. To the extent foreign credits are not available at planned levels, the GOH would be forced to rely on the current account surplus and domestic borrowings to meet its development goals.

The present tax structure is rather inflexible and the partial tax reform of 1963, which contributed to a rapid growth in revenues between 1964 and 1967, lost much of its effectiveness. Although the proportion of direct taxes has increased from 17.4 percent of the total x revenue in 1960 to 32.3 percent in 1967, Honduras still depends ieavily on indirect taxes, with import duties representing about 40 percent of the total tax receipts.

The GOH is fully aware of the shortcomings of its present tax system considering future investment needs. It is reviewing measures to limit annual increases of the current account expenditures to about 9.4 percent and reforms to remove present deficiencies in tax investigation, control system in direct taxes, revision of tax exemptions and tariffs, improvement of billing system, etc. All these measures and reforms, though badly needed, will not increase current revenues to the projected levels of public expenditures. To cope with the financial requirements of the projected investment program, the GOH is also undertaking a series of new tax measures based on agreement with CACM countries. These measures will include a 30 percent import tax surcharge on most imports and consumption taxes on 26 categories of items with a maximum tax rate of 20 percent. The new tax program is expected to add $7 to $10 million annually to the GOH revenues, which is to be used exclusively for public investment and authorization of debt.

This expected revenue would represent one-half or more of the annual domestic expenditures on investments of $14 million projected by the Immediate Action Plan. Even assuming the reduction of current account surplus based on the present tax system to the $12.6 million estimated by the USAID for 1971, the GOH could cover the domestic share of projected investment expenditures by non-inflationary domestic borrowing of about $2.0 million per year. Should foreign credits be available only in reduced amounts, the GOH would have to resort to further domestic financing. Considerable domestic borrowings may, however, present an inflationary danger and put additional pressure on the current uncertain balance of payments position.

C. Balance of Payments

1. Present Situation. From 1961 through 1966, Honduras had a moderate deficit on current account with imports rising at an average rate of 19 percent and exports 17 percent per annum. This current account gap had been covered and even exceeded by inflow of foreign capital with resulting build-up of international reserves. As indicated in Table I, below, the situation was reversed in 1967. Exports grew only by 4.5 percent while imports increased by 11.3 percent with resulting current account deficit of $36.5 million (73 million lempiras):

TABLE I

Balance of Payments, 1965-67

(in U.S. $ Millions)

		1965	1966	1967
1a	Goods & Services, net	-10.3	-23.2	-36.5
1b	Transfers	3.7	4.3	4.8
2	Current Account, net	- 6.6	-18.9	-31.7
3	Capital Account, net	15.9	14.9	20.5
4	Errors & Omissions	- 4.0	+ 6.4	+ 4.9
5	Balance of Payments	+ 5.3	+ 2.4	- 6.4
6	Monetary Movements*	- 5.3	- 2.4	6.4
	Net International Reserves, Year End	19.54	21.95	15.55

* Minus sign indicates reserve increase.

The slackening of export growth in 1967 was due principally to declines in coffee, cotton and food crops exports. The value of coffee exports, because of a poor crop and low prices, dropped 29.7 percent. Cotton was off 13.2 percent. Corn and beans, which had been exported to Central America following the harvest seasons, and re-imported before new crop seasons, decreased 24.1 percent. Banana exports, which in 1967 accounted for 51.3 percent of all exports, managed a slight gain. However, since the real earnings to Honduran economy consist of foreign exchange sales by the private banana companies, the increase in the total banana exports hardly affected national receipts from the increase in banana exports. Of the other major exports, lumber made the most impressive gain rising by 13.7 percent while the metals jumped 16.8 percent due in great part to the rise in the world silver prices.

The level of imports could not be adjusted to the relative fall in export earnings. Increasing public and private investment necessitated imports of capital goods, machinery and raw materials, with related increasing expenditures on freight and insurance; the outflow of earnings on past foreign investment also increased while demand for imported consumer goods continued to grow.

The disparity between import and export growth rates put pressure on Honduras' international reserves. In 1967 reserves dropped $6.5 million to 15.5 million, less than a month's imports at the present rate. (See Annex I.) To protect against a further drain of international reserves, the GOH has already made an $11 million standby arrangement with the IMF for 1968.

2. Outlook for the Future. Recent deterioration of the balance of payments position cannot be allowed to continue if Honduras is to maintain the rate of growth of 5 - 6 percent annually. The Consejo Superior de Planificacion Economica (CSPE) believes that imports can be held to less than 8 percent growth rate, while exports are expected to grow up to 10 percent per annum. These ambitious projections could only be realized if the GOH carries out effectively its program of agricultural expansion, crop diversification, and policy of price stabilization. Higher productivity and increased production of basic crops should make Honduras self-sufficient in rice, beans, and corn and provide some export surpluses. Total foreign exchange net earnings, while difficult to specify, should be in range of $4-5 million annually. Further, as a result of the recent agreement of Common Market countries in San Jose, the GOH will institute 30 percent import tax surcharge on most imports from outside the Common Market countries and introduce excise tax on imported consumption goods, mostly luxuries. These two taxes should reduce the import level and provide the government with additional $7 - $10 million revenues.

D. Agricultural Investment

As the chart below reveals, Central Government expenditures for agriculture and related activities showed a sizeable increase in absolute terms from 1963-64, with a leveling out in subsequent years. The average annual budgetary outlays for agriculture from 1963-1968 represented 5.25 percent of total GOH expenditures. The Mission, taking into consideration the Immediate Action Plan objectives for increased public inputs into the agricultural sector, assumes that expenditures will grow moderately for the period 1969-1972, resulting in a larger proportion during this period of total budgetary expenditures for agriculture of at least 6 percent.

TABLE II

Central Government Expenditures on Agriculture and Natural Resources (in 1,000,000's of Lempiras)

Year	Total Central Govt. Expend.	Govt. Expend. on Agric. & Nat. Res.	
		Amount	Percentage
1963	83.3	3.0	3.6
1964	110.6	7.3	6.6
1965	121.2	8.0	6.6
1966	129.8	7.0	5.4
1967B	169.9	8.3	4.9
1968B	196.1	8.9	4.5
1969P	210.0	11.0	5.2
1970P	230.0	14.0	6.1
1971P	255.0	16.0	6.3
1972P	285.0	18.0	6.3

In addition to the role of the GOH in the agricultural growth, Honduras unquestionably has a favorable climate for private investment, particularly the agricultural sector. Whereas the agricultural sector is now receiving approximately 30.7 percent of the credit available through the private banking system, this is expected to increase to not less than 35-40 percent over the next three years, including external resources channelled through the private banking system. The table below shows the best estimates of private investment:

TABLE III

Projections of Investment by Private Sector in the Agricultural Sector
(in 1,000,000's of Lempiras)

	1965	1966	1967	1968	1969	1970
Total	26.75	39.0	43.7	65.6	78.7	85.8
Agric. Sector	4.19	1.2	4.0	10.0	14.5	17.8
Percent of Total Investment	15.7	3.0	9.1	15.2	18.4	20.7

It is believed that the projected investment in the agricultural sector will be manageable and feasible. The proposed AID loan to the BNF for 1969-70 should provide sufficient leverage to influence the policies of the GOH which will contribute to improving the overall growth in the GNP and thus help achieve the projected rate of 7.9 percent in the agricultural sector by 1969.

SECTION II. Agricultural Sector

A. Background

1. General Characteristics: The proportion of rural population (76.8 percent) in Honduras is the highest, and per capita income ($234 US) is the lowest in Central America. Thirty-one percent of the land area in Honduras is suitable for agriculture, but only 7½ percent of the land area is in cultivation. Although in recent years Honduras has begun to provide some of the basic ingredients needed to stimulate economic growth in agriculture, there is need for further substantial investment in the agriculture sector to meet the Punta del Este minimum goal of 2.5 percent annual increase in per capita income. Since Honduras has the second highest population growth in Central America, amounting to 3.6 percent per annum, it becomes apparent that she must increase her agriculture production by 6.1 percent per annum to meet the minimum requirements for growth and be self-sufficient in basic foodstuffs.

2. The Land:

a. Use of Land - Honduras has a total area of 11.2 million hectares of which approximately 63 percent is mountainous (7.0 million hectares). Approximately 37 percent or 4.2 million hectares are in the valleys and in the plains. The area which can be considered as being suitable for agricultural activities is 31 percent of the total area of the country or approximately 3.5 million hectares.

TABLE IV

Land Area
(1,000's of hectares)

Land Use	Area	Percent
Forest	5,819.8	52
Pasture (native)	1,793.8	16
Agriculture	1,681.3	15
Other	1,914.3	17
Total	11,208.8	100

Only 50 percent of the total land area suitable for cultivation is in production, of which more than 70 percent is devoted to the production of food grains. Corn, which is the basic constituent of the local diet, accounts for approximately one-half of the grain that is produced. Beans, rice and grain sorghum, in that order, are the other principal grain crops. The next largest crop is coffee which occupies approximately 13 percent of the land under cultivation while earning 12.5 percent of the foreign exchange. Bananas occupy only 8 percent of the cultivated land; most of banana growing area is under irrigation. Many other crops are produced on the remaining 9 percent of cultivated land, primarily for indigeneous consumption.

The Economic Planning Council estimates that the 1967 per capita product in agriculture was $127 (L. 254) including the banana sector and $103 (L. 205) excluding bananas and for the economy as a whole was $227 (L. 454). The significance of the basic grain and major export crops to Honduran agriculture is shown in Annex I.

One of the most significant achievements has been in the development and wider use of improved varieties of corn. The national average yield of corn per hectare has increased from 1,500 lbs. in 1952 to 1,861 per hectare in 1965. This increase has occurred largely in the last two years and should be attributed mostly to small farmers.

Evidence of potential productivity increases are also found in the livestock industry. Honduras has approximately 16 percent (1,793,800 hectares) of its total area suitable for pasture and in 1965 had a cattle population of 1,315,625 head being carried on 82,500 farms. During the past decade the progress in cattle production has been rather slow. The total cattle population has remained very close to the 1952 census of 1.146,801 increasing in 13 years by only 168,824 head.

Swine and poultry production offers similar opportunities for productivity increases, but at present are limited by the high cost of feed, particula grains, between harvest periods. The emphasis of the GOH has been on those crops which contribute to foreign exchange earnings but not necessarily to long-term economic growth. Despite such emphasis, production results of coffee and cotton are rather disappointing. While the production of tobacco increased by 5.8 percent, it did not make up for the investment made. A rapid increase of bananas and sugar production between 1964-1966, in response to the heavy investment in these crops by the private sector, is unlikely to be repeated through 1972. On the other hand, grain crops hold a good potential for increasing the growth rate in the agricultural sector. The know-how and improved varieties are available and it is expected that adequate credit and price support policies implemented and carried through by the GOH can produce not a spectacular, but a substantial increase. Table V illustrates the minimum growth objectives through 1971:

TABLE V

Growth Rate Agricultural Sector

1964	1965	1966	1967*	1968**	1969**	1970**	1971**
8.8	15.2	2.7	5.9	10.0	7.9	7.9	7.9

* estimated
** projected

b. Land Tenancy - The distribution of farms by size in 1965 was as follows:

TABLE VI

Number and Size of Farms in Honduras (1965)
(In Manzanas)

Size Intervals*	No. Farms	Percent Distribution	Area	Percent Distribution
1 - 4 Mnz.	84,128	41.17	187,843	5.44
5 - 9 "	36,313	20.36	239,620	6.94
10 - 19 "	27,112	15.20	359,607	10.41
20 - 49 "	19,977	11.20	588,750	17.05
50 - 99 "	6,429	3.60	426,239	12.34
100 - 199 "	2,449	1.37	322,668	9.34
200 - 499 "	1,286	.72	379,270	10.98
500 - 999 "	398	.22	272,015	7.88
1000 - 2499 "	196	.11	288,576	8.36
2500 and over	73	.05	388,345	11.25

* 1 Manzana = 0.7 hectares = 1.7 acres

A major point of interest in the table is that only 73 farms which represent 0.5 percent of the land owners account for 11 percent of the land devoted to agriculture. Smallest farms (less than 10 manzanas) make up over 70 percent of all farms, but account for only 12.14 percent of the land area in farms. The pattern of farm tenancy and ownership in Honduras is indicated in the following table from the Census of 1952 and 1965:

TABLE VII

Farm Tenancy in Honduras-1952-65

Classification	1952 No. Farms	1952 Percent	1965 No. Farms	1965 Percent
Owned by Farmer	33,289	21.3	39,991	22.4
Rented by Farmer	26,088	16.7	40,053	22.5
National Lands Occupied by Farmer	17,143	11.0	20,089	11.3
Municipal Lands Occupied	52,947	33.9	44,123	24.7
Other Mixed	26,668	17.1	34,105	19.2
	156,135	100.0	178,361	100.0

Farm ownership patterns have not changed or altered significantly but farmers are moving to farms they can rent away from farms under the operation or supervision of the municipalities (9.2 percent). A significant factor to this move away from municipal lands is the lack of a cadastral survey and of facilities for surveying and registering titles throughout the country. Current legislation provides authority for this to be done and action is expected at an early date.

3. Population: The population in Honduras in 1962 was estimated at 1,866,420 with 76.8 percent located in the rural areas (1,433,811) and only 23.2 percent in the urban areas (432,609). The following table provides an index to the economically active population:

TABLE VIII

Economically Active Population of Honduras (1962)

	Total	Agric.	Mines	Const.	Mfg.
Number	580,440	381,860	1,600	9,940	44,460
Percent	100	65.7	0.3	1.7	7.7

	Pub. Util.	Commerce	Trans.	Service	Unspec.
Number	1,120	26,560	8,750	69,400	36,600
Percent	0.2	4.6	1.5	11.9	6.3

Among Central American countries, Honduras has the highest percentage of the rural population and also the highest percentage by far of economically active population (10 years and over) remaining in the rural areas. Unfortunately, over 50 percent of the rural population is under-occupied if not actually unemployed. Illiteracy in the country as a whole is estimated at 52.7 percent and constitutes a serious problem in the rural departments. However, the departments that contribute the most towards gross national product, both in terms of products for indigenous use and for export, have significantly lower rates of illiteracy.

4. Institutions: Honduras has an adequate number of institutions to provide services to the agricultural sector at the operational level. The six major institutions working primarily in the agricultural sector are: (a) Ministry of Natural Resources; (b) National Institute of Agrarian Reform (INA); (c) DESARRURAL (Rural Development); (d) National Development Bank (BNF); (e) National Economic Council and, (f) cooperatives. Despite the existence of these institutions, adequate service is not being provided in two important fields: (a) agricultural research, and, (b) agricultural education at both the secondary (vocational) and university level. The USAID efforts and the proposed loan aim to improve interagency coordination in providing technical assistance, farm planning and credit to the participating farmers.

5. Agricultural Prices and Marketing: Due to seasonal production changes and market imperfections, price fluctuations among various localities in Honduras are substantial. For instance, prices of corn may vary from a low of L. 2.50 to a high of L. 10.00 per hundred pounds. The fluctuation of the price of beans and rice have been even greater.

The BNF has been given the responsibility to administer a price support program that guarantees a minimum price to farmers at the storage centers. The price is established before the planting season and is based on the average production cost to a small farmer plus a reasonable rate of return. This type of guaranteed price is in conformity with the 1965 Grain Protocol for Common Market countries of Central America. This Protocol, ratified by all member countries, obliges them to put the price stabilization program into practice and to coordinate price regulations on a regional level. The basic drawback of the present guaranteed price system is its reliance on theoretical production costs, with no relation to the market price. A more realistic price stabilization would undoubtedly be needed in the near future but the present system could work effectively as long as the production is below the domestic needs and grain imports are controlled under the 1965 Protocol.

In order to make its price support policies effective, the GOH should have sufficient facilities available to store not less than 17-20 percent of the marketable crop. In the absence of private initiative, the BNF has decided to build and operate the new storage facilities until a more appropriate institution is created. At present, BNF has facilities available to store only 3 percent of the annual grain harvest and very little is stored on the farms. Losses of grain run 15-55 percent of the production due to the combination of unfavorable climate, transportation, lack of drying facilities, insects and rodents.

The proposed price support program of the GOH would contribute to stabilizing the price of basic crops in the open market and at the same time provide enough feed grain storage for the private sector to expand pork and poultry production.

B. Basic Problem of Agricultural Sector

1. Credit Needs: The lack of sufficient credit from both private and public sources unquestionably is contributing to the slowness in developing the agricultural sector in Honduras. In 1966 available credit from both the private and public sector amounted to only $41.2 US (L. 82.5) million of which BNF provided L. 30.3 ($15.1 US) million, or 36.7 percent. More than half of these funds are used as short-term credit to producers of coffee, cotton and tobacco.

2. Implementation of the Guaranteed Prices: Adequate funds have not been available at harvest time to purchase corn, sorghum, beans or rice in sufficient quantities to affect the market. The BNF has not had sufficient cash on hand to fill public storage facilities, much less to pay the farmers for his grains at the support price level. Even with adequate storage facilities, additional sources of temporary funds will have to be located to fill the silos and to provide sufficient production credit at planting times. This problem will be enhanced even further if the projected production targets under the GOH Immediate Action Plan are realized.

3. Technical Assistance: Honduras has only a limited number of well-trained agricultural and livestock technicians. Technical assistance is badly needed to provide the training necessary of Honduran technicians to assist grain farmers and livestock producers and to supervise the existing and future farm credits. Foreign advisors are also needed to assist in determination of proper functions of various agricultural agencies and to develop an effective coordinated mechanism for technical assistance to farmers. Finally, they are needed to improve the BNF credit operations.

SECTION III. The GOH Immediate Action Plan

A. Composition of the Plan

In view of a deteriorating economic situation the GOH adopted in early 1968 an Immediate Action Plan for agricultural improvement.

1. Increased Production of Basic Foods: The Plan gives very high priority to enhanced agriculture credit, grain storage, guaranteed minimum price fo[illegible] food grains and increased technical help to rural areas and in particular

to producers of basic food and feed crops and livestock. The proposed programs are to be implemented by six agencies and their dependencies working in the agricultural sector. At present, the effectiveness of these agencies is far from perfect. They need one central authority to coordinate their functions at least to avoid duplication and to focus their efforts on immediate and long-range objectives.

2. Storage and Marketing: This program is closely linked to the GOH plan to increase food crop production. In the absence of private initiative the construction and management of the storage program has been assigned to the BNF for as long as a more suitable institution is not created.

3. Transportation: Another high priority goal of the Immediate Action Plan is the improvement in transportation. With only 2,083 miles of road, much of Honduras is not accessible; and where roads exist, the transportation costs are very high. While the GOH has or expects to receive a number of foreign loans to build roads, the construction progress is far from satisfactory and an energetic and coordinated action will be required to speed up the construction schedules.

4. Education: With a high illiteracy rate in the rural areas and a low level of agricultural knowledge, education has rightly been assigned a high degree of priority and a significant proportion of budgetary resources are assigned to expenditures for education and more needs to be assigned to research.

B. Program for Basic Food and Feed Grains and Livestock

1. USAID Role: In view of the GOH extremely limited internal resources and large capital requirements to carry out the Immediate Action Plan, the USAID decided to concentrate its technical and financial assistance on only one aspect of agricultural improvement. The GOH plan for the increased production of basic crops and livestock, through farmers' credit, storage construction (closely related to grain price stabilization program) and expansion of agricultural cooperatives, has been selected as offering the most direct and tangible results. Accordingly, the original targets of the GOH Plan have been mutually re-examined and scaled down to a realistic level which could be achieved through joint efforts and limited financial resources.

The amount of the proposed loan of $9.5 million is considered necessary even if the reduced targets are to be met. The GOH has agreed to increase significantly the originally planned rate of capitalizing the BNF by: (a) assuming the budgetary burden of interest and principal payments of the BNF as a capital contribution; and, (b) increasing the size of the contribution from budget funds to BNF from $1.0 to $2.0 million equivalent annually during the period 1967-1969 and to $2.25 million thereafter until its total capitalization commitment is fulfilled.

2. Targets: The revised production targets for the country as a whole are presented on the following table:

TABLE IX -A

Production Targets for Basic Crops: 1969-1970

	Area Planted in Ha.	Yield Per Ha. in Kg.	Total Production in M.T.	Mkt. Price Per Q. Lempiras	Value of Production
1964-Typical Year					
Corn	275,638	975	269,658	6.50	38,561,094
Beans	64,267	572	36,757	14.96	12,097,463
Rice	8,048	1,860	14,967	17.84	5,875,033
Sorghum	59,893	736	44,095	5.60	5,432,504
Total	407,846				61,966,094
1969					
Corn	287,496	1,158	336,883	6.25 1/	46,321,412
Beans	71,932	662	47,634	15.22	15,844,973
Rice	8,531	1,901	16,218	17.61	6,279,609
Sorghum	60,061	741	44.511	5.60	5,483.755
Total	428,020				73,929,758
1970					
Corn	293,245	1,263	370,571	6.25 1/	50,953,512
Beans	73,730	698	51,492	15.12	17,128,298
Rice	8,953	1,920	17,191	17.60	6,656,355
Sorghum	60,961	746	45,492	5.60	5,604,614
Total	436,899				80,342,779

1/ 1968 Prices

The above data indicates rather modest growth in the production of beans and sorghum. However, these increases will be brought about mainly by the farmers participating in the BNF credit program. These farmers represent only about 10 percent of all grain producers in the country and their relative yield and production figures will be substantially greater.

The production targets and projected credit levels are internally consistent and incorporate consideration of such factors as the estimated credit input costs of fertilizer, improved seed, insecticide, etc. and the estimated higher yields from improved methods. As shown in the table below, projected credit needs for the four basic crops rise slightly faster than estimated production during 1969 and 1970. This occurs because the benefits accruing from the capital investment portion of credit inputs in many cases lag one or more years beyond the year in which the credit was disbursed.

TABLE IX-B

Credit/Production Relationship for Four Basic Corps
(Credit in 1,000 of Lemp' as; production in metric tons.)

	1965	1966	1967	1968	1969	1970	1971
Credit	1,840	2,608	3,062	2,495	4,100	4,950	4,000
Production	377,277	387,386	398.116	409,190	445,246	484,746	538,102

Price Stabilization Program

The GOH price stabilization program has three objectives: First, through the operation of a guaranteed price program, to reduce price uncertainty and fluctuations of basic grains at the level of most farmers, and permit higher prices to be paid for their products; Secondly, to reduce speculation in basic grains during the period of scarcity, which would result in lower retail prices to the consumer; and Thirdly, serve as an instrument to expand commercial credit activities directly affecting both the farmer and the intermediary.

With the proposed additional storage facilities to be constructed with the AID loan, the BNF expects to carry out a more effective price stabilization program. The guaranteed minimum prices for food grains will be revised in such a manner that the producer will receive a price that will assure him of a fair profit margin over his production costs. These prices will be established in accordance with Article 10 of the CACM grain Protocol, prepared in Costa Rica in 1965, which uses as a basis for fixed prices: (a) cost of production; (b) C.I.F. prices of food grains imported from third countries; and (c) historical prices of food grains in the Central American Common Market area, etc. Under this instrument, all Central American countries agree to: (a) complete regulation in the production and interchange of basic grains in the Central America area; (b) complete coordination of national policies of production storage and assurance of freedom in the commercialization of basic grain between countries; and (c) to adopt a uniform policy for regulations pertaining to the interchange of such products.

The Protocol describes the obligations and scope of work of the Market Coordinating Commission, the regional entity that will carry out this agreement. The Commission reports to the Permanent Secretariat of the General Treaty for Central America Economic Integration (SIECA), which is responsible for providing policy guidance on the regional price stabilization program. All Central American Governments have ratified this Protocol, thereby providing the Market Coordinating Commission with legal status. The ratification of the Protocol also obliges the Central American Countries to put into practice programs of price regulation coordinated on a regional level.

This development imposes the necessity to establish a network of grain storage centers that is capable of taking care of grain storage for the entire Central American region under a coordinated system of price regulation. Plans are well advanced on the system of regional central grain storage centers as well as plans for the creation of an operations fund to finance the purchase of grain by the organizations established for price stabilization of basic grains in the respective Central American Countries.

The BNF program for construction of new grain storage facilities and price stabilization is tied directly to the regional plans for storage and price stabilization for basic grains. On the fixed prices for sale to consumers, the BNF will assure that the marketing margin permits the efficient operation of the program and at the same time will permit profit margins for private business in the food grain marketing industry.

PART TWO: AID AGRICULTURAL STRATEGY AND PROJECT JUSTIFICATION

SECTION I. AID Agricultural Strategy in Honduras

The data and analysis in Part One provide the setting for the development of the USAID agricultural strategy. The proposed loan embodies and will implement that strategy; AID grant-funded technical assistance activities are limited to the support of that strategy.

During the first half of 1967 the USAID undertook a broad review of the Honduran agricultural sector and an analysis of its problems in light of its development potential. The Mission was assisted in this review by representatives of the Rural Development Division of the Office of Institutional Development. The conclusions were measured against existing USAID agricultural projects and it was decided to terminate existing activities and redirect the U.S. effort toward a concentrated attack on what were considered to be the major problems susceptible of resolution by a concerted AID/GOH effort.

Production inputs, costs and outputs were studied for major food crops; marketing facilities and the price structure were examined; and the role of government policies and institutions was evaluated. Attention was given to the level of effective demand and of theoretical demand with lower consumer costs and growing personal incomes. Consideration was also given to existing and potential export possibilities, particularly within Central America, and to possible reduction of the growing food imports from elsewhere in the region.

In the analysis of the problem attention was increasingly narrowed down and eventually focused on the problem of four basic food and feed crops: corn, rice, beans and sorghum, which are grown to a large extent by small and medium farmers using some 70 percent of the land under cultivation. Most of these farmers also have a few head of cattle. They constitute more than 90 percent of the agricultural population. Although on an average they produce food crops in excess of their needs, a large part of them are held at a virtual subsistence level by the absence of an equitable credit system and an adequate price support and marketing structure. Lacking production credit at reasonable rates they must sell their crop promptly at harvest; many have to borrow at usurious rates and mortgage their crops to the money lender. It is estimated that as much as 60 percent of the grain harvest is sold to local money lenders or transient truck drivers (many of whom come from El Salvador or Guatemala). These people in turn may represent as many as five other middlemen. Prices paid to the farmer are frequently based on faulty weights and are often only one-third or one-fourth of the ultimate sales price a few months later.

The major problems thus narrow down to (a) lack of production credit at reasonable rates, (b) lack of adequate storage facilities, and (c) lack of an adequate program for purchase of grains at harvest at prices offering a reasonable return to the farmer. There are subsidiary bottlenecks of less pressing importance: improved seed, greater availability and lower prices for farm inputs, greater use of fertilizers, more adequate extension services, and a more developed rural infrastructure, particularly roads and schools.

A review of existing institutions revealed two with the potentiality, given adequate resources and appropriate policies, of attacking these problems. The National Development Bank was directing its efforts largely toward producers of non-food export crops: coffee, cotton and tobacco, and suffered from financial and organizational problems. The Federation of Savings and Credit Cooperatives was relatively new and lacked adequate resources, but was concerning itself increasingly with the problems described above.

At the time the GOH had neither clear-cut agricultural policies nor specific programs of action, but the officials in charge of the various GOH agricultural institutions endorsed the analysis and supported the objectives sought. These objectives can be identified as follows:

1. Increased food production (a) to lower consumer costs and improve nutritional levels, (b) to expand exports, particularly in Central Americ and (c) encourage greater utilization of basic grains as animal feed.

2. Increased incomes for up to 15,000 farmers annually (a) to help promote a more equitable distribution of income, and (b) to bring a large part of these farmers for the first time into the national market for industrial and agricultural processed goods.

As pointed out in Section III of Part One, an Immediate Action Plan was developed early in 1968. This plan gives high priority to the increased production of basic foodstuffs through programs of credit, grain storage, guaranteed minimum price, and increased technical help to rural areas. The AID strategy is thus now fully consistent with GOH plans and policies and, in fact, the development of the program embodied in this proposed loan helped to formulate those plans and policies. The objectives of the USAID agricultural program, which this strategy is designed to help achieve, are incorporated in the Country Analysis and Strategy Paper CASP) for Honduras submitted in April 1968.

SECTION II. <u>Project Description</u>

A. <u>Background</u>

1. <u>Project Development</u>: The IRR for this loan was approved by the CAEC on March 30, 1967. Annex IV contains a copy of the official minutes of the CAEC consideration and the verbatum text of the issues raised in the IRR. Although the IRR contemplates a loan amount of only $6,000,000, it

states that the proposed amount was tentative and based on preliminary discussions. The decision to allocate a portion of the loan to FACACH was made during a more recent loan discussion; therefore, the IRR did not consider this use. The Mission understands that it met the CAEC request for additional loan information prior to the preparation of the CAPaper through its discussions with the Deputy Assistant Administrator for Capital Development during his mid 1967 and April 1968 visits to Honduras.

In the development of the loan package, the USAID drew upon advice and assistance from ROCAP regarding the financial situation of the BNF, and TDY assistance from AID/W for an in-depth review of BNF operations, particularly in its agricultural aspects. This package now reflects the results of a complete review of the varied BNF operations, the development of a coordinated agricultural program, the establishment of realistic objectives, and the determination of overall technical assistance requirements. All of these tasks have contributed to the delay between the initial loan inquiry and presentation of the CAPaper. Further, at all phases of project review, the USAID coordinated with the BNF and other GOH officials (including the Minister of Economy and Finance and the Executive Secretary of the Planning Council); as a result, many findings and recommendations are already being incorporated into the BNF operations.

2. Implementing Institutions

(a) The National Development Bank (BNF)

BNF was incorporated in 1950 to "contribute to the development of the production of the country" by, among other things, granting credits of short, medium and long term, and directing development projects on behalf of the Government. Based on an earlier recommendation by the Stanford Research Institute, the GOH took action in 1964 to eliminate BNF's dependence on annual appropriations from the Honduran Congress for its Government contributions. This was accomplished through a $17,500,000 (L. 35,000,000) bond issue for BNF's use to be amortized by the Government at the minimum annual rate of $1,000,000 during the first five years and $1,250,000 during the remaining 10 years. To increase this rate of capitalization of the BNF, the GOH in November 1966 presented to the USAID a draft loan application for $20,000,000. The proposed loan use was about equally divided between agriculture and industry, including promotion purposes. The application was received during the period in which the USAID was re-orientating its program to emphasize agriculture. Since then, the USAID with the BNF and other appropriate GOH officials have reduced and re-shaped the original request into the present package, which forms the basis for the USAID's agricultural program.

(b) The Federation of Savings and Credit Cooperatives (FACACH)

One of the conclusions reached during the development of this loan package was that while the BNF was to some extent reaching the subsistence and near subsistence level farmer, a more efficient and effective means other than direct BNF credit was needed. In order to provide this means and in view of the demonstrated growth of the Honduras cooperative movement and the success of FACACH (described in Part Three, Section III below), it was decided to incorporate the $1.5 million for FACACH in the loan package. FACACH was chartered on May 16, 1966 with provisions in its by-laws granting it the authority to borrow funds for relending to affiliated credit unions and cooperatives.

B. Project Goals

Section I above describes the USAID objectives which our agricultural strategy is designed to achieve. The proposed $9.5 million loan is directed at a number of specific goals which are somewhat broader than the major objectives of increasing food production and farmer incomes. These goals are:

1. To achieve a rapid increase in the production of livestock and food grains through the increased use of inputs, including improved breeding animals, improved seeds, insecticides and fertilizers;

2. To establish a well-managed grain storage program together with a realistic price stabilization program for food crops coordinated with the CACM grains protocol;

3. To emphasize and concentrate on a meaningful crop diversification program which de-emphasizes coffee production, limits public support to cotton and tobacco producers, and encourages production of food grains and new crops for export.

4. To assure adequate production credit and better market prices for a broad segment of the farmer population of Honduras, including the small subsistence farmer.

5. To assure greater efficiency and better management of the BNF program of agricultural credit and agricultural development projects generally.

6. To help create a viable agricultural cooperative movement in Honduras.

C. Financial Plan

1. Use of AID Loan

(a) The National Development Bank: The BNF, a public autonomous national development bank, will receive $8.0 million of the AID loan as a capital contribution from the GOH for two primary purposes: agricultura and agro-industrial credits and construction of grain storage facilities. $5.0 million of the AID loan will be used by the BNF as follows: (1) loans at appropriate terms to the small and medium size producers of corn, beans, rice, sorghum and livestock for short-term production credit and medium or long-term credit for farm improvements, agricultural machinery, and related capital investments; and (ii) up to $500,000 for medium and long-term loans to or minority equity investments in mutually acceptable agro-industries. $3.0 million of the AID loan will be used by the BNF for financing: (i) construction contracts to build BNF owned and operated central grain storage facilities located in Tegucigalpa and San Pedro Sula each with approximately 12,500 ton capacity and identical design features for concrete silos; (ii) supervision of construction; and (iii) technical assistance in grain storage operations and marketing.

(b) Agricultural Cooperatives: The GOH will re-lend the remaining $1.5 million of the AID Loan at $2\frac{1}{2}$ percent with a 15-year amortization period after 5 years grace to FACACH (Federación de Asociaciones Cooperativas de Ahorro y Crédito de Honduras Ltds.). FACACH is a federation of credit unions and agricultural cooperatives whose membership consists of subsistence and near subsistence farmers. FACACH will relend to agricultural cooperatives up to $570,000 for the dollar and local currency constructions costs of the first phase of a cooperative grain storage system designed to improve the marketing of cooperative production, provide higher commodity prices, and increase incomes of the cooperative members. At the same time FACACH will reloan in cash and in kind the $930,000 balance of AID loan availability to agricultural cooperatives and credit unions for relending to their members for production credit primarily in the selected priority grain crops and for operating capital.

2. Sources of Financing

The overall cost of program assisted by the proposed AID loan will be financed as follows:

TABLE X

Total Program Assistance
(in $ 1,000's or equivalent)

Sources and Purpose of Financing	Amounts US Dollars	L/C Equiv.	Total
1. GOH/BNF: (35.1%)			
a. BNF credit program	-	9,295	9,295
b. Grain storage	-	311	311
c. Loan to FACACH	-	325	325
2. FACACH (admin.): (1%)	-	270	270
3. Farmers: (20.8%)			
a. BNF clients	-	4,470	4.470
b. Agr. coop. members	-	1,400	1,400
TOTAL LOCAL CONTRIBUTION		16,071	16,071
4. AID:			
a. Grant (3.2%)			
(i) FACACH support	-	134	134
(ii) Tech. Assist. & Training	380	406	786
b. Loan (33.5%)			
(i) BNF			
- agr. & livestock	3,000	1,500	4,500
- Agro-industries	500		500
- grain storage	1,296	1,704	3,000
(ii) FACACH			
- production inputs	407	349	756
- grain storage	312	258	570
- storage operations	-	174	174
TOTAL AID	5,895	4,525	10,420
5. IDB (loan balance): (6.4%)			1,812
TOTAL FINANCIAL REQUIREMENTS			28,303

Total AID financing (grant and loan) represents 36.7 percent of the total program costs. $3,985,000, or less than 42 percent, of the AID loan will finance local currency costs; this amount is about 25 percent of the total local contribution, and about 40 percent of the total public contribution.

3. Local Contribution

The total public contribution consists of a portion of the GOH budgetary assistance to the BNF and the BNF's own funds, together amounting to $9,931,000 equivalent. This relatively modest direct participation of the GOH/BNF is not surprising in view of the country's scarce resources which have to be divided into a multiplicity of urgent needs. The GOH investment expenditures are largely directed to provide a minimum of infrastructure (roads) and to improve the level of education creating thereby a base for agricultural expansion. These investments could be expected to bring substantial future benefits. The GOH has been relying on foreign financing of these aspects of agricultural investment which produce measurable and direct effects and therefore are more likely to be accepted by international and U.S. financing institutions. The GOH is willing to absorb the cost of these foreign investments over a long maturity period when its resources are expected to increase through an economic expansion.

The BNF's own funds earmarked for credit and storage facilities could not be much increased through a shift of funds from other activities. The BNF, like the GOH, has to support a variety of economic activities either through direct control or through credit. The Mission obtained agreement on limitations for BNF financing of coffee, cotton, and tobacco production, but does not consider appropriate to insist at this time on a further shift of the BNF internal funds, from a modest industrial program or from other agricultural activities to the program presented for AID assistance.

The cooperative portion of the AID project, presently supported by AID grants, GOH subsidies, and members' contributions needs AID assistance to become self-supporting by 1972.

4. Justification of A.I.D. Local Cost Financing

The substantive portion of A.I.D. local cost financing results from the nature of the project, the scarce local resources discussed in the preceding section, and Honduras' balance of payments position described in Part One. With respect to the cooperative portion, local cost financing is justified by an A.I.D. major objective, derived from Title IX of the Congressional mandate, to establish and promote private democratic self-sufficient institutions. Direct loan financing of the agricultural cooperatives will contribute to the rapid economic and social development without interference of central government. Similarly, the portion of the loan for BNF use is totally responsive to the A.I.D. priority emphasis on increase of food production and improvement of food storage and distribution. The conditions and periodic reviews built into the loan together with the proposed level of technical assistance to be provided will have a catalytic impact in not only improving the BNF as an institution, but also in turning its direction increasingly towards the production of food crops and livestock in lieu of the traditional export crops. In view of the foregoing, the Mission considers the level of local currency financing justified and strongly recommends approval.

The ratio between the foreign exchange and local currency components of the loan as indicated in the present financial plan, is a result of the Mission's effort to maximize direct dollar procurement. The BNF's original credit plan for the use of the A.I.D. loan for agricultural and agro-industry purposes proposed a level of direct dollar procurement of $1.92 million against a loan availability of $5.0 million. This level was based on the BNF's expected subloans for direct procurement from the U.S. by or on behalf of its sub-borrowers for importation of livestock, farm machinery and equipment, vehicles, and agro-industry equipment and materials. Reflected in their credit plan was the BNF's assumption that a large portion of the farm credit will be used for local purchases of goods, including fertilizers, from private dealers. A large portion of such commodities or their components would have been of U.S. origin. This plan would have been consistent with the USAID/BNF understanding, discussed on page 37, to reduce the BNF's reliance upon its retail distribution network.

In order to maximize loan financed dollar expenditures, the Mission was compelled to accept centralized procurement by the BNF of fertilizers, insecticides, and group purchases of smaller agricultural materials and equipment (e.g., hand tools, fencing, etc.) for relending in kind through its retail outlets. Unfortunately this scheme limits the Mission's objective of strengthening the role of private enterprise in Honduras inasmuch as the government channels for procurement and distribution will have to be used. Preliminary estimates indicate that the direct U.S. procurement under this system will be increased by about $1.58 million to $3.5 million.

As described in Section III of Part Three, the purchases under the cooperative portion of the loan will be centralized to the extent practical to assure maximum possible direct dollar procurement. The only possibility of a larger direct dollar component in the grain storage sub-project will be if the bid on the construction contract is won by a U.S. firm. Since there are several qualified construction firms in the Common Market, such possibility is rather remote.

The Mission's efforts to date to find a suitable mechanism for increasing Honduras' general imports from the U.S., thereby generating local currency for the project, have not been successful in view of a complete absence of import and exchange controls in Honduras, as well as a lack of an adequate mechanism to institute a regulatory system of incentives for local importers.

As pointed out above, a large portion of the goods purchased locally under the agricultural credit portion of the loan will be of U.S. origin. Also, the indirect effects of the loan on induced demand and future proprietary procurement of machinery and spare parts will result in additional procurement of U.S. goods. From 1962 to 1967, the U.S. share of total Honduran imports averaged almost 50 percent. Moreover, less than one half of the proceeds of Honduras' banana exports which account for about 45 percent of its total exports, is returned to Honduras in foreign exchange. The remaining part is retained by the U.S. fruit companies. Thus, although Honduras has run a slight overall trade surplus with the U.S. in recent years, this surplus disappears with a resulting trade deficit after adjustment for banana exports.

D. Technical Assistance: It is fully realized that the availability of credit, seeds and fertilizers alone cannot achieve the desired results. The real key to the success of the program will be a change in the farmers' attitude to accept modern tools and methods and to shift from its traditional subsistence activity to intensive production for the market. Accordingly, technical assistance and training will be an important part of this Project and will cover the following activities:

1. Technical guidance to BNF on livestock and agriculture credit operations;

2. Formal and in-service training to BNF, DESARRURAL, private livestock producers associations, and agriculture cooperative technicians and managers on farm planning, modern production methods, pasture improvement and cooperative development;

3. Technical assistance to the BNF in grain storage and marketing operations; and

4. Technical assistance to the BNF in development bank administration, financial management, accounting and auditing procedures and methods.

This ambitious technical assistance program of the USAID will require its coordination with the existing technical assistance programs of the IDB, the UNDF Special Fund Project "Crop Development Through Applied Research and Demonstration", the Agriculture Cooperative Program and local institutions like the BNF, Ministry of Natural Resources, DESARRURAL, and FACACH. The AID loan will fund two full-time advisors to the BNF to provide the technical assistance described in (3) above. The IDB loan will fund the technical assistance described in (4) and a portion of the services included in item (1). AID grants will fund the balance of the technical assistance requirements. The USAID considers the level of grant funding of technical assistance proposed consistent with the relative economic position of the country. Moreover, since all of these technical advisors would be working with several institutions and private entities, the extension of the concept of loan funding to finance their activities would be difficult to implement.

SECTION III. Project Justifications

A. Project's Contributions to Country's Economic Development:

1. GNP Effects: The expected growth rate of the agricultural sector from 1968-1972 should average 8 percent, a large part of which would

be attributable to enhanced income and productivity generated by the loan. Since the agricultural sector is responsible for nearly 40 percent of Honduras' gross national product, an agricultural sector growth rate of 8 percent would raise the overall GNP growth rate by 1 percent from the present level of about 4 percent to 5 percent in real terms. This comprises a significant contribution, in the Mission's estimate, to the overall growth.

2. Balance of Payment Effects: As indicated in Section I of Part One, the proposed loan will contribute directly to an improvement in the Honduran balance of payments position by the needed inflow of capital. This is secondary, however, to its effect on expanding exports and dampening imports. The expected expansion in the production of these vital food crops will make Honduras self-sufficient in rice and would result in the foreseeable future in the resumption of net exports to Central America of corn and beans as production of these food crops increases. The loan, by helping to finance the construction of storage facilities, will help prevent seasonal scarcities of corn and beans. These commodities are exported due to a local shortage of storage space and re-imported later during the periods of scarcity at higher prices.

Expansion of corn and sorghum production will permit local cattlemen to substitute domestic product for higher priced imported feeds and at the same time will lead to an improvement in the quality of local beef and increase in quantity thus potentially increasing Honduran meat exports. The additional availability of by-products from locally manufactured corn starch will help supplement livestock diets, decreasing demand for imported feed concentrates. More corn starch will be available for Honduras and for export. Total foreign exchange savings, while difficult to specify, should be in the range of $4-5 million annually.

The income effects of the proposed loan will be slightly negative on the Honduran balance of payments for farmers who before participated only marginally in the money economy can be expected to increase their demand for consumer goods, particularly durables, nearly all of which are imported. These negative effects, however, are marginal compared with positive gains.

B. Self-Help Measures:

The GOH's Immediate Action Plan and its significance as a self-helf measure has already been described in Section III of Part One. Another example of the GOH's self-help measures is its willingness to increase the proportion of the national budget expenditures on agricultural and natural resources and to increase the rate of capitalization of the BNF. An important self-help effort is the Government's intensification of the processing and distribution of property titles through INA for rural land holdings. The GOH's active encouragement of cooperative development is additional eviden/

of its self-help actions. This has been reflected not only in public policy statements supporting the role of cooperatives but also in the substantial annual increases in the GOH budget contribution to its Department of Cooperative Development since 1966.

C. Special Statutory Considerations

1. Impact on U.S. Economy: The direct and contractor's procurement in the U.S. of cattle, equipment, materials and fertilizers will create additional exports from the U.S. The local currency portion, tied to procurement under SLC, may also provide some additional U.S. exports. More important, however, will be the indirect effect of the loan, resulting from induced additional demand for U.S. proprietary equipment, materials, spare parts and other U.S. products on the part of farmers and cooperatives. An additional demand will also be created through an obvious need to standardize newly created facilities and agricultural inputs to support planned expansion of the agricultural sector. Moreover, the USAID will exert its best efforts to find and implememt a system to achieve additionality.

2. Building of Democratic Institutions: The portion of the AID loan to be allocated to agricultural cooperatives and rural credit unions through a cooperative federation, FACACH, has an obvious and significant effect on building democratic institutions. Through the grain storage and production credit operations, together with appropriate technical assistance, membership in the participating cooperative will be greatly enhanced. Thus, the very small rural farmer, presently the individual least "touched" by existing institutions, will be encouraged to join in cooperative affairs. Undoubtedly, through these activities the groundwork is laid for instilling a community consciousness and a certain self-confidence in the communities' ability for self-improvement.

There is no direct effect in the BNF portion of the project on building democratic institutions. This portion of the loan is designed to increase further production and to build a sound economic base for individual farmers which is a pre-requisite to further development of local and social and political institutions and farmers' participation therein. The loan is consistent with the objectives of FAA Title IX, Sec. 281.

3. USAID Director's Certification: Annex Y to this CAPaper contains the USAID Director's certification for this activity, to conform with FAA Section 611 (e).

4. Consistency with the CIAP Review: The Inter-American Committee for the Alliance for Progress (CIAP) considers continuation of the program for accelerating the capitalization of the BNF to be important.

This position is reported in the December 18, 1967 "Compilation of the Conclusions and Recommendations of the Sub-Committees of CIAP". The Project is fully consistent with the findings and recommendations of the CIAP. (FAA Section 251 (h)).

5. Opinions of Other Institutions: The Export-Import Bank in its minutes of April 13, 1967 stated that it was not interested in the loan due to the local currency financing and concessional terms required. The International Bank for Reconstruction and Development advised AID on April 5, 1967 that it was not interested in financing the project. The IBRD explained that it was considering a request for agricultural financing through the Central Bank of Honduras but which would not, according to the GOH, conflict with the proposed AID loan to the BNF. The Inter-American Development Bank on May 5, 1967 similarly stated that it was not interested in financing the proposal. The IDB, however, emphasized the need for technical assistance to the BNF to improve its operational capacity and recommended that any further financial assistance should be contingent upon demonstration of the BNF's capacity to employ such additional resources.

D. EMBASSY/USAID Recommendations

The USAID concludes that the present loan package: (a) constitutes the key development effort at this time basic to achievement of Honduran and AID agricultural growth goals; (b) provides a basis for the continuing transfer of ideas and recommendations from USAID staff and USAID-provided consultants to the BNF, thereby encouraging the further development of a national, viable, autonomous, public development bank responsive to high priority credit needs; and, (c) strengthens the agricultural cooperative and credit union movement in Honduras while providing an efficient and effective means of increasing the income of small farmers. The Embassy/USAID thus recommends that the loan described herein be made available to the GOH subject to the terms and conditions set forth in Part Four, Section IV.

PART THREE: PROJECT ANALYSIS

SECTION I. BNF Credit Program

A. Description of Activity

The A.I.D.-financed activity will consist of: (a) up to $4,500,000 for credit with technical assistance extended to small and medium size individual farmers and non-affiliated cooperatives to increase their production of corn, rice, beans and sorghum and of livestock through an increased use of fertilizers, pesticides, better seeds and the provision of agricultural training; and (b) up to $500,000 for credit and equity seed capital to agro-industries mutually agreed upon between the BNF and AID. In addition, the Loan agreement will provide that up to $100,000 could be used for U.S. equipment and vehicles for the BNF field supervision in lieu of expenditures under (a) or (b) above. The types of the loans extended will be as follows: up to 18 months maturity for production credit; and up to 7 years for pasture improvements, livestock purchases, farm machinery, equipment and permanent farm improvements. The credit will be supplemented by technical assistance provided by the bank's own staff and by the GOH extension service. The degree of such assistance will vary, according to the type of producers, from the preparation of a farm plan in the case of small marginal farmers to mere provision of technical advice in the case of medium farmers. It is expected that from 12,000 to 15,000 owners and tenants will benefit annually from this managed credit system which is expected to increase the overall production of four basic food and feed grain crops to achieve the targets established by the GOH for 1969 and 1970.

B. Financial Plan

The BNF's credit plan for its overall agricultural and livestock loans is shown on the following page. In their plan, the BNF has allocated for its traditional lending crops what it considers the minimum feasible amounts. Despite the increased allocation of its own resources for lending for the priority grain crops and livestock, the BNF needs additional resources to achieve its target lending levels for these categories. The AID loan will complement the BNF's own resources and other international resources to be devoted to the priority grain crops and livestock as shown in Table XI.

TABLE X
BNF AGRICULTURAL CREDIT PROGRAM
1967 - 1972
(000's Lempiras)

	1967				1968			
	IDB	BNF	Total	%	IDB	BNF	Total	%
I. **AGRICULTURE**	2,350	16,106	18,456	70.1	3,017	12,559	15,576	68.8
Cotton	73	7,604	7,677	29.1	100	6,500	6,600	29.1
Rice	331	217	548	2.1	200	70	270	1.2
Coffee	12	3,566	3,578	13.6		3,300	3,300	14.6
Sugar Cane	132	766	898	3.4		700	700	3.1
Beans	324	120	444	1.7	280	70	350	1.5
Corn	1,274	796	2,070	7.9	1,300	500	1,800	8.0
Tobacco	43	2,408	2,451	9.3	900	1,229	2,129	9.4
Sorghum	(Included with corn)				25	50	75	0.3
Others	161	629	790	3.0	212	140	352	1.6
II. **LIVESTOCK**	3,318	4,373	7,691	29.1	4,560	2,200	6,760	29.8
Beef Cattle (Breeding)	292	219	511	1.9	1,500	180	1,680	7.4
Beef Cattle (Fattening)	182	988	1,170	4.4	330	1,120	1,450	6.4
Dairy Cattle	2,315	2,683	4,998	19.0	2,380	900	3,280	14.5
Dual Purpose Cattle	403	421	824	3.1				
Other Kinds	126	62	188	0.7	350		350	1.5
I. **OTHER**	20	192	212	0.8	140	199	339	1.4
Forestry					60	90	150	0.6
Fisheries					30	10	70	0.3
Poultry	17	192	209	0.8	10	69	109	0.5
Bees	3		3	0.0	10		10	0.0
TOTAL NEW AGRIC. LENDING	5,688	20,671	26,359	100.0	7,717	14,958	22,675	100.0

	1969	AID					1970	AID					1971	1972
	IDB	(L/C	$)	BNF	Total	%	IDB	(L/C	$)	BNF	Total	%	BNF	BNF
I. **AGRICULTURE**	1,150	2,080	420	13,350	18,000	68.1	900	2,080	420	16,900	20,300	59.8	17,000	20,500
Cotton	150			7,150	7,300	27.6	100			7,400	7,500	22.1	7,300	7,500
Rice	100	400	100	50	650	2.5	150	400	100	300	950	2.8	800	900
Coffee				3,500	3,500	13.2				3,500	3,500	10.3	3,500	3,500
Sugar Cane				550	550	2.1				600	600	1.8	550	600
Beans	150	500	100	50	800	3.0	100	500	100	700	1,400	4.1	1,100	1,500
Corn	730	1,100	200	470	2,500	9.4	530	1,100	200	1,470	3,300	9.7	2,900	3,500
Tobacco				2,400	2,400	9.1				2,400	2,400	7.1	2,400	2,400
Sorghum	20	80	20	30	150	.6	20	80	20	180	300	.9	200	300
Others				150	150	.6				350	350	1.0	250	300
II. **LIVESTOCK**	1,000	750	1,250	5,000	8,000	30.1	700	750	1,250	10,400	13,100	38.6	12,500	13,500
Beef Cattle (Breeding)	600	350	850	1,200	3,000	11.3	400	350	850	3,300	4,900	14.4	4,700	4,900
Beef Cattle (Fattening)				1,500	1,500	5.7				2,500	2,500	7.4	2,400	2,800
Dairy Cattle	400	400	400	1,600	2,800	10.5	300	400	400	3,700	4,800	14.1	4,600	4,900
Dual Purpose Cattle														
Other Kinds				700	700	2.6				900	900	2.7	800	900
I. **OTHER**	50			410	460	1.8				540	540	1.6	525	535
Forestry				200	200	.8				200	200	.6	200	200
Fisheries				50	50	.2				55	55	.2	50	50
Poultry	40			160	200	.8				250	250	.7	240	250
Bees	10				10	.0				35	35	.1	35	35
TOTAL NEW AGRIC. LENDING	2,200	2,830	1,670	19,760	26,460	100.0	1,600	2,830	1,670	27,810	33,910	100.0	32,025	34,535

NOTE: The dollar component of A.I.D. financing of the IDB credit program has been increased to a two-year total of $3,000,000 (Lempiras 6,000,000) through BNF centralized direct procurement of fertilizers, insecticides, etc.

TABLE XI

Priority Grain Crops and Livestock Program
(in $1,000's or equivalent)

Source	Amount	Purpose
GOH/BNF	$ 9,295,000	Credit
AID: Loan	4,500,000*	Credit**
Grants	284,000	Technical Assistance
IDB (loan balance)	1,812,000	Credit & Tech. Assist.
Sub Total	$ 15,891,000	
Farmers' Own Resources	4,470,000	Labor, land rental
TOTAL	$20,361,000	

* Also, up to $500,000 for agro-industries, making a total of $5,000,000
** Up to $100,000 could be used for equipment and vehicles.

With the direct BNF procurement added to the level originally contemplated in the BNF credit plan, expenditures in the United States under this portion of the loan are estimated to be $3,000,000. About $8,100,000 of the programmed amount will be disbursed in 1969 and the balance in 1970. In addition to the lending for grain crops and livestock, the BNF anticipates a lending level from its own and IDB resources for its industrial purposes of $1,250,000 in 1969 and $1,500,000 in 1970. The portion of these amounts that will be used to complement the $500,000 of the A.I.D. loan for agro-industries is difficult to determine at this time and has not been included in the local contribution figures.

C. Operating Criteria

1. Credit for basic grains and livestock: Farmers seeking production loans up to $750 obtain a loan application form from the BNF branch offices or BNF loan supervisors; they are assisted in completing the application at the Application Receiving Office of a BNF branch. Each such application is considered by the local Credit Committee, composed of the loan appraiser (supervisor), office accountant, and the chief of credit section, which approves or rejects loan and advises the applicant immediately. On the basis of the approved application, the Legal Department prepares and executes a loan contract. This permits the BNF to issue a check or an order for goods in kind. Less than one day is required for the entire process. For larger loans within the lending authority of the branch the process is essentially the same as described above except that more time, up to 3 or 4 days, may be required. The loan appraiser will usually visit the farm prior to his filling out the application and may assist the farmer in preparing his application.

The ceilings on the maximum loan amount that a branch manager can approve vary from $10,000 for the three largest offices to $1,500 for the four newest field offices. The majority of the branches may approve loans up to $5,000. Applications for amounts higher than the individual limits have to be passed to the central office for approval by gradually higher authorities according to the loan amount. All loans in excess of $50,000 must be approved by the Board of Directors.

The BNF's lending criteria for its loans to small farmers of basic grains enables it to lend to the smallest farmers on the basis of a pledge against the harvest, rather than insisting on property or other assets as collateral. The loans to this group of farmers will be mainly for improved seed and fertilizers. To the extent practical, the BNF will lend for these commodities in kind in order to assure their use. At the same time, the extension agents of DESARRURAL and the BNF's own agriculturalists will be promoting on an intensified scale better farm practices including the use of fertilizer, improved seed, insecticides, etc. The interest rate of all loans will be a flat 9 percent; this is consistent with the interest rate structure of Honduras. The maximum size of loan for basic grain production will be $5,000 and for livestock production $15,000. There will be an overall credit ceiling on debt outstanding at any time of $50,000 including credit for production as well as farm improvement and purchase of machinery and equipment. Inasmuch as the four priority grain crops are almost exclusively grown on small and medium farms, there will be no formal eligibility limit on participating farmers other than the above lending limitations.

The BNF will maintain through 1972, or until such other time acceptable to AID, a revolving fund to be used exclusively for the priority grain crops and livestock. The disbursed amounts of the AID loan and the BNF's own resources indicated in the financial plan will become a permanent part of the revolving fund. USAID will not insist that the interest income on the loans be added to the fund inasmuch as the BNF will cover the operating costs and any losses on the project from separate capital funds.

2. Industrial Credit (including agro-industry): Applications for industrial, including agro-industry, loans over $25,000 must be supported by a complete project evaluation including a market study. In practice the industrial sector of the Development Division often assists the applicant in preparing this evaluation. Smaller industrial loans are made on the basis of the general credit worthiness of the applicant. The loan application processing procedure is similar to that described for the agricultural loans, except that any equity financing must be approved by the Development Division. The BNF can approve loan terms up to 15 years; interest is 9 percent. AID funds will be used for sub-loans to agro-industrial categories approved by the USAID. No revolving fund is proposed.

Executing Entity

1. BNF Management and Staffing: The key management of the BNF consists of the President and the chiefs of two functional divisions: Development, and Credit and Operations; and two staff divisions: Technical and Controller. The president of the BNF, appointed in 1965, acts also as the Bank's general manager. The organization chart is attached in Annex III. There are a total of 631 BNF employees, of which 299 or 47.3 percent are located in Tegucigalpa.

The BNF has developed plans to improve its accounting procedures and methods, including increased mechanization, in order to correct its present over-emphasis on bookkeeping and auditing staff. The bank also carries out annual personnel training programs of a limited scope and size. The BNF should provide more and better training in order to achieve greater efficiency, but it needs additional technical guidance. The technical advisors provided by the IDB and under AID grants will assist the BNF in developing larger and more useful personnel training programs. Moreover, the USAID will carry out under grant funding a coordinated participant training program for BNF and DESARRURAL technicians. In view of the demonstrated interest of the BNF in personnel training, the USAID does not believe it is necessary to add specific covenants or conditions to the Loan Agreement requiring expanded BNF training activities.

The responsiveness of the BNF's management to the need for planning and administrative improvements has been clearly demonstrated. For example, short and long range planning is now being initiated by the BNF through its Technical Division. This Division has also developed the staff to perform needed statistical reporting and analysis of the various BNF operations. As a result of close cooperation between BNF accounting staff, the IDB provided financial advisor, and the ROCAP financial analyst, the BNF's 1967 financial statements for the first time indicated a profit and loss accounting and allocation of general overhead for each of the Bank's activities.

The BNF's overall management capability in agricultural credit operations will be further improved once the planned technical advisors are all on board. In addition to the present advisor in financial management and accounting procedures, the IDB loan will fund the cost of an advisor in development banking and a specialist in agricultural credit to the BNF, each for 18 months. AID grant funds would provide for this activity a full-time advisor in livestock credit and two to four short-term consultants for specific studies and training in livestock. The AID-provided advisors would not work exclusively with the BNF, but would also assist DESARRURAL, livestock producers' associations, and other appropriate entities. The technical assistance provided by AID for the BNF's grain storage operations and for the agricultural cooperatives is discussed in later sections of the paper.

2. BNF Organization: The BNF system consists of the Central Office in Tegucigalpa and 18 branches. The two BNF divisions which carry most of the work load are the Credit and Operations Division and the Development Division. Industrial and agricultural promotion activities are within the Development Division, while the Credit and Operations Division has the responsibility for approving loans. Lack of proper coordination occasionally creates a gap between the functions of these two divisions. The BNF recognizes the problem and is already taking steps to increase coordination within the present organizational structure. Both the USAID and the BNF believe that at this time it is not necessary to change this functional organization. Moreover, such a change would require an ammendment to the BNF's organic law. It is not unlikely, however, that recommendations for reorganization and other administrative improvements of the BNF will result from the technical assistance to be provided under this project as well as from the effect of altering the scope of the Bank's operations as described below.

3. Scope of BNF Activities: Due to the broad responsibilities assigned to it in its 1950 charter, the BNF is involved in a variety of activities. Its major activities in addition to agricultural and livestock credit, grain storage and agro-industry are described below:

a. Industrial Promotion: Although the BNF is responsible for carrying out industrial promotion for the GOH, including the provision of development credit and capital for industry, the relative role of these activities has been diminishing. This is due to the combination of: increasing competitive sources of industrial financing and promotion, such as the private Financiera Hondureña and CABEI; limited financial resources; and the local scarcity of qualified individuals to develop on behalf of public institutions credit-worthy industrial ventures. Despite these factors, the GOH's position is that: (1) it prefers to retain the established industrial promotion activities within the BNF rather than create a new, autonomous entity; and (2) there must be a public alternative to the private financial institutions, not only to assist in implementing public investment policies, but also to assure that needed ventures are adequately developed and have a source of medium and long term development financing.

b. BNF Owned Enterprises: The BNF has adopted the policy of divesting itself of its development promotion projects as soon as private interests are found willing to purchase the BNF's capital investment. The major enterprise presently owned and operated by the BNF is the "Sula" milk plant located in San Pedro Sula. The successful and profitable operation of this large facility is probably the best example of the BNF's project development work. Although there now exists private interests that apparently are willing to purchase the plant at a reasonable price, negotiations of the sale have been slow. The USAID therefor proposes to insist on, prior to signing of the Loan Agreement, evidence of satisfactory arrangements for the sale of the Sula Milk Plant. The BNF also owns two small coffee bean processing plants which are leased to coffee cooperatives with an option for purchase. A small BNF rice mill in Puerto Cortés is operated during harvest by the BNF as a service to farmers in the area. The BNF is also involved in tobacco production. Although no private investors for these latter enterprises have been found, the USAID through its advisors will encourage the BNF to carry out actively its divestment policy by seeking out possible investors or even closing down unprofitable and uneconomic operations.

c. Retail Sales Outlets: The BNF presently maintains 19 retail sales outlets in the country which carry from 700 to 1,100 different items. During the development of the Project, the USAID and the BNF agreed that its retail outlets will be maintained only in those existing or future locations where an outlet is performing a necessary service to the community. Therefore, the BNF is expected to discontinue its outlets in the municipal centers where there is sufficient private competition to assure good service at reasonable prices to the consumer. The Loan Agreement will contain a condition precedent to the first disbursement of the BNF Credit portion of the loan requiring the BNF to submit a plan acceptable to AID, which: defines the criteria for determining which outlets should be continued in operation; describes the rules and procedures to apply the criteria; lists the outlets to be closed within an acceptable time schedule; and specifies the actions to be taken to improve the administration and operation of those outlets to continue in operation.

d. Savings and Checking Accounts: The BNF also provides services for savings and checking accounts. The savings deposits pay interest at 4 percent while the checking accounts charge a small fee. These operations have been profitable and the growth in the size of the accounts, although moderate, has been steady. The Mission believes these additional services have not retarded growth of the private banking. In fact, the BNF by extending its banking services to certain growing rural areas has demonstrated a growth potential for banking activities that in turn has resulted in an increasing number of private bank branches to these communities.

e. Coffee Section: The BNF has a relatively large proportion of its employees in its Coffee Section which is responsible for providing technical assistance to the coffee growers and follow up credit supervision for the BNF. For these activities the BNF receives the proceeds of a $1.00 tax on each 46 kilos of coffee exported. This tax revenue in 1967 amounted to $480,000. The BNF is willing to transfer the coffee section and the corresponding coffee tax revenue as soon as a suitable alternative entity is found. Presently, it is believed that it would be counterproductive to coffee diversification objectives to transfer this activity to the private Coffee Growers Association. However, the seriousness of the BNF efforts eventually to achieve a sensible transfer of this function will be considered during periodic loan evaluations.

4. Financial Situation: The BNF's consolidated financial statements and cash flow projections are in Annex III. At its current portfolio level, the BNF has not been able to operate profitably, with the result that the impact of the GOH's past level of capitalization has been reduced. The BNF projects a loss of $1.0 million in 1968, $280,000 in 1969 and profitable operations beginning in 1970. To achieve its financial targets, the BNF must make a dramatic improvement in its loan default situation. Current loans as a percentage of the overall loan portfolio dropped from 75 percent in 1966 to 66 percent in 1967. In part this was due to a poor harvest of coffee, cotton, and basic grains. The BNF analysis of past due loans as of June 30, 1967 indicates that of the Lps. 9,140,000 overdue loans, 22 percent were delinquent by two years or more. As of November 30, 1967, the overdue loans increased to almost Lps. 15.0 million, representing an increase from 22.7 percent to 27.3 percent of portfolio. About 40 percent of the past due loans consists of credit for coffee, cotton and tobacco. BNF states that during 1966 and 1967 the delinquency rate on loans to small farmers (i.e. loans up to $2,500) has been about 20%; it further explains that this rate is much larger than the normal delinquencies due to severe droughts in several of the major grain producing areas during the past two years. The BNF considers loans more than two years past due as chronic defaults and uncollectable, even though covered by collateral. Based on a January, 1968 resolution of its Board of Directors, the BNF is pursuing a strict follow up program on its delinquent loans. In the first four months of 1968, the BNF collected approximately Lps. 1,800,000 from overdue loans. This amount was lower than its target for this period, in part because the full impact of the good coffee harvest had not yet been reflected in the collections. Although legal action is being taken by the BNF staff to foreclose on chronic defaults, the bank realizes that strong management effort must be made to increase collections and to lower the default rate on its new loans. The USAID Mission is fully aware of the BNF loan delinquency problem and intends to require as a condition precedent to disbursements under the BNF credit portion, a plan and schedule for a gradual reduction of total loan delinquencies to a maximum of 10 percent of the overall loan portfolio by December 31, 1969.

SECTION II. Grain Storage

A. Description of Activity

In line with Central American Common Market regional objectives, the long range goal of the GOH is to have a total grain storage capacity of 80,000 metric tons by 1975-78. A two-phase construction program to meet this target has been developed. Phase I is the construction of two principal storage centers each eventually with a 25,000 metric ton capacity in Tegucigalpa and San Pedro Sula. The project to be financed under this activity will be the first stage of this Phase I. Storage facilities will be constructed at each central location with silos of 11,679 metric tons capacity for bulk storage and a warehouse of 1,800 metric tons for bag storage. The second stage of Phase I would approximately double the capacity of each of the central storage facilities. Phase II consists of the construction of grain storage facilities with 5,000 metric ton capacity at Tela, Choluteca and La Entrada to serve as regional purchasing and storage points for subsequent shipment to Tegucigalpa and San Pedro Sula. In accordance with feasibility study recommendations, the Central storage facilities will be constructed of concrete while the smaller facilities will be of metal. The detailed project description is in Annex II.

B. Financing Plan

Up to $3,000,000 of the AID loan will be used to finance the construction and construction supervision costs of the first stage central storage facilities and to provide U.S. technical assistance. The project costs breakdown are provided below:

TABLE XIII

Grain Storage Costs Breakdown
(in $1,000's or equivalent)

Uses	GOH/BNF	A I D		
	L/C	L/C	Dollar	Total
Construction of Storage	-	1,505.0	-	1,505.0
Equipment	20.0	-	923.8	923.8
Construction Supervision	-	61.2	183.7	244.9
Housing	16.0	-	-	-
Technical Assistance	-	25.0	75.0	100.0
Training & Administration	25.0	-	-	-
Land	250.0	-	-	-
Contingency	-	113.2	113.1	226.3
Totals	311.0	1,704.4	1,295.6	3,000.0
Percentage		56.8%	43.5%	100%

Of this portion of the loan, about half will be disbursed in 1969 and the balance in 1970. The GOH contribution of $250,000 for land, as well as the $3.0 million of AID loan for this project will be provided to the BNF in addition to the overall $17.5 million GOH capitalization commitment to the BNF. The justification for the high proportion of AID contribution and AID financing of local currency was discussed in Part Two.

C. Operation and Management

The GOH has vested in the BNF the responsibility of operating the Government's grain storage and the stabilization program until such time a more appropriate entity is found. Section I describes the general management capability and financial situation of the BNF. At present, the BNF maintains and manages storage facilities at 16 different sites throughout Honduras with a total capacity of a little more than 10,000 metric tons. Each storage facility offers services for storage, drying, cleaning and preservation (fumigation) of grains.

To facilitate the BNF operations and to provide guaranteed minimum prices for grain to the greatest number of producers possible, the network of grain storage facilities has been divided into zones. The control and management of storage facilities is carried out by means of resident managers who are carefully selected and well trained. They are assisted by field supervisors who travel continuously.

The BNF will provide intensive in-service training, and, in some cases, training abroad for a selected number of technicians, such as purchasing agents and mechanics. Intensive six-month training courses will be provided for plant managers of the Tegucigalpa and San Pedro Sula facilities. The BNF cost of this training will amount to about $25,000 equivalent.

D. Technical Assistance Under the Loan

The BNF will contract two U.S. advisors, using AID loan funds, to provide advisory assistance to the grain storage/price stabilization program. One specialist, a grain storage operation advisor, will assist the BNF in developing an efficient system of management and operation for the central grain storage facilities coordinated with the regional storage facilities. He will provide in-service training to plant managers and grain handlers at the various facilities. The second advisor will be a grain marketing specialist and will assist the BNF in the development of a modern system of grades and standards for grains and in all matters relative to a more efficient system of purchase and sale of grains. He will assist the BNF in developing an efficient and workable price stabilization program, including a realistic program to utilize to a maximum extent warehouse receipt payment and discounting system. This specialist will also provide in-service training to BNF plant managers and grain purchasing agents.

Additional short-term advisory assistance will be provided by the USAID on a grant basis as required. For example, certain short courses may be conducted in Honduras in special aspects of livestock and grain marketing.

ś. Economic Justification

Honduras is the second largest producer of basic food grains in Central America; nevertheless, it has the least and poorest facilities for grain storage. Because of this inadequacy, there is generally wide variation in prices paid to the producer and prices paid by the consumer. In addition, annual losses of grain in excess of 20 percent of the total crop occurs due to spoilage, rodents, insects, field damage, etc. In view of the need for adequate storage as the basis for a price stabilization program, the GOH proposes to increase its grain storage capacity to provide immediate storage of food grains following harvest to eliminate losses due to spoilage, insects, fungus, etc., and to increase storage capacity to maintain sufficient supply to offset periods of scarcity and thereby stabilize prices. The recommended storage capacity necessary for Honduras to carry out an efficient price stabilization program includes:

1. Adequate storage installation to handle 33 percent of the annual bean and corn crop reaching commercial channels (20 percent of the total production) in 1970 and 47 percent in 1975.

2. Adequate storage installations to handle 50 percent of the rice reaching commercial channels in 1970 and 60 percent in 1975.

3. Adequate storage installation to handle 33 percent of the sorghum reaching commercial channels in 1970 and 45 percent in 1975. The activities planned under this portion of the loan would enable the GOH to meet its 1970 targets.

Although it would be difficult to quantify precisely the effect the proposed storage program will have on the Honduran economy, the new storage facilities will: (1) reduce annual losses from spoilage, i.e. insects, rodents, etc., due to inadequate and insufficient storage; (2) stimulate production output; (3) provide increase income for producers, and, (4) protect the consumer from wide fluctuation of retail prices. The projected losses of basic grains in 1970 under the existing grain storage system are estimated at 65,000 metric tons with a value of over $4.8 million. It is expected that the actual losses will be reduced to $1.5 million when the new storage facilities are completed in 1970.

Other economic benefits that will accrue to the producer and consumer as a result of the new storage facilities include increased income to the producer of $820,000 in 1970 and a savings to the consumer through price stabilization estimated to be $2,000,000 in 1970.

Apart from the savings to the consumer and increased income for the producer, increased storage capacity will provide Honduras with sufficient grain reserves to participate in the export market, particularly during periods of short supply in other CACM countries.

F. Engineering Analysis

1. Studies: A report entitled "Basic Grains in Central America" was made by a joint effort of SIECA, FAO, CEPAL in 1963. CABEI's "Regional Program of Basic Grains Storage" of March, 1968, brought this report up to date. Weitz-Hettelsater Engineers of Kansas City, Missouri published "Marketing and Storage Facilities for Selected Crops in Honduras", in September 1965 for the Ministry of Natural Resources. All of these reports have recommended that grain storage facilities be built at the two population centers, Tegucigalpa and San Pedro Sula. These facilities are keys in both the Honduran National Grain Program and the Central American Regional Grain Program. With the knowledge of these reports, CABEI has financed the preparation of final construction plans, specifications and contract documents for the facilities at Tegucigalpa and San Pedro Sula, by AICA-SACMAG, Consulting Engineers.

2. Engineering Plan for Execution of the Project: Preliminary plans and reasonably firm cost estimates have been prepared by the firm who is preparing final plans and estimates. A firm satisfactory to AID will be employed by BNF to supervise construction. Construction will be by public bidding of prequalified contractors from either Central America or the U.S. Construction materials and the best trained labor of Honduras are available in the two cities. The water supply in each city is very limited; however, wells can be used. There is power available. The equipment will be brought from the U.S. A critical path chart showing design to completion schedule and the technical description of the project are provided in Annex II.

3. Maintenance: The BNF has a good maintenance program as indicated by an evaluation of the BNF made less than a year ago by an AID/W Consultant whose report reads in part: "A thorough review has been made of the operations of the grain storage program as it has been carried out by BNF. Inspection of the existing facilities were made... Invariably, the equipment has been in good condition, the grain that has been inspected has been clean, dry, free of insects, free of trash, remarkably low in broken or discolored grain". The BNF management will continue the same kind of maintenance program at the new facilities using budgeted funds.

4. Appraisal of Technical Soundness: The facilities are being designed by a firm which has been approved by AID for competence in this field. There are several similar plants designed by the same firm in adjoining countries which are giving satisfactory results. In El Salvador the firm has designed its second plants for the same organization after several years of operations of the first facilities.

Each plant is being designed in two stages. Only the first stage will be built with funds from this loan so that present plans envisage at least 100 percent expansion without interruption of operation. There are no reasons to expect difficulty in obtaining either construction materials or equipment. Fuels and lubricants are available in the country.

The Consultant has made soil boring to 120 feet at San Pedro Sula and has stated that piles will not be necessary. The site at Tegucigalpa has been checked and no problems are expected. The BNF is now executing its options to purchase both sites. Heavy equipment can be moved into both Tegucigalpa and San Pedro Sula.

5. Engineering Conclusions: The requirements for preliminary plans and reasonable cost estimates have been met. The final plans, specifications and contract documents are being prepared under an AID approval contract. The project has been studied from both the Honduran National Grain Storage Program and the Regional Grain Storage Program by different groups and each has found the project feasible and sound. The detail financial soundness of the project is further discussed under the economic section.

6. Basis of Cost Estimate: The cost estimates were prepared by the consulting firm for the BNF and are based upon the actual cost of similar facilities in both El Salvador and Nicaragua. The firm stated that the price for silo construction has remained about the same for the last five years in El Salvador. Therefore, inflation is not considered to be a problem.

The Project meets the technical criteria required by FA Sec. 611.

SECTION III. Agricultural Cooperatives

A. Description of Activity

The activity to be assisted with up to $1,500,000 of the loan consists of: (a) channelling loans through a cooperative federation to cooperatives for (i) construction and operation of 9 simple 30-50 ton capacity warehouses for storing grain in bags, and of 10 larger structures with at least 362 ton capacity for bulk storage with facilities to clean, dry and grade the grain including one larger structure with 1,000 ton capacity; and, (ii) relending to members for production credits for the four basic grain crops of corn, beans, rice and sorghum, and for farm improvements; and (b) the construction and operation on behalf of the cooperative federation, FACACH, of two central warehouses, located in Tegucigalpa and San Pedro Sula, which will serve as receiving and distribution points for agricultural materials and supplies sold through the local cooperatives and provide an outlet for grain from local cooperatives in case their storage is not adequate for the volume of grain produced. The central locations are designed to move grain into consumer channels as quickly as conditions merit.

B. Financial Plan

FACACH's lending activities extend not only to agricultural cooperatives but also to credit unions. Many, but not all, of the borrowing credit unions will be lending to their members for production of the basic grain crops. For this reason, it is difficult to separate the amount of GOH and FACACH inputs which will be used exclusively for the project as defined in terms of production and storage. The cost of the overall FACACH activity for the years 1969-71 is as follows:

TABLE XIV

Source of Financing, 1969-71
(in $1,000's or equivalent)

Uses	FACACH	GOH	AID Grant	AID Loan	Totals
Admin. Oper.	270	-	134	-	404
Tech. Assist.	-	-	502	-	502
Credit for Relending	-	325		756	1,081
Grain Storage	-	-	-	570	570
Storage Operation	-	-	-	174	174
Sub Total	270	325	636	1,500	2,731
Farmers' Own Inputs					1,400
TOTAL					4,131

The GOH contribution consists of a loan already made to FACACH from funds available under the two-step provision of a previous AID loan (522-L-010, Financiera Hondureña). The GOH loan is repayable in 4 years with interest at 2 percent. Viewed in this manner, the AID assistance amounts to 52 percent of the total FACACH activity, of which 16 percent is from AID grants and 36 percent from the AID loan. The AID loan disbursements are estimated as follows:

TABLE XV

Use of AID Loan
(in $1,000's or equivalent)

Uses	1969 L/C	1969 Dollars	1970 L/C	1970 Dollars	1971 L/C	1971 Dollars
Production Inputs	118.5	20.9	230.0	153.3	-	233.0
Grain storage	68.2	55.8	107.9	105.1	93.6	139.3
Storage Oper.	65.9	-	108.5	-	-	-
Totals	252.6	76.7	446.4	258.4	93.6	372.3

A little more than $700,000 or 47 percent, of this portion of the AID loan will be used for direct U.S. procurement and about $800,000 or 53 percent, for local costs.

C. Operating Criteria

Agricultural and rural savings and credit cooperatives will be eligible for loans from FACACH. Individual cooperative members will not receive loans directly from FACACH; rather, they will apply to their local cooperatives for assistance. Credit cooperatives which have been functioning for one year, are legally chartered, and have operated within the framework of the National Law and their own bylaws are eligible. Agricultural cooperatives will not have to fulfill the one year requirement.

Loans financed under the AID loan will be granted for basic grain production, farm improvements and equipment, and storage and marketing facilities. Cooperatives may receive one loan with differing loan terms to fulfill more than one of the above purposes. Subloans may then be made by the cooperative to individual members for agriculture production or invested by the cooperative itself in storage facilities and marketing functions. All loans will carry a rate of 9 percent of simple interest per annum on the unpaid loan balance. Loan payments more than 30 days delinquent, except in cases of widespread crop failure, will be charged and additional interest of 3 percent per annum which must be credited to FACACH's Legal Reserve.

No cooperative will receive loans in excess of 10 percent of the FACACH's combined loan resources. Furthermore, loans for agricultural production will not be made to cooperatives for more than 50 percent of the estimated value of the harvest of all the cooperative members.

Loans for farm improvements and purchase of agriculture equipment may cover 100 percent of costs. The maximum maturity of a loan will vary from 5 years for farm improvements and equipment loans, to 12 months for agricultural production credits. Agricultural cooperatives may refinance their loans and/or borrow additional amounts as follows:

(a) for storage facilities - at any time after 25 percent of the previous loan has been repaid.

(b) for marketing loans - when the cooperative has increased its membership by 100 percent or 50 members, whichever is greater.

(c) for production or marketing credits - when those have been affected by a catastrophic act of nature.

D. <u>Technical Assistance, Loan Supervision</u>

The USAID will continue its grant funding or technical assistance to agricultural cooperatives through 1972, by contracting with International Cooperative Development Association (ICDA). ICDA will provide comprehensive assistance to the agricultural cooperatives in organization and administration, agricultural extension services, and project supervision. In addition, 30 Peace Corps Volunteers assigned to the Federation are serving as local extension agents to the cooperatives which will participate in the proposed credit program. Also, a consulting engineer will be retained under loan fund to design and supervise the construction of grain storage installations.

By the end of calendar year 1969, FACACH will have trained 40 managers who will be employed by participating cooperatives throughout rural Honduras. With trained volunteer leaders and full time professional managers, these cooperatives will be in an excellent position to effectively administer their programs. Loan investigation and appraisal is carried out by the Credit Department of FACACH through its loan officers. They review the Cooperative's loan application to see that it is properly documented and determine its repayment capacity. They inspect the cooperative to determine the accuracy of facts reported in the loan application and call on ICDA for its opinion on the feasibility of the project. The loan officers prepare a report of their analysis to FACACH's Credit Committee who approves or denies the loan. Upon approval by the Credit Committee, the loan is subject to concurrence of the USAID Chief of the Cooperative Development Division. FACACH will grant loans in kind to the extent possible. This will not only increase the procurement from the U.S. but also will facilitate the end-use control. Loans granted directly for projects such as construction of facilities will be monitored by FACACH and ICDA personnel as well as Peace Corps Volunteers working under this program.

E. Executing Entity

The AID loan to the GOH will provide that $1.5 million will be re-loaned to FACACH with repayment in 15 years after 5 years grace, at $2\frac{1}{2}$ percent interest through the life of the loan. The sub-loan agreement will be subject to USAID approval and will give FACACH the primary responsibility for implementing the loan.

FACACH, chartered in May 1966, is a true cooperative association owned by its members, which are the affiliated cooperatives and credit unions, and capitalized by them on a systematic basis. There are two levels in the organizational structure of FACACH: (1) The General Assembly which elects representatives for the Board of Directors, Executive Committee, Credit Committee and Supervisory Committee; and, (2) The professional managing director and his staff. The managing director has a staff of 16, of which seven are in the extension section. This section is responsible for cooperative promotion, education, technical assistance to the cooperative member and project development. Presently, the loan section has just one officer; however, FACACH intends to recruit three additional officers for this section. The loan section is responsible for loan analysis, field loan supervision, and delinquency control. The publication and supplies section has four employees, the administrative section has three, and one officer is responsible for public relations, and legal work. The management capability of FACACH is reflected in its unparalleled growth, indicated in the table below:

TABLE XVI

FACACH Growth

	March 31, 1966	March 31, 1968	Percentage Increase
Affiliated Coops.	45	97	115.5%
Member families	6,386	15,858	148.3%
Share Capital	$ 409,472	$ 1,180,048	188.2%
Cumulative Volume of Loans	$ 1,716,876	$ 3,996,544	132.8%

Source: FACACH monthly statistical report.

F. Financial and Economic Evaluation

FACACH will continue to receive, although at a declining level, AID grant operational assistance through 1971. FACACH's financial projections indicate that at that time it will be able to operate profitably without further grant assistance. The projected financial statements and cash flow for FACACH are in Annex III. The lending experience to date has been very good; as of April 30, 1968, delinquent loans were 1.4 percent of total portfolio. There is no reason why this low delinquency rate will not be continued or even lowered in the future. Nevertheless, the USAID will require that FACACH increase its legal reserve until it equals 15 percent of total loanable funds as a safeguard against losses.

To make a maximum contribution to the socio-economic progress of Honduras, the cooperative movement needs a strong, integrated national leadership through its federations, and its own source of financing tailor-made to the special lending policies required by the movement. This financing must be free from partisan politics and must be controlled by the movement to strengthen its integration and the loyalty and support of the cooperatives to their national institutions. FACACH is attempting to provide such leadership and financing. Because 90 percent of the farmers who are reached through agricultural and credit cooperatives have never used off-the-farm inputs in a manner even approaching optimum recommendations, the increments in food production and profitability resulting from the use of fertilizers, improved seed, insecticides and herbicides, are extremely high. Research data from Honduras sources is sketchy, yet in practice field trials organized through newly formed cooperatives, returns of over 3:1 have been the rule. Annex III contains information on the expected returns to the farmer with production credit.

G. Engineering Feasibility

1. Description of Facilities: International advisors from CUNA, ICDA and FACACH personnel have made studies of all phases of the grain storage needs of Honduras. Using these data, local engineers have prepared preliminary plans and cost estimates, based upon current construction prices in Honduras, for a system of grain processing and storage for the Cooperatives.

The total facilities needed for the thirty cooperatives organized or in the process of being organized is considerably greater than the scope of the loan. This AID loan will finance construction of two central warehouses, 9 Stage I Warehouses, 9 Stage II Facilities and an installation at Lepaguare which will be the largest. It will include a Stage I warehouse and two modified Stage II plants and structures. Each of the nine sites will have a Stage I Warehouse and Stage II Facility (See plans in Annex II).

TABLE X II

Construction Cost Estimates
(in $1,000's or equivalent)

No. of Units	Type of Units	Unit Prices L/C	Unit Prices Dollar	Total Prices L/C	Total Prices Dollar	Total
2	Central Warehouse	29.0	21.0	58.0	42.0	100.0
9	Stage I	2.6	.5	23.4	4.5	27.9
9	Stage II	16.0	24.0	144.0	216.0	360.0
1	Special Instalation	32.8	49.2	32.8	49.2	82.0
				258.2	311.7	569.9

The cost estimates were based on current contract unit prices in Tegucigalpa and include provision for engineering costs. In accordance with these estimates, $570,000 will be available for construction from the $1.5 million cooperative portion of the AID loan. All construction funds should be obligated by June 30, 1971. Annex II, Exhibit 9, contains project and construction time schedules which include the phasing of storage facilities linked to the establishment of the cooperatives, and of the loan disbursement pipeline. This annex also describes the design criteria.

2. Resource Availability: Raw materials and supplies are available in Honduras for construction. Basically all the machinery and bin panels would be supplied from the U.S. and the remaining structural material will be supplied from Central American sources. Except for two centers, the systems will have to depend on an independent supply of power, water, and sewage disposal and communications. Power will be supplied by diesel engine for the main drive and by a diesel or gasoline generator for lighting. Water will be provided by wells. Fuels and lubricants are available in Honduras. Skilled labor is available only in Tegucigalpa and San Pedro Sula. General labor will be available at the local level but would require training, which will form part of the general cooperative structure.

3. Engineering Plan for Execution of the Project:

(a) Engineering Services: The cooperatives do not have any engineering or specialist resources for the final design and supervision of construction, and thus consultants services will be required. These services will include:

i. Final design, cost estimates, specifications, and contract documents for the individual plants, issuance of bids examination and recommendations regarding technical acceptance.

ii. Inspection and recommendations during construction.

iii. Technical assistance at start-up and training of plant staff.

iv. Designing plant running schedules, planned maintenance, etc. For the above items, a grain storage and processing engineer is required, with experience similar to local conditions, to be assisted by occasional services of a civil, structural engineer and building contractor. Site supervision will be done by one or two general mechanics based at the centers, together with regular inspections by the consulting engineer. Although the engineering services described will be difficult to obtain locally, it is expected that U.S. cooperatives and/or the International Missions assisting the Honduran cooperative movement should be able to locate the required consulting engineer.

(b) Contracting Procedures: FACACH has requested that the consulting engineer for design and inspection be contracted without prior advertisement in view of: (i) the small size of the contract (about $50,000 to be disbursed over three years); (ii) the remote locations of many of the facilities; and (iii) the desirability of using the assistance of U.S. cooperative organizations in obtaining such services. Because of the small size and scattered locations of the individual plants, it is very improbable that a U.S. firm would be interested in bidding on construction, and almost impossible for a U.S. firm to underbid local firms. It would be impractical to advertise in the United States for such services and FACACH has also requested a waiver of the Small Business Notice for construction services. The local cooperatives assisted by FACACH would then obtain bids from local firms to undertake construction. Supervision will be provided by the trained mechanics, cooperative personnel and periodic visits of the consulting engineer. FACACH would also like to use its cooperative status to take advantage of suppliers' services offered by various U.S. cooperative organizations to procure all dollar cost farm inputs and warehouse equipment, etc. This would further encourage greater exchange between United States and local cooperative and likely result in lower prices for the cooperatives through patronage refunds. For these reasons, FACACH has requested permission to deal exclusively with the U.S. cooperative organizations for procurement of imported commodities and to waive standard A.I.D. advertisement requirements. As pointed out in the Issues Section, a decision on whether or not to grant the requested waivers will be made either prior to loan authorization or at least by the time the loan is ready to be implemented.

(c) Maintenance: The idea of maintenance, as a function of administration to maintain the equipment in running order for efficient production and to prevent unforeseeable breakdowns, is rarely understood in Honduras and is difficult to apply due to the poor quality of labor. Good mechanics are difficult to obtain and demand relatively high salaries. In case of the existing cooperatives no judgement can be made on maintenance standards since these are virtually still projects. Since grain stores and their associated equipment (if properly selected) are relatively easy to maintain, the maintenance scheme will consist of: training the plant operations in the simple maintenance routine (lubrication, etc.) and simple repairs (belts, screens, grain spouts); designing a planned maintenance program which would include pre-harvest checks; and, hiring a mechanic at each center capable of making major repairs to such items as the main drive motor.

Standardization of the equipment should make the above easy and permit the centers to carry a stock of spare parts in a common pool. Semi-annual inspections will be performed by specialists from the two centers. The maintenance fund for building and plant will be financed out of the cooperative income, being a part of the operational costs. An allowance in the annual budget of 5 percent of the installed cost of building and plant is being provided for this item.

4. Appraisal of Technical Soundness: The installations considered are all standard items available in the grain processing trade and the only item which can be considered as "custom" built is the device to employ waste heat from the main drive motors as a source of additional heat input to the oil-fired air heater. The plant is capable of working without this item, which is included for fuel economy reasons. "In-bin" drying and conditioning is feasible and is common practice in the U.S. and Europe, and is considered a system that is flexible and not requiring constant attention. With the use of this system the grain will not only be dried, but also the aeration of the bins throughout the storage period will asist in keeping the grain in good condition. The structures are designed to give maximum protection against rain and against the sun to avoid excessive

temperature fluctuations on the silo walls, which will set up moisture migration even in corn at 12 percent moisture content. A reasonable amount of automatic conveying has been incorporated to enable the plant to run with the minimum of labor. This is mostly due to scarcity of trained labor. The system can easily be expanded for increased volume, which is expected to result from use of fertilizers, herbicides, and selected seeds.

No special technical problems in construction are envisioned except for the need to eliminate heavy structural engineering and site welding, since this would cause difficulties in transport and require use of high-cost cranes and specialized construction firms. The basis of design is essentially a "nut and bolt" principle which can be erected by simple means with the minimum of skilled personnel.

5. Engineering Conclusions

a. The preliminary engineering plans have been completed and a reasonably firm estimate of the cost to the U.S. has been determined, as required by the FAA Sec. 611 (a) (1).

b. The construction proposed is sound and feasible.

c. A consulting engineer will be employed to prepare the final plans, specifications and contract documents to the satisfaction of AID and supervise construction.

PART FOUR: LOAN ADMINISTRATION

SECTION I. Project Execution

A. Execution Plan

The overall loan comprises three separate though closely related projects which include both the physical construction and credit activities. Besides these technical complexities, the success of the loan will largely depend upon an effective and timely provision by the GOH of agricultural incentives and technical assistance to the livestock and grain crop farmers. It will also depend on the institutional capability of the BNF to improve its internal operations, to shift from its traditional banking orientation and to become an effective development institution. The success of the cooperative project will largely depend on FACACH's capability to develop an independent financial and administrative position without present reliance on outside assistance.

The coordinated execution of all three projects will require a detailed plan and time schedule of administration actions. Because the credit system of small farmers should become operative before the Spring 1969 planting season, it is very important that a detailed implementation procedure be worked out as soon as possible to be put into effect following the signature of the Loan Agreement. A number of arrangements will have to be worked out jointly by the BNF and FACACH with the USAID. To list only a few: (a) form and extent of technical assistance, either loan or grant financed, which should include the scope of work and procurement arrangements; (b) coordination of AID assistance with the IDB programs; (c) detailed procedures for commodity procurement including the content, form and timing of Small Business Publications for all types of direct imports and for technical services (the construction contract will require formal bidding); and (d) effective coordination among various agencies of the GOH working on agricultural problems.

B. Primary Action Responsibility

1) Executing Parties - The overall responsibility for the administration of the BNF storage and credit projects and for the grain price stabilization will be vested in the management of the BNF. FACACH will be responsible for the overall cooperative project. These two executing institutions will act independently subject only to an overall agricultural policy of the GOH. An appraisal of the management capability of these two institutions has been provided in Part III. The Central Bank will act as the financial agent of the GOH and will provide a central channel for the loan disbursements.

2) USAID Responsibilities - The USAID Mission, through its grant financed agricultural and management advisors to the BNF and its cooperative and agricultural divisions, will be strongly involved in the execution and administration of the credit and cooperative projects. It is also planned to insist on a strong authority for the lóan financed consulting engineer for supervision of the BNF storage project.

This active role of the USAID in the project execution is both justified and necessary in view of rather modest technical capacities of the country and of the important role of the executing institutions in the overall success or failure of the loan and of the Mission agricultural program.

3) Periodic Progress Reviews - In addition to daily contacts of the Mission's staff with their local counterparts, and the periodic reports to be required under the loan for each of the three projects, the USAID, jointly with the representatives of the GOH and of the executing institutions, will hold periodic (e.g. semi-annual) formal reviews of the loan progress. These joint reviews will permit the Mission to: (i) appraise the performance of the Borrower and of the executing institutions in carrying out an effective agricultural and institution building program; (ii) discuss and mutually agree on effective measures to improve loan implementation and on changes to implementation procedures; (iii) check the compliance under the Loan Agreement and agree on corrective measures without recourse to formal sanctions provided under the Agreement. To discharge the demanding responsibilities, the Capital Development staff of the Tegucigalpa Mission should be strenghthened either by additional staff or through an internal local staff reassignment.

SECTION II. Implementation Procedures

A. Target Dates

Assuming the loan authorization by June 30, 1968, the Loan Agreement should be signed and the first Implementation Letter issued by August 1, 1968. The first Letter of Commitment should be issued on or about October 1, 1968, following the fulfillment of general conditions precedent and the USAID approval of the engineering contract for the BNF storage project. The first local currency is likely to be disbursed about the same time, in the form of a revolving advance to FACACH. The final conditions precedent will not be met until the construction contract for the BNF storage facilities is approved. This is projected for January 1969. In view of the three year disbursement schedule of the cooperative project, the terminal date for receipt of the request for issuance or amendment of Letter of Commitment will be June 30, 1971 and the final terminal date for receipt of disbursement requests December 31, 1971.

B. Disbursement Procedures

It is planned that all dollar costs of the overall project will be disbursed under Letter of Commitment procedure. The total of three Letters of Commitment will be required, one for each of the separate projects. However, in case the loan will finance the costs of dollar component of fertilizers procured by local dealers, it will be necessary to use the irrevocable SLC technique to create a special fund against which the BNF could extend fertilizer credit. All local costs, including local portions of consulting or construction contracts, will be disbursed through the SLC technique.

The reimbursement method will be used to the extent possible. It is expected that in case of the cooperative project, a revolving advance based on projected disbursements for one or two months will be necessary. In the case of the construction contract for the BNF storage facilities, the agreed retention percentage will be withheld by AID pending final acceptance of the work.

The BNF's own funds for basic crops and livestock credit, in the amount shown in their Credit Plan, will be used concurrently with AID disbursements for local costs. The Implementation Letter will establish the proper ratio for the BNF disbursements, as well as an appropriate certification from the BNF to be part of its reimbursement request.

On the basis of present estimates the disbursement period under the overall loan should run until December 31, 1971. The disbursement period for the BNF credit and storage facilities projects should end by December 31, 1970, except for the funds retained by USAID under the terms of the storage construction contract. Disbursement period under the cooperative project is planned for a three-year period to the end of 1971.

C. Procurement Procedures

1) The BNF Credit Project: Dollar procurement items will be purchased directly by the BNF in accordance with AID procurement procedures, and distributed to farmers through the existing BNF network of country outlets. Other off-the shelf items will be purchased by the participating farmers from local country stores or from the BNF outlets. It is proposed to increase the limit on off-the-shelf procurement to $5,000 per item of U.S. origin, retaining the existing limitation of $500 per item originating in the free world. Whether or not to provide a blanket waiver for the normal $2,000 limitation for equipment, machinery and vehicles of U.S. origin, will be determined either prior to loan authorization or at least by the time the loan is ready to be implemented.

USAID is still working out the details with the BNF for direct procurement of fertilizers of their components from the United States. Under the most likely alternative, the BNF will buy fertilizers directly from the United States on a competitive basis. In case a Central American fertilizer manufacturer wins the bid, A.I.D. dollar funds will be used to pay for only the cost of U.S. components of the fertilizer. The other costs of the fertilizer delivered to the BNF will be paid for in local currency. A less likely alternative is the dollar financing of U.S. components of fertilizer produced and distributed by local private dealers. The second alternative assures timely availability of fertilizer stocks but is more difficult to administer and will result in smaller dollar expenditures.

2) The BNF Storage Facilities Project: Supervisory engineering services will be procured from the U.S. or from the Common Market area. Since there are several local firms experienced in the designing and in the supervision of the erection of storage facilities, it is assumed that the contract will be awarded locally. Bids for construction contract will be open to prequalified U.S., local or joint-venture firms. Subject to further engineering review, bid invitation will provide for two alternatives, namely: (i) separate bids for construction and for installation of equipment, or, (ii) a joint bid for both. The overall bid price will determine the award. Inasmuch as the installation contract will probably be awarded to one of the U.S. firms which also provides construction services, it is quite likely that the same U.S. firm will present the lowest overall bid.

3. Cooperative Project: FACACH plans to import all fertilizers, other sizeable farm inputs, and equipment for grain warehouses from the U.S. cooperative channel. This seems to be justified, since such procurement will be less costly, will likely include free technical assistance, and will provide free or low cost installation services for the equipment purchased. Request for a waiver of Small Business notice is presented in the Issues, Section IV of Part Four. All engineering and contracting services for the cooperative project will be obtained locally.

SECTION III - ISSUES

As discussed on pages 50 and 55, waivers of certain A.I.D. procurement regulations may be necessary to facilitate effective loan implementation. These waivers involve procurement of goods and services under the agricultural cooperative portion of the loan and raising of the standard $2,000 limitation on off-the-shelf procurement of items imported from the United States.
The justification for such waivers will be fully considered with appropriate AID/W offices and a decision to grant all or any of them will be made prior to loan authorization or at least by the loan implementation stage.

SECTION IV. Conditions and Covenants

A. Condition Precedent to Loan Agreement Signature

Prior to the execution of the Loan Agreement, the BNF shall submit to the USAID satisfactory evidence of arrangements for the sale of the "Sula" Milk Plant.

B. Additional Conditions prior to Disbursement for the BNF Credit Project

Prior to the first disbursement for the BNF credit program the Loan Agreement shall require submission by the BNF of:

1. A satisfactory plan for increased technical assistance to farmers of the four basic crops, to include: a) the extent and criteria of assistance to small and medium farmers respectively; b) methods to induce intensive production practices, including the increased use of fertilizers; and c) methods to assure proper use of credit funds.

2. Plan and schedule for reduction of total loan delinquencies to a maximum of 10% of the overall loan portfolio by December 31, 1969 including:

(a) separation of doubtful and/or uncollectable debts from current delinquencies by no later than December 31, 1968;

(b) criteria and schedule for review of individual delinquent loans to determine if renegotiation and refinancing are justified;

(c) plan of action to liquidate uncollectable loans including final target dates for taking legal title to collaterals and for disposition of such collaterals.

3. An acceptable list of agro-industries to be eligible for AID financing.

4. Revised criteria and schedule for BNF retail operations; and.

C. Additional Conditions Prior to Disbursement for the BNF Storage Facilities

1. Prior to first disbursement for supervisory services the BNF will submit to AID a satisfactory contract for construction supervision services.

2. Prior to disbursement for other than engineering services the BNF will submit to AID:

(a) satisfactory arrangements for obtaining the services of the two technical advisors in grain storage operations and marketing.

(b) a plan and schedule for hiring and training of local supervisory and technical personnel.

(c) satisfactory final plans, specifications and bidding documents.

(d) evidence of property rights to construction sites.

3. A plan, satisfactory to AID, describing the arrangements to be made to assure the effectiveness of the minimum guaranteed price at least for corn; this plan shall include, but not be limited to: (a) sources of financing of crop purchases; (b) storage arrangements; (c) procedures for buying and marketing corn; (d) procedures for use of warehouse receipts; and (e) extent and timing of publicity to farmers.

D. Additional Conditions Prior to Disbursement for the Cooperative Project

Prior to the first disbursement for the cooperative project, the Loan Agreement shall require that FACACH submit to the USAID:

a. Evidence of availability of of arrangements for necessary technical and supervisory personnel at FACACH level.

b. Satisfactory final designs and specifications for two central warehouses and for the standard Stage I and II storage buildings.

c. A schedule of construction.

E. Covenants

In addition to the standard covenants, the Loan Agreement shall contain covenants to the effect that, unless AID otherwise agrees in writing:

1. The GOH agricultural budgets for 1969-71 to be increased by at least ten (10) percent of the 1967 level.

2. The amount of the overall BNF credits to coffee, cotton and tobacco growers in 1969, 1970 and 1971 is not to exceed the 1967 level of such BNF credits.

3. The BNF will reduce delinquency ratio of all delinquent loans not to exceed 10 percent of all loans portfolio in accordance with a time schedule accepted by AID.

4. All BNF sub-loans for agro-industries using more than $50,000 of AID loan funds will be subject to a prior approval by the USAID.

5. Irrespective of the source of financing, the maximum size of the BNF sub-loans to eligible farmers for production credit to be

established at $5,000 for crops and $15,000 for livestock. In addition, the maximum amount of outstanding BNF credit to any participating farmer must not exceed at any time $50,000 equivalent.

6. Maximum maturity of sub-loans will not exceed: 18 months for crop production and 7 years for pasture improvements, livestock purchases, farm machinery, equipment and permanent farm improvements.

7. FACACH shall increase its legal reserve until it equals 15 percent of total loanable funds as a safeguard against losses.

8. A.I.D. approval of the site adaptation plan for each storage facility shall be required prior to the release of funds by FACACH for construction of individual storage facilities.

9. A.I.D. and the Borrower may from time to time at the request of either party confer on the level of interest rates to be changed to sub-borrowers under the BNF credit portion of the Loan

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Public Investment and Its Financing (1960 - 1971)
(Millions of Lempiras)

	1960	1961	1962	1963	1964	1965	1966	1967	1968	1969	1970	1971
I. Current Account												
A. Current Income	80.8	80.6	84.5	90.0	103.5	124.2	144.0	155.9	170.1	179.8	187.6	197.1
B. Current Expenditures	71.5	74.3	77.6	82.4	93.2	100.2	115.2	120.6	139.8	146.5	158.3	171.9
C. Savings on Current Account	9.3	6.3	6.9	7.6	10.3	24.0	28.8	35.3	30.3	33.3	29.3	25.2
II. Capital Account												
A. Public Investment	35.5	30.2	50.4	44.0	41.0	46.9	54.3	54.1	97.6	126.9	148.6	150.4
1. Real Investment	21.0	19.7	33.5	33.8	25.3	24.8	26.5	38.2	81.3	107.6	127.7	127.7
2. Capital Transfers	12.6	10.0	16.6	7.7	13.0	12.7	14.2	12.8	16.3	19.3	20.9	22.7
3. Others (1)	1.9	0.5	0.3	2.5	2.7	9.4	13.6	3.1	-	-	-	-
B. Financing Public Investment	35.5	30.2	50.4	44.0	41.0	46.9	54.3	54.1	97.6	126.9	148.6	150.4
1. Savings on Current Account	9.3	6.3	6.9	7.6	10.3	24.0	28.8	35.3	30.3	33.3	29.3	25.2
2. Internal Credits - Net	0.1	4.8	7.0	3.4	13.5	6.1	13.6	1.3	17.7	23.3	29.0	35.6
a. Gross Credits	13.6	15.3	24.8	18.6	21.4	16.9	25.1	13.3	27.0	32.0	37.0	43.0
b. Amortization	13.7	10.5	17.8	15.2	7.9	10.8	11.5	12.0	9.3	8.7	8.0	7.4
3. External Credits - Net	8.9	2.3	15.6	26.1	10.6	11.7	8.0	12.0	49.6	70.3	90.3	89.6
a. Gross Credits	11.5	6.0	18.6	29.8	15.6	16.0	11.8	19.3	55.7	77.6	99.3	101.6
b. Amortization	2.6	3.7	3.0	3.7	5.0	4.3	3.8	7.3	6.1	7.3	9.0	12.0
4. Depreciation and Adjustment	2.2	1.6	4.1	3.0	1.8	2.0	3.6	2.1	-	-	-	-
5. Others (2)	15.2	15.2	16.8	3.9	4.8	3.1	0.3	3.4	-	-	-	-

(1) Includes addition to internal stocks and other capital adjustments.
(2) Includes Capital transfers, sale of fixed assets, increase in cash deposits, and other capital income.

SOURCE: Plan de Accion 1968-1971, prepared by Consejo Superior de Planificacion Economica

UNCLASSIFIED
AID-DLC/P-744
ANNEX I, Page 1 of 6
Exhibit 1 , Page 1 of 1

Balance of Payments (1965-67)
(Thousands of Lempiras) *

	1965	1966	1967
I. Balance of Goods and Services	-20,568	-46,463	-73,049
A. Exports of Goods and Services	278,129	317,144	331,357
1. Merchandise	256,446	288,916	301,279
2. Freight and Insurance	300	350	356
3. Tourism	3,900	3,950	4,950
4. Government Transactions	4,330	4,100	4,400
5. Dividends and Interests	2,821	4,095	3,596
6. Others	10,332	15,733	16,776
B. Imports of Goods and Services	298,697	363,307	404,406
1. Merchandise	226,445	276,010	311,424
2. Freight and Insurance	21,906	26,620	29,626
3. Tourism	8,500	8,750	8,850
4. Return on Investments	23,500	30,000	31,500
5. Interests on external debt others	5,403	5,097	5,032
6. Government Transactions	1,297	1,389	1,752
7. Other	11,646	15,741	16,222
II. Transfers	7,315	8,509	9,525
III. Capital Account	21,168	25,030	53,749
A. Nonmonetary Sector	31,818	29,866	40,943
1. Long Term	26,055	27,548	31,267
a. Private	13,667	16,200	18,995
1. Direct Investments	12,627	16,500	17,245
2. Loans	1,640	325	1,750
3. Others	- 600	- 625	-
b. Government	8,291	5,531	5,938
1. Loans	9,185	6,425	15,254
2. Others	- 894	- 894	9,316
c. Banks	4,097	5,817	6,334
1. Loans	3,665	4,767	2,412
2. Other	432	1,050	3,922
2. Short Term	5,763	2,318	9,676
a. Private	5,879	2,068	9,864
b. Government	- 300	2	14
c. Banks	184	248	-202

continu

	1965	1966	1967
B. Monetary Sector	-10;650	- 4,836	12,806
1. International Monetary Fund	-5,000	- 1,994	-10,000
2. Gold and Central Bank Reserves	-6,535	- 6,618	7,241
3. Reserves Authorized Banks	885	3;776	15,565
IV. Errors and Omissions	- 7,915	12,884	9,775

*Note: Minus sign indicates inflow. Two lempiras equal one $U.S.

SOURCE: Central Bank of Honduras, Informe Economico 1967

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Honduras: Projected Disposition of 1970 Basic Grains Production

And Livestock Products

Volume in Metric Tons

Product	Total Production	Seed	Domestic Consumption	Animal Consumption	Industrial Use	Export	Losses Spoilage, Rodents, etc.
Basic Grains							
Corn	370,571	5,560	192,700	50,027	25,940	70,600	25,940
Sorghum	45,401	681	16,000	23,608	--	1,026	4,086
Beans	51,492	6,179	24,201	--	--	16,992	4,120
Milled Rice	17,191	687	14,268	--	--	515	1,721
Livestock							
Beef	22,833	--	14,842	--	--	7,991	--
Pork	3,973	--	3,536	--	--	437	--
Poultry Meat	4,754		4,041			713	
Eggs 1/	8,420,101		8,420,101	--	--		--
Milk 2/	157,953	--	154,793	--	--	3,160	--
Dairy Products 3/	18,450	--	16,605	--	--	1,845	--

1/ Dozens of Eggs
2/ Thousands of Liters
3/ Includes Cheese, Butter, etc.

Source of Information : Consejo Superior de Planificación Económica

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ANNEX I, Page 4 of 6
Exhibit 3, Par

Honduras: Trend in Production of Major Crops

Description by Category	Year 1/	Area Cultivated In Hectares	Production in Metric Tons	Gross Value in Lempiras	% of GNP
I. Major Export Crops, i.e.	1964	173,861	1,079,957	103,340,251	11.1
Bananas 2/	1965	181,208	1,102,207	112,230,544	10.9
Coffee, Cotton	1966	180,900	1,228,600	117,551,896	10.8
Tobacco	1967	183,600	1,280,200	122,803,824	10.7
Sugar Cane.	1968	187,400	1,336,700	125,315,080	10.2
II. Basic Grains, i.e.					
Corn, Rice	1964	407,846	365,479	61,966,094	6.6
Sorghum	1965	417,540	377,277	66,317,865	6.5
Beans	1966	415,879	387,386	63,034,169	5.8
	1967	419,259	398,116	66,085,625	5.7
	1968	419,683	409,190	68,045,000	5.5

1/ 1964 was taken as typical year.

2/ Includes Banana production for export only.

Sources of Information: Statistics Yearbook 1965
National Program of Economic and Social Development of Honduras, 1965.,
Superior Council for Economic Planning

Prices: Economic Studies Department
Central Bank of Honduras

Honduras: Trend in Production of Livestock and Livestock Products

Livestock	Year	Number of Head Slaughter	Production in Metric Tons	Gross Value Lempiras	Number of Head Export	Gross Value Lempiras	Total Gross Value Lempiras
Beef	1964	126,366	15,982	14,064,000	33,424	3,293,000	17,357,000
	1965	131,447	16,625	14,630,000	24,250	3,164,000	17,794,000
	1966	132,797	17,351	17,187,490	26,393	2,987,000	20,174,490
	1967	136,780	18,321	18,137,790	25,853	2,926,000	21,063,790
	1968	140,880	18,871	18,682,290	24,361	2,757,000	21,439,290
Pork	1964	73,974	3,402	3,980,340	33,054	1,487,430	5,467,770
	1965	73,296	3,371	3,977,780	26,703	1,255,041	5,232,821
	1966	74,849	3,592	4,274,480	27,504	1,292,688	5,567,168
	1967	76,435	3,668	4,401,600	28,329	1,331,463	5,733,063
	1968	78,055	3,746	4,495,200	29,178	1,458,900	5,954,100
Milk	1964		130,980				26,196,000
	1965		135,040				27,008,000
	1966		139,364				27,872,000
	1967		143,795				28,759,000
	1968		148,367				29,673,000
Dairy Products	1964		15,297				23,558,010
	1965		15,770				24,285,800
	1966		16,273				25,060,420
	1967		16,792				25,859,680
	1968		17,328				26,685,120

1/ 1964 - Taken as typical year
2/ Thousands of liters

Sources of Information: Statistics and Census Office
Statistical Yearbook 1965
Economic Planification Council

Prices: Economic Studies Department
Central Bank of Honduras

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AID-DLC/P-744

June 20, 1968

ANNEX II

DETAILED TECHNICAL ANALYSES

Table of Content

Agriculture Cooperative Section

BNF Grain Storage

A. AGRICULTURE COOPERATIVES SECTION

1. Detailed Technical Description of Project

The project is planned for construction in stages. The initial construction consists of the erection of a Central General Purpose Warehouse in Tegucigalpa and one in San Pedro Sula and in addition there will be 9 Small Grain Warehouses (Stage I), 9 Grain Storage and Drying Plants (Stage II), and a large facility at Lepaguare which, because of present need, will consist of one Stage I Warehouse and two modified Stage II's. Cooperative Areas are shown on Map of Hondúras, Exhibit No. 1. A list of the facilities to be built showing capacity and cost in local and foreign currencies is shown in Exhibit No. 2. Details of these buildings are shown in Exhibit No. 3. The structures are simple and practical for erection in the rural areas of Honduras.

These buildings have corrugated asbestos-cement roofs. Stage II and Central General Purpose Warehouses have a pattern of translucent panels in their roofs. The purlins and trusses are metal. The ground floor walls are either brick or concrete block between reinforced cement-filled block columns. The upper level walls have asbestos-cement sheet covering over metal frames. The floors are all concrete. In addition the small Grain Warehouses in Stage I have double wood floor.

All processing equipment will be in the Central General Purpose Warehouses and in the Grain Storage and Drying Plants of Stage II. The latter having most of the equipment.

The equipment needs have been determined by an international grain consultant and a representative from the Indiana Cooperative Grain Marketing Division of the Indiana Farm Bureau.

2. Design Criteria

(a) Grains To Be Handled: The grains to be handled are: (1) corn - white and yellow; (2) beans; (3) rice; and, (4) sorghum. Exeept for yellow corn and sorghum, all the above grains are normally used for human food.

The storage schemes will be dealing almost exclusively with corn and small quantity of beans with less frequent cases of sorghums and rice. Small quantities of peanuts and sesame may also be stored.

The design must be for sanitary storage conditions applicable to grains which in the main will be used without processing. (The exception of course would be rice.)

(b) Equipment: Standard manufacturers equipment will be supplied as shown on Material List Exhibit No. 4 and used as shown in flow diagrams in Exhibit 5 and 6.

(1) Shellers: The shellers must be capable of shelling corn at the moisture content ex-field (say 20-24%) and capable of shelling local corn which contains many layers of husks (up to 14 have been counted) without excessive losses of grain with the cob, and without shattering or breaking of the grain. (In view of the differences between local grains and those of the U.S.A. the choice of the sheller should be judged after field trials.)

(2) Dryers: Artificial drying of the grain will be required in all but the first stage structure (primary years of the very smallest cooperative). The drying facilities must have: a) economy in fuel consumption; b) ease of control by unskilled labour; c) ease of maintenance, and, d) avoidance of grain damage due to over rapid excess drying at high temperatures.

The primary drying plant of the installations will consist of "in-bin" drying units using both warm and cold air. The basic four cell silo unit will consist of "flat" storage with perforated metal floors and a built-in tunnel for air and to accommodate the lower or discharge conveyor. The design of the bins, tunnel and drying floor is to be such that the bins,will be virtually self emptying by gravity and use of an "air-swept" floor. The air will be provided by a fan unit driven from the main drive shaft of the installation and should be capable of warm air drying of 2 cells at once or cooling of four cells at once. Aeration duct details are shown by Exhibit No. 7.

The fan unit is to be fitted on the suction side with a direct fixed air heater using as fuel, diesel or oil, and have automatic controls. The fan outlet will be connected by galvanized sheet metal duct to the air tunnel of the bin units and will pass through an air heater operated by hot water. This air heater will utilize the wasted heat from the cylinder jacket and exhaust of the main driving engine. Alternate connections will be made in the air duct system so that cold air can be drawn through the grain, into the air tunnel and hence to the fan and exhaust to atmosphere. A diagrammatic arrangement of the scheme is shown in Exhibit No. 8. With this arrangement drying temperature will be automatically controlled by the temperature of the hot water when the additional oil fired heater is not in use. Heat which would otherwise be wasted in the main drive will be utilized. Control of drying will depend upon length of time and sampling and the system is easy to control. Bin aeration will be used to cool the grain after drying, maintain grain temperature to avoid excessive heating, due to effect of solar heat on the bin walls, and by correct handling to balance out the moisture gradients which occur when "in-bin" drying.

Design will be based upon drying corn from 21% moisture content to 11% by forced circulated air having a maximum temperature of 110 grades F. Ambient temperatures and relative humidities will vary considerably from site to site and each site will have to have the basic design data checked.

(3) Silos: The bins will be constructed by preformed hot dip-galvanized steel panels connected by galvanized high tensile bolts and fitted with bracing bars, "U" straps and other means. The bins are to be fitted with a perforated sheet metal false floor protected by galvanizing or similar process. The floors are to be fitted so that an "air-swept" discharge system can be used to allow the majority of the grain to discharge without manual assistance. The false floor is to be connected to a central "tunnel" which will serve as the air channel and lower conveyor trench. This design is to be considered typical and depending upon supply, other manufacturers standards may be accepted. Basic design formula for strength of silos will be that of Jansen.

(4) Grader: A simple corn grader suitable of grading white corn into the following fractions: (a) large grains of mixed thickness, (b) medium grains - round and extra thick, (c) medium grain average thickness, (d) small grains and thin grains.

Only medium size grains of average thickness are required for storage since this is the size in demand on the human food market. The rejects can still find a ready market but would be moved off the grain store into the trade at harvest time.

Grain to be stored in sacks will be treated by addition of fumigant pellets, and a small dosing machine is included for this purpose. Grain in bulk can likewise be treated although the method of aeration used will reduce the time of protection.

The residual powder from the pellets is not a disadvantage since the grain in bulk will be cleaned on its passage to the sack weigher. That grain in sacks will also be cleaned before leaving the store since the grain trade rarely works on a direct exchange of sacks and evidence of individual sack weights may be required. The proposal is for the sacked grain (which can be in catch weights) to be tipped into the grain cleaning section and sacked off into the customers sacks on a gross weight sack weigher.

Any residual powder after cleaning will still be subject to the washing process which the householder uses when preparing corn, beans and rice for consumption.

The two Central General Purpose Warehouses will be equipped with sack cleaners and sack repair equipment and will act as a general sack warehouse for the associated cooperatives. Fumigating chambers are also supplied to treat sacked grain and returned sacks.

These two Central Warehouses will be accepting the majority of their grain from the smaller cooperative units in sacks and it would have been rough cleaned. Provision for storage would be mainly in sacks with a small cleaning and drying section with about 50 ton of storage in bins. At harvest, grain such as yellow corn would be received requiring drying, and this would be short term stored in "green" grain bins in order to provide a continuous feed to the dryer. The dried grain would then be sacked off for storage or direct sale. Stored grains will then be moved and recleaned being sent to the bins for short term storage, blending and final sacking off into customers sacks. The grain passing from storage in the rural units can be routed direct to the customer to avoid double handling at the centers.

(c) Grain Grading and Fixed Weights: There are no national grain standards in Honduras and purchase is by sampling. These systems are really only for internal use and do not adequately meet the need. The grain trade is too rudimentary to expect grade standards at the very small rural areas or in the markets, but some form of grading is needed if the cooperative marketing system is to be fully effective.

A wide variation in bagged grain weights exists due to the buyers such as truckers, small traders, demanding "allowances" for screenings, losses and other factors. Scales are often "rigged" and mistrust is general. Sacks are usually not exchanged, but the grain "shot" from the owners sack into the purchasers'.

With the incorporation of a grading system the cooperatives will aim at marketing the grain for human food in cleaned sacks, at fixed gross weights and with sewed on tickets with detail of grade, source and a number system for checking dates. By these means public confidence in fair dealing will be achieved and receive a premium either on price or on demand.

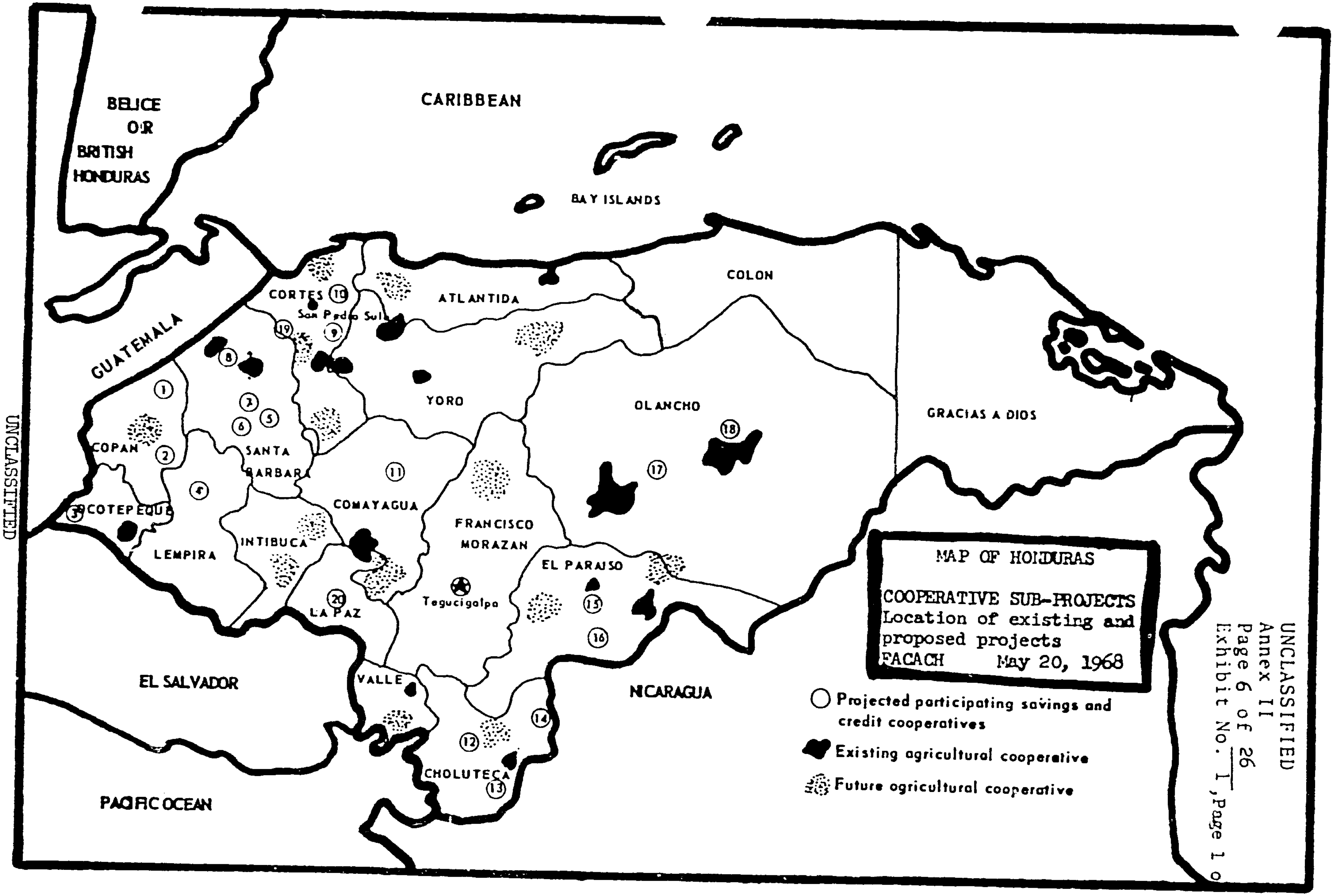
(d) Soil Investigation: Apart from surface examination at Chichicaste, Rio Lindo and Lepaguare no soil investigations have been undertaken, since to date, apart from the above cases no sites have been acquired or are in use. It is not anticipated that any difficulty will arise from poor soil for plant foundations. The size of the units are small and the actual loads per square foot are low.

Clearly, individual sites will have to be investigated, but this examination would form part of the assessment of a site when viewed for proposed purchase. Similarly when designing the plant layout on the site, a closer examination for permissible ground bearing pressures will be required.

3. Cost Benefits

Since the construction is a minor part of the overall program, economic justification for the whole program includes the benefit derived from the construction and are not repeated in this Annex.

UNCLASSIFIED
Annex II
Page 6 of 26
Exhibit No. 1, Page 1 of 1



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Facility Location and Cost Breakdown in Local and Foreign Currencies of First Phase Being Financed by this Loan

No.	Location	Capacity in Metric Tons	COST IN $1,000 Local	Foreign	Total
1.	Lepaguare, Olancho Special Construction	1,000	32.8	49.2	82
2.	San Pedro Sula, Cortes (Central General Purpose Warehouse)	750	29	21	50
3.	Tegucigalpa, D.C. (Central General Purpose Warehouse)	750	29	21	50
4.	Toyos, Yoro - Stages I & II	362	18.6	24.5	43.1
5.	Rio Lindo, Cortes - I & II	362	18.6	24.5	43.1
6.	San Francisco de los Valles, Sta. Barbara - I & II	362	18.6	24.5	43.1
7.	Morazan, Yoro - I & II	362	18.6	24.5	43.1
8.	San Marcos de Ocotepeque, Ocotepeque - I & II	362	18.6	24.5	43.1
9.	Comayagua, Comayagua - I & II	362	18.6	24.5	43.1
10.	El Barro, El Paraiso - I & II	362	18.6	24.5	43.1
11.	Las Crucitas, Valle - I & II	362	18.6	24.5	43.1
12.	La Ceiba, Atlántida - I & II	362	18.6	24.5	43.1
		5,758	258.2	311.7	569.9

Phase I Project Costs Breakdown

Items	Costs in $1000 Local	Foreign	Total
Equipment & Construction	203.2	252.9	456.1
Engineering 10%	22.0	23.6	45.6
Contingencies 15%	33.0	35.2	68.2
Totals	258.2	311.7	569.9

Estimated Total Cost (1) of Grain Store Installations for Total Project

Item	$ Unit Cost	Sub-total Cost	U.S. Procurement
1. Two Central Grain Warehouses	$50,000	$100,000	$42,000
2. 20(2) Stage I Warehouses	3,125	62,500	10,280
3. Modifications to 8 units	(est)	5,825	
4. 23 Stage II Silos	40,000	920,000	672,000
	(3)	$ 1,088,325	$ 724,280

Notes:

(1) Excludes Cost of land
(2) Some units already exist
eq, Chichicaste
Rio Lindo
or, estimated that suitable premises for renting are available:

Total Tons storage capacity
2 x 750 = 1500
28 x 35(4) + 980
23 x 362 + 8.326
10.806
Cost/ton = 100.71

(3) Only 1st. Phase to be financed by this loan. Estimated cost of First Phase $570,000.

(4) Reduced since building in part used for other purposes.

Estimated Cost of Stage I. Warehouse

Item:

1. Equipment:

    Grain scales, baggin off conveyor
    Simple office equipment:

	Cost	$ 500

2. Building:

    Steel roof trusses, stringers
    Concrete block walls, rock wall foundations
    Corrugated asbestos-cement roofing
    Timber floor: Finishing

		Erected cost	2,000
		Sub-Total	$ 2,500
3. Contingencies:	15%		375
Design fees:	10%		250
Consultancy			
		Total	$ 3,125

Storage Capacity = 50 tons
Cost per ton stored = $62.20

U.S. Procurement:
Item:
1. 40% of total value= $200
2. nil
3. 50% 312
Total $512 = 16.45% of total cost

Cost: Basic Warehouse: Stage I.
Unit Prices

1.	Roof - metal truss, metal purlins, corrugated asbestos sheeting, 1 transparent sheet every 20 m^2, flashing.	L.	$1.40/ft.^2$
2.	4" concrete floor 1:3:6	L.	$.56/ft.^2$
3.	6" concrete block wall, reinforced & painted	L.	$.78/ft^2$
4.	Excavation & rock foundation walls	L.	$.68/ft^3$
5.	Wood floor 3" x 6" flooring T & G 1" x 6" finish flooring T & G treated with wood preservative	L.	$.90/ft^2$

Price per lineal foot

Roof	L.	1.40/ft.^{2} x 25 ft. =	L. 35.00/ft.
Conc. floor		0.56/ft.^{2} x 17 ft. =	L. 9.52/ft.
Block wall		0.78/ft.^{2} x 11 ft. x 2=	L. 17.16/ft.
Foundations		0.68/ft.^{3} x 30 ft./2 =	L. 20.40/ft.
Wood floor		0.90/ft.^{2} x 21 ft. =	L. 18.9/ft.
		Total	L. 100.98/ft.

100.98/ft. x 34' (3 bays) =	L. 3,433.32
2 ends walls = 44x 11.59/ft.	509.96
Total	L. 3,943.28

Allow: total of L. 4,000.00 = $ 2,000

Estimated Cost of Stage II. Grain Store

Item:

1. Equipment:

   Grain elevators and conveyors
   Corn sheller, grain cleaner and grader
   Weighers, sacking-off equipment
   Bin Panels and accessories
   Main and auxiliary motors.

   Drives. Laboratory equipment

   Installed Cost: $ 25,000

2. Building:

   Steel roof trusses, stringers.
   Concrete block walls, concrete floors
   Corrugated asb.-cement roofing, walls.
   All rainwater fittings
   Site preparation and Utilities:

Erected Costs:	$ 7,000
Sub-Total	$ 32,000

3. Contingency: 15% — $ 4,800
   Design fee, consultance 10% — $ 3,200
   Total — $ 40,000

   Storage capacity = 362 ton:
   cost per ton stored: $101.70

U.S. Procurement:

1. 80% of total cost = $20,000
2. nil
3. 50% = 4,000

U.S. Procurement Total + $24,000 = 60.0% of total cost

Estimated cost of Central Grain Warehouse:

Item:	Description:	Cost:
1. Equipment:	Grain elevators and conveyors Grain cleaner, grader, weighers Bin, Panels and accesories Grain dryer and accesories Sack cleaning and repairing laboratory equipment:	
	Installed cost	$ 20,000
2. Building:	Steel roof trusses, stringers Concrete blocks walls, concrete floor Corrugated asbestos cement roofing:	
	Erected Cost:	$ 20,000
	Sub-Total Cost:	$ 40,000
3. Add.: Contingency: 15%		$ 6,000
Design fee, consultancy 10%		4,000
	TOTAL	$ 50,000

Storage capacity = 750 tons
Cost per ton = $ 66.67

U.S. Procurement
Item:

1. 80% of total cost = $16,000
2. nil
3. 50% 5,000

TOTAL $21,000 = 42.0% of total value

COST

Central Warehouse = bodega, cleaner, dryer, fumigators

1) Floor - 4" reinforced concrete = L. 100/m^3
   87.5 m^3 by 100 m/3 = L. 8,750
2) Wall - 6" concrete block - reinforced & pained 7.80/m^2
   1000 m^2 x 7.80/m^2 = L. 7,800
3) Roof - metal trusses, joists, purlins, corrugated asbestos sheets, transparent laminas/6m, gutters, & down spouts - installed

   L. 16/m^2 x 1061 m^2 = L. 17,000

	L. 33,550
4) Site preparation and Utilities	6,450
TOTAL	L. 40,000 = $20,000

Typical Unit Prices of Construction in Honduras

Basis - Tegucigalpa

Cement	L. 3.10	$ 1.55/94 lb.
Concrete flooring, 4" thick laid: (1:3:6 mix.)	0.56/ft^2	0.28/ft^2
Concrete flooring 6" thick laid:	125.00/m^3	62.50/m^3
Excavation and rock foundation walls	0.68/$ft.^3$	0.34/$ft.^3$
6" thick concrete block wall: reinforced: painted	0.78/$ft.^2$	0.39/$ft.^2$
Wood flooring: (treated with Preservative) 3 " by 6" sub-floor T & G, 1 " by 6" finish floor T & G laid	0.90/$ft.^2$	0.45/$ft.^2$
Roofing: Metal truss, metal purlins: corr. asb. sheeting	1.40/$ft.^2$	0.70/$ft.^2$
1 transparent sheet every 20 m^2: flashings Span x 23'-0": erected.	16.00/m^2	8.00/m^2
Metal truss, metal purlins: corrugated asb. sheeting 1 transparent sheet every 20m^2 flashings, down spouts Span: 46' - 0": erected.		

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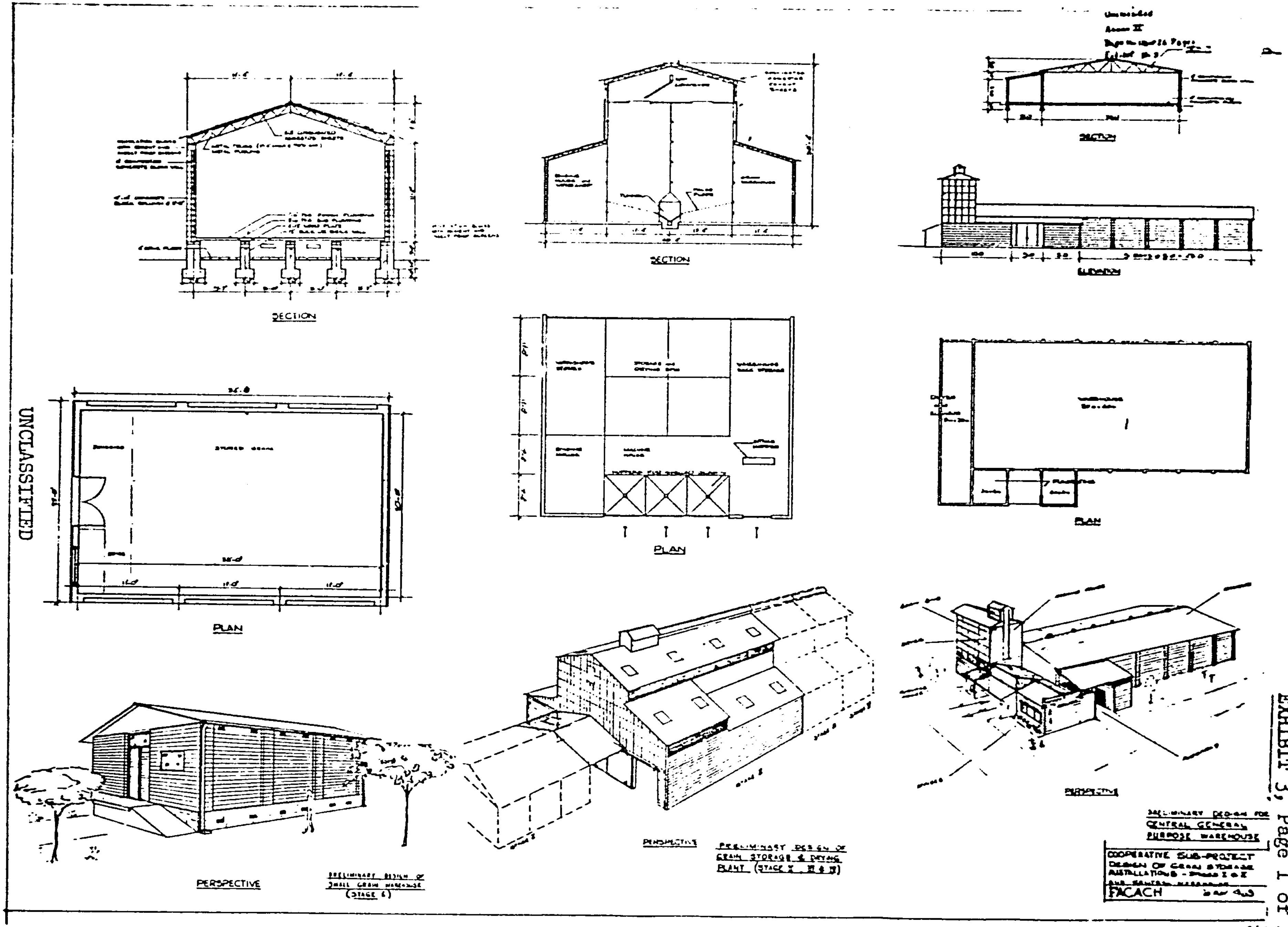

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ANNEX II, Page 13A of 26
EXHIBIT 3, Page 1 of 1

<u>List of Equipment to be Purchased in the U.S.A.</u>

Grain conveyors and elevators and associated equipment
Corn shellers and associated equipment
Grain cleaners and graders with associated equipment and screens
Sack weighers
Sacks sewing machines and thread
Sack cleaners and sack repairing machines
Grain weighers
Drain dryers and associated equipment
Panels, braces, fillets, nuts and bolts, etc., for grain bins including perforated metal floors for "in-bin" drying and aeration.

Automatic generator for electric lighting including battery system
Diesel engine prime mover and accessories
Main drives including clutch, gear boxes, belt drives and belting.

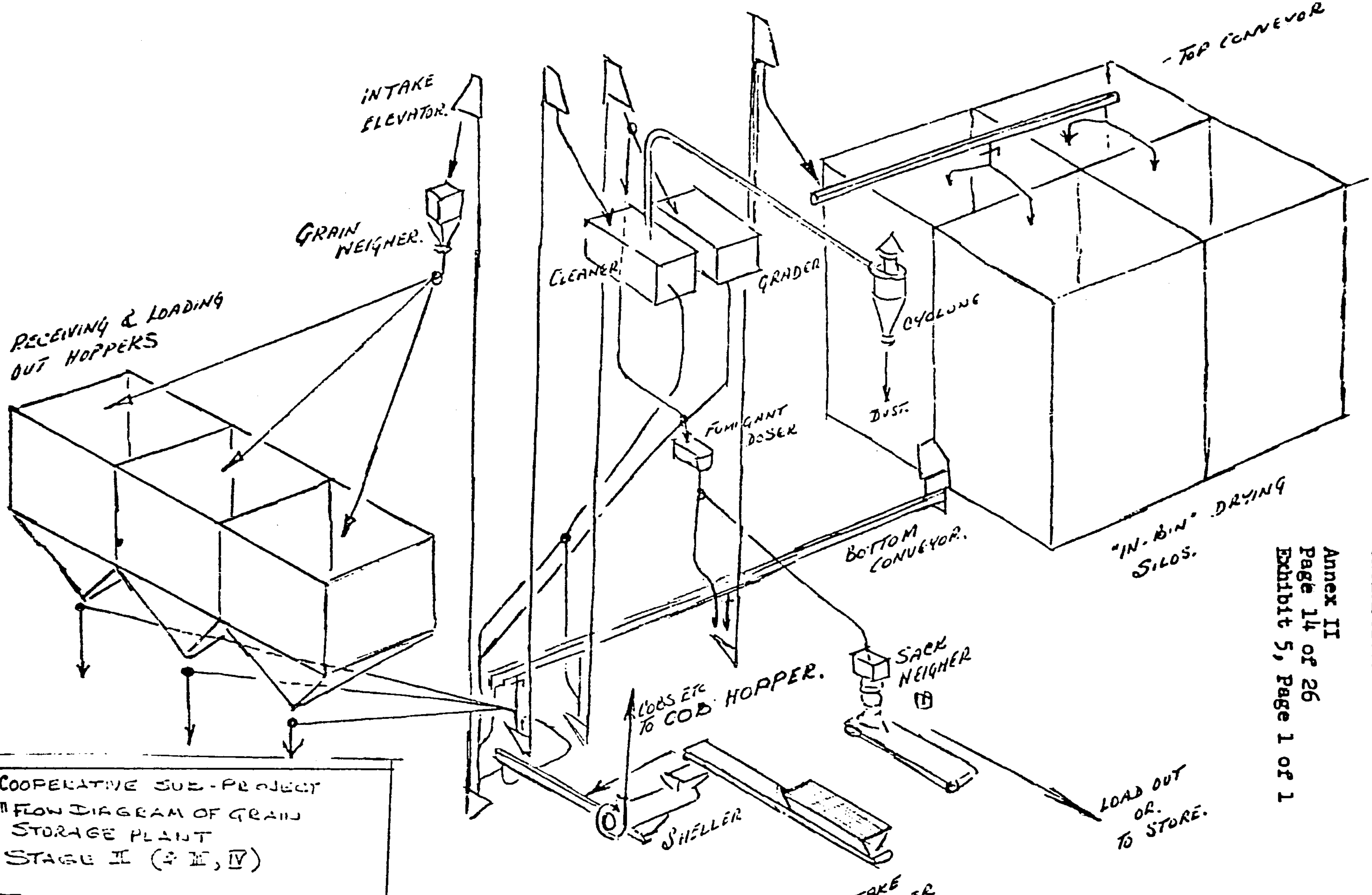
Fan and air heaters for "in-bin" drying and aeration including part of air ducts. Air heater controls.

Water pumps, electric motors and automatic control for well.

Workshop equipment, tools.
Laboratory equipment: Moisture content apparatus, scales, dockage testing, screens,

Miscellaneous equipment: grain scoops, shovels, sack holders.

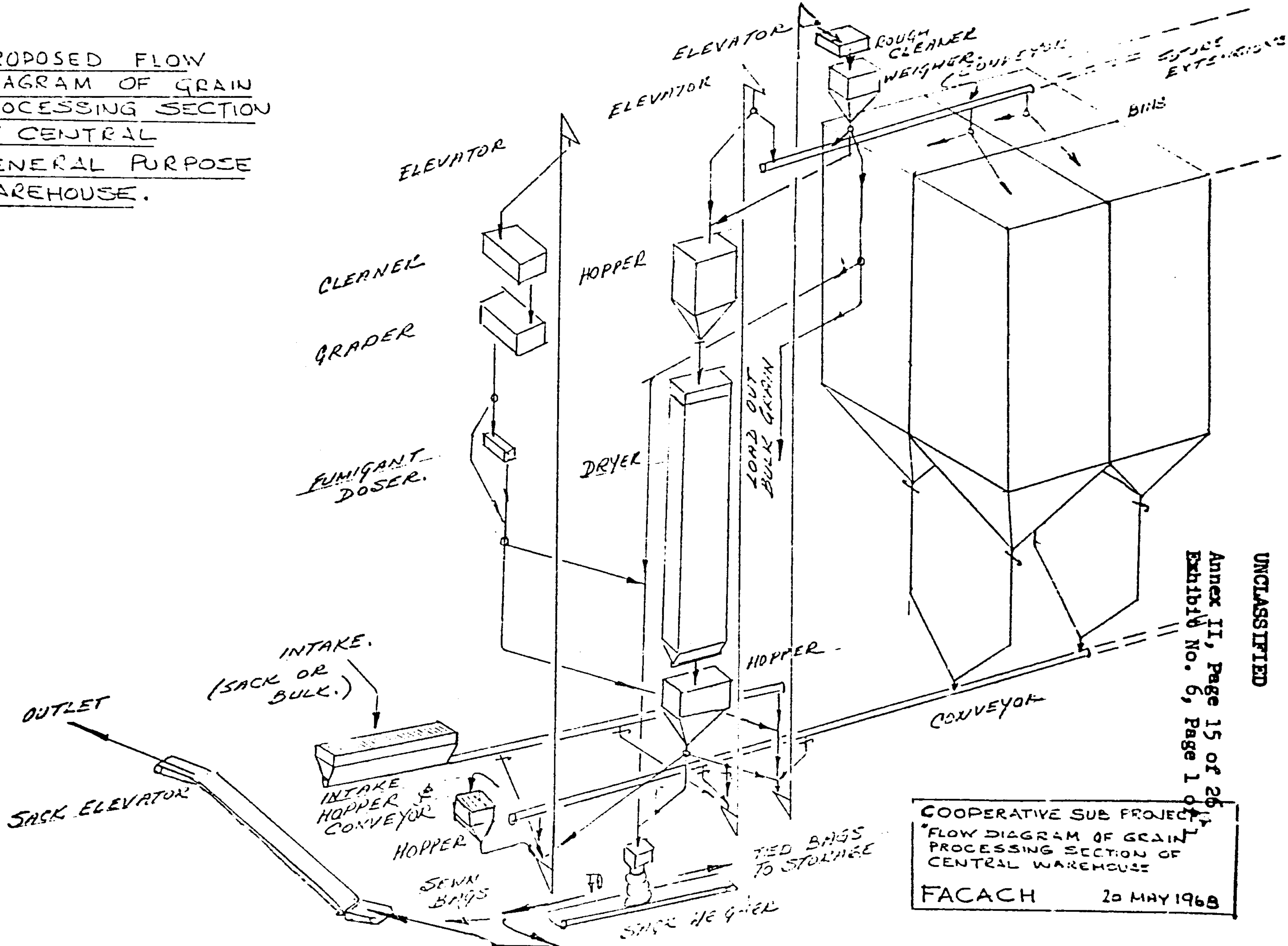
Fumigants.



COOPERATIVE SUB-PROJECT
"FLOW DIAGRAM OF GRAIN STORAGE PLANT
STAGE II (& III, IV)

FACACH 20 MAY 1968.

PROPOSED FLOW DIAGRAM OF GRAIN PROCESSING SECTION OF CENTRAL GENERAL PURPOSE WAREHOUSE.



COOPERATIVE SUB PROJECT
"FLOW DIAGRAM OF GRAIN PROCESSING SECTION OF CENTRAL WAREHOUSE"

FACACH 20 MAY 1968

UNCLASSIFIED

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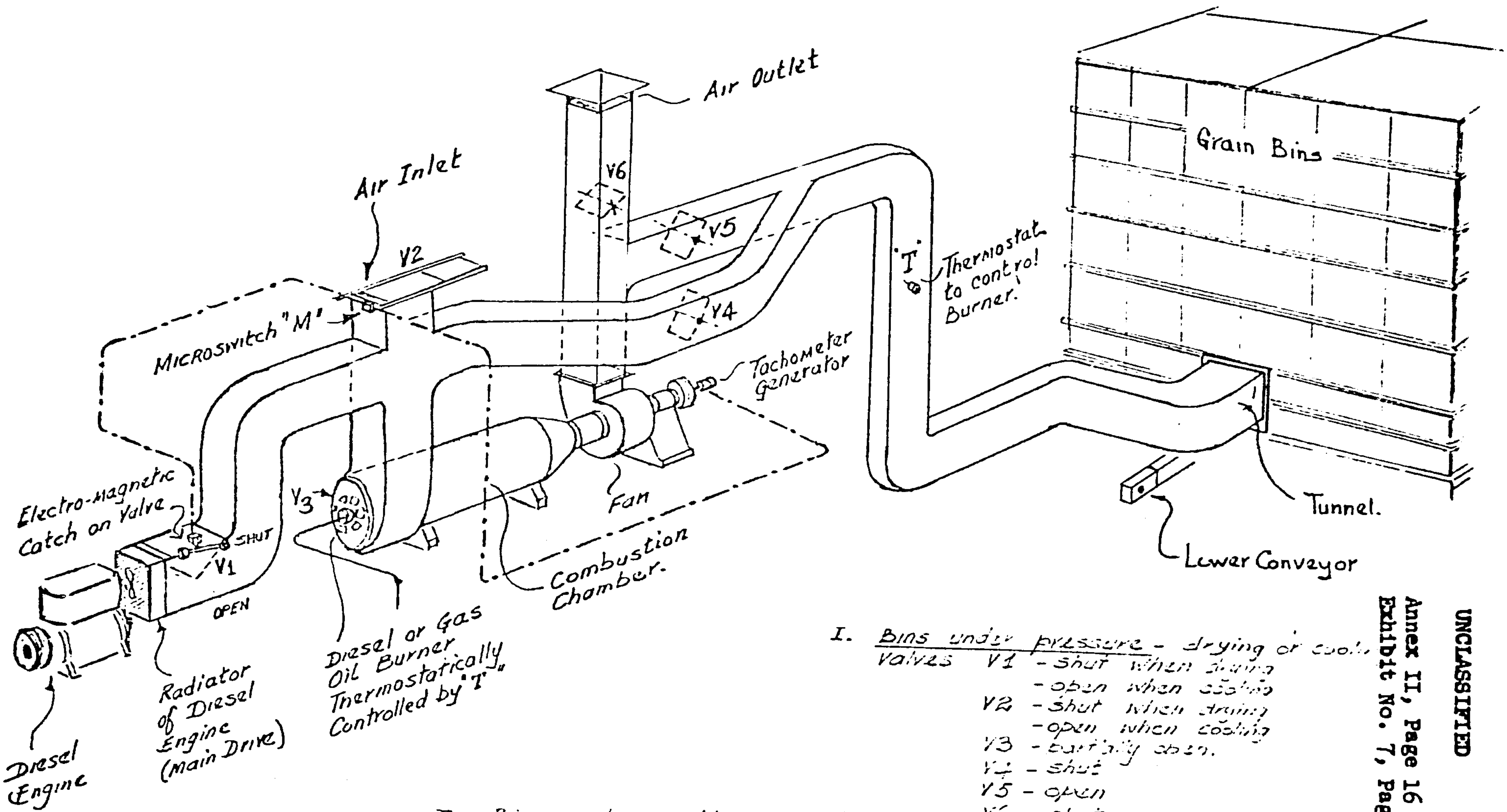

I. Bins under pressure - drying or cooling

Valves V1 - shut when drying
- open when cooling
V2 - shut when drying
- open when cooling
V3 - partially open.
V4 - shut
V5 - open
V6 - shut.

II. Bins under suction. - cooling

Valves - V1. open.
V2. shut.
V3. shut.
V4. open.
V5. shut.
V6. open.

NOTE Diagrammatic irrangement only, for preliminary design purposes only.

COOPERATIVE SUB-PROJECTS.
"DIAGRAMMATIC ARRANGEMENT OF AIR DUCTING FOR BIN AERATION AND "IN-BIN" DRYING.
FACACH 20 MAY 1968

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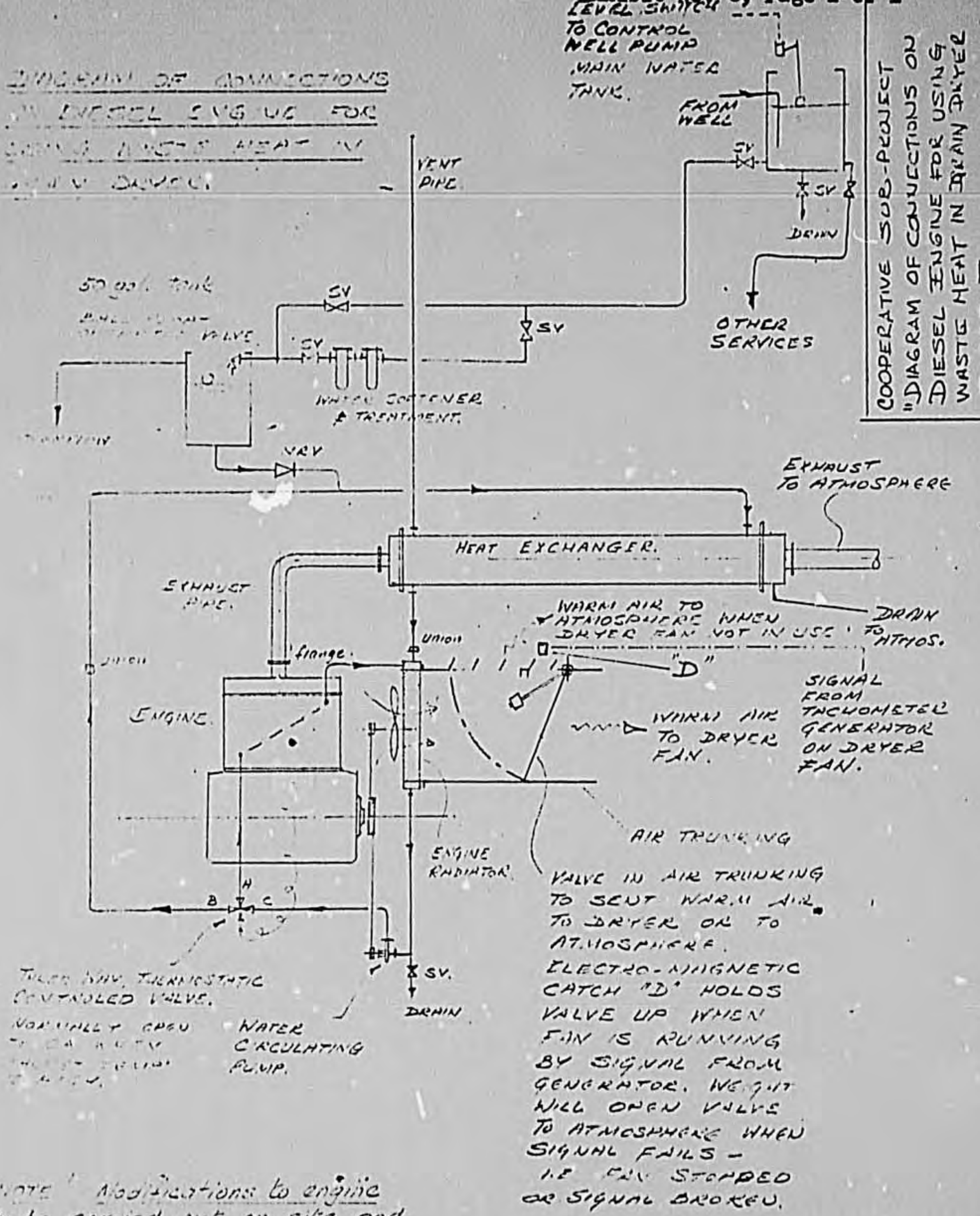
COOPERATIVE SUB-PROJECT
"DIAGRAM OF CONNECTIONS ON DIESEL ENGINE FOR USING WASTE HEAT IN GRAIN DRYER STAGE II."
FACACH 20 MAY 1968.



Note: Modifications to engine to be carried out on site and consist of :-
(a) Fit pulley for water-circulating pump.
(b) Fit water pump. (Type of engine used may have pump already fitted).
(c) Connect header tank and heat exchanger to radiator
(d) Fit thermostatic valve
(e) Fit air-trunking to radiator.

S.V. = STOP VALVE
NRV = NO RETURN VALVE.

Diagrammatic Arrangement only, not representative of Lay-out.

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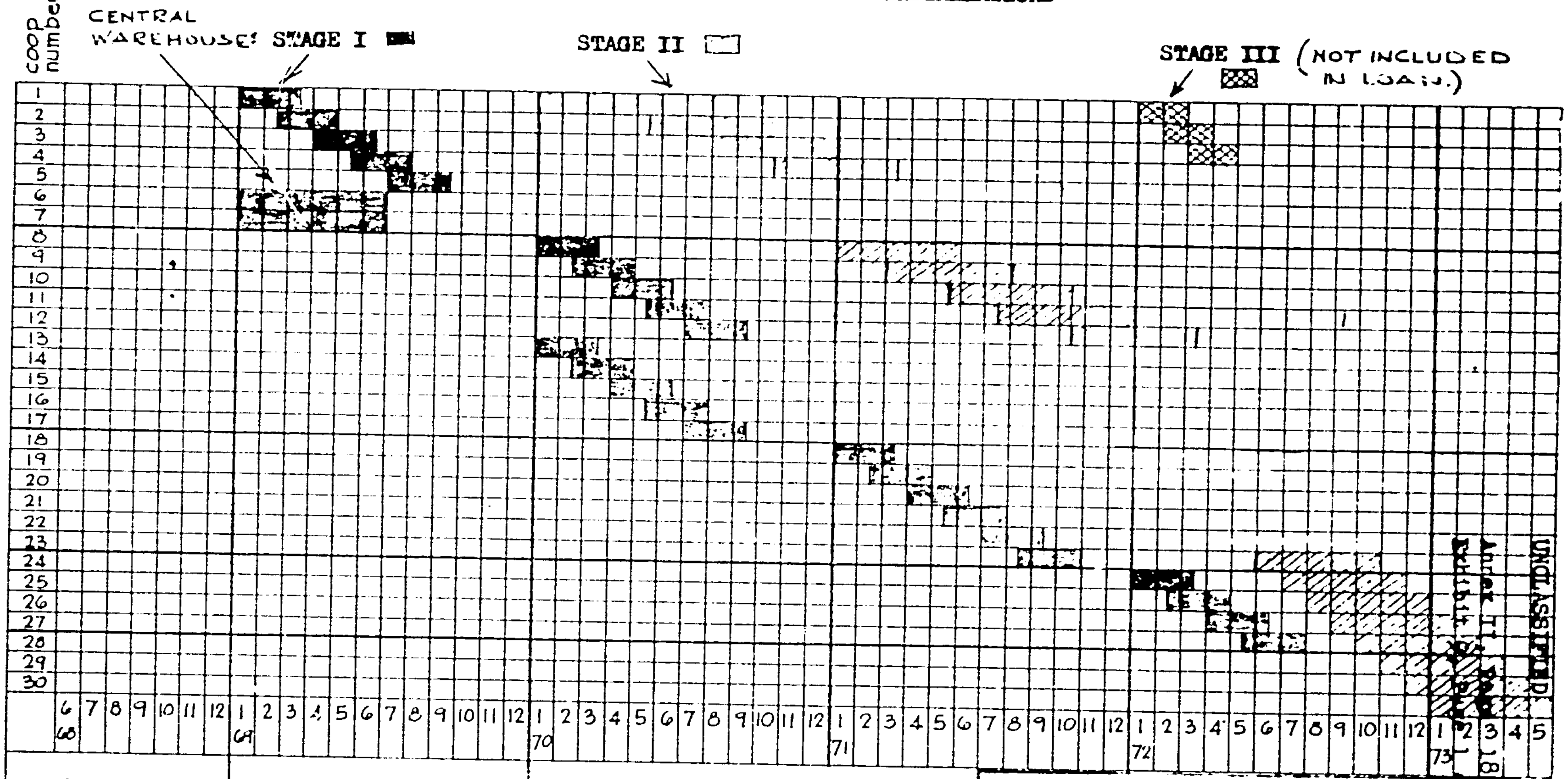
6

PROGRAM OF GRAIN STORAGE INSTALLATIONS



Design of Stage I & Central Warehouse	Design of Stage II & III		

COOPERATIVE SUB-PROJECTS

PROGRAM OF GRAIN STORAGE INSTALLATIONS

FACACH 20 MAY 1968

B. BNF GRAIN STORAGE SECTION

1. Technical Description of the BNF Storage Facilities

The BNF wants to build grain storage facilities with 25000 metric tons capacity at Tegucigalpa and at San Pédro Sula, Honduras.

The plant locations are shown on a map of Honduras in Exhibit No. 10.

Elevations, plan and flow diagrams are shown in Exhibit No. 11.

The financing sought with this proposed loan will be used to build the first stage of the desired facilities at each of the two named cities. Storage will be provided for 11,679 metric tons of grain in silos and 1800 metric tons in warehouses.

The headhouse and 18 silos will be built of reinforced concrete. Each plant would have complete facilities for receiving grains either in bulk or in sacks, drying, cleaning, storing and maintaining the grain at a satisfactory humidity and temperature. The plant would be controled from a central controldesk. See list of equipment to be bought in U.S. A. in Table No. 4., Exhibit No. 12.

Grain upon arrival would be sampled and checked for moisture content, broken grains, and trash, then graded for payment. It would then be raised by bucket elevators to the top of headhouse from which point it would flow by gravity directly to the desired place or be discharged onto a conveyor belt for transporting.

The grain would pass through a cleaner and then through a continous flow columnar dryer. The dried grains would be transported by overhead conveyor to the silos for storages.

The silos will be equiped for ventilation, fumigating and temperature control of the grain. The plants will not be a nuisance to its neighbors as each will be equiped with dust collectors.

The warehouses will have asbestos cement roofs, reinforced concrete frames, brick walls and concrete floors. A space will be reserved for a rice mill to be installed later at each site.

2. Cost Breakdown and Schedules

Cost breakdown into local and dollar costs for construction, supervision and contingencies are shown on Table No. 1, Exhibit No. 12. The project cost breakdown into units of con[illegible]ion is shown in Table No. 2, Exhibit No. 12.

A critical path chart showing the schedule of the project from the start of design to installation of the equipment is shown in Exhibit No. 13.

3. Design Criteria

The need, size and locations of the facilities were determined by the three reports discussed in the main text of the paper.

The basic design is standard for the industry and the final plans are being prepared by an AID approved A/E firm experienced in the field of grain storage in Central America.

The foundations are being designed using data collected in the field, such as 120 foot soil boring at the San Pedro Sula site.

Because of the lack of funds the BNF is dividing the construction into two phases. Approximately one half of the desired storage capacity is to be built at each site under stage one.

4. Cost Benefits

This construction is a minor but very important part of the whole grain program. Conventional C/B ratios can not be determined, for these facilities are essential to both the National and Regional price support programs and will not be used primarily as a commercial operation. Grain may be sold at a loss in order to have space to store a new crop which is required for the social benefits of the overall programs. In other words, the economic benefits to the nation arising from this project are extremely difficult to quantify and monetize. This is discussed in the Economic section of the paper.

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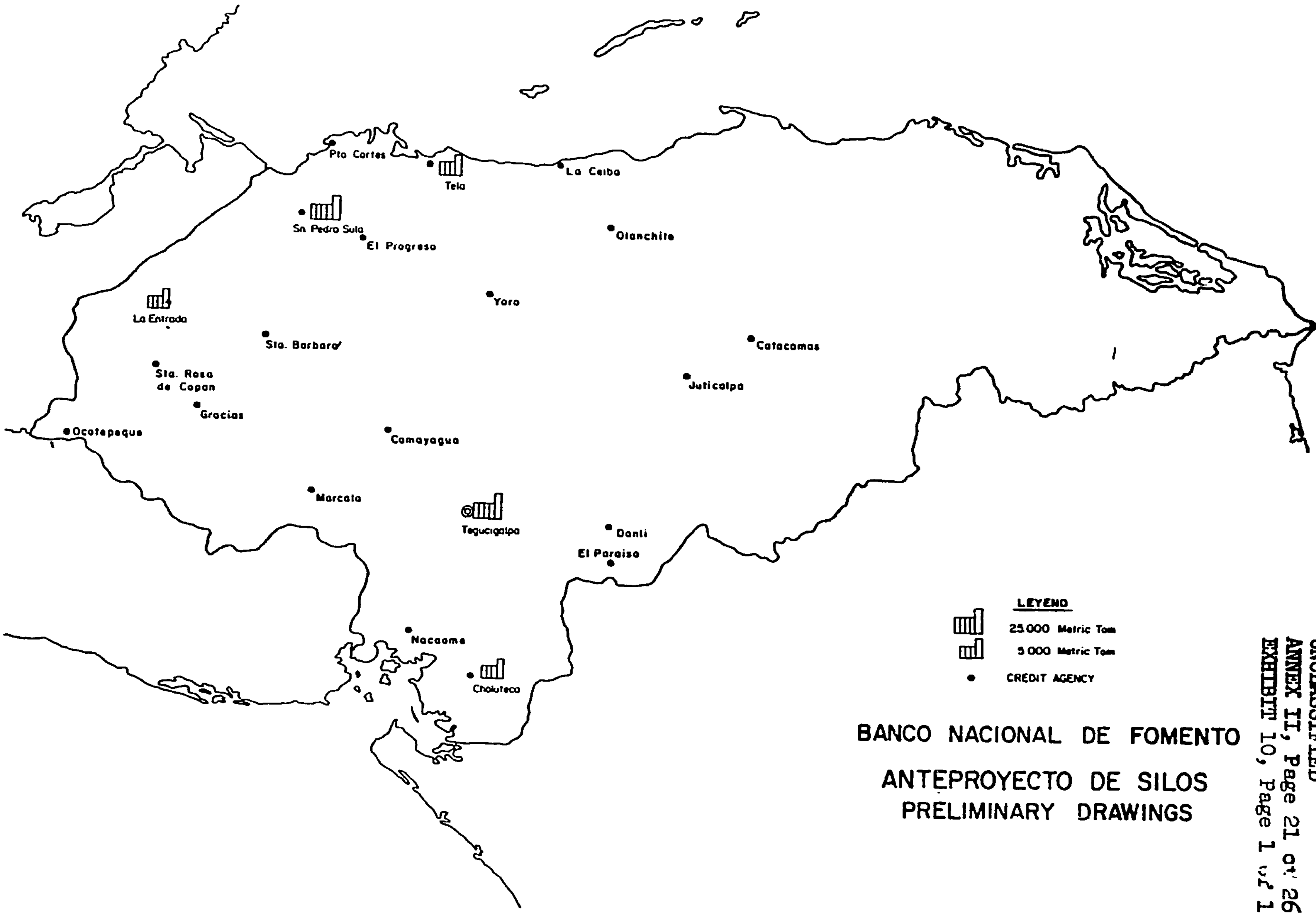
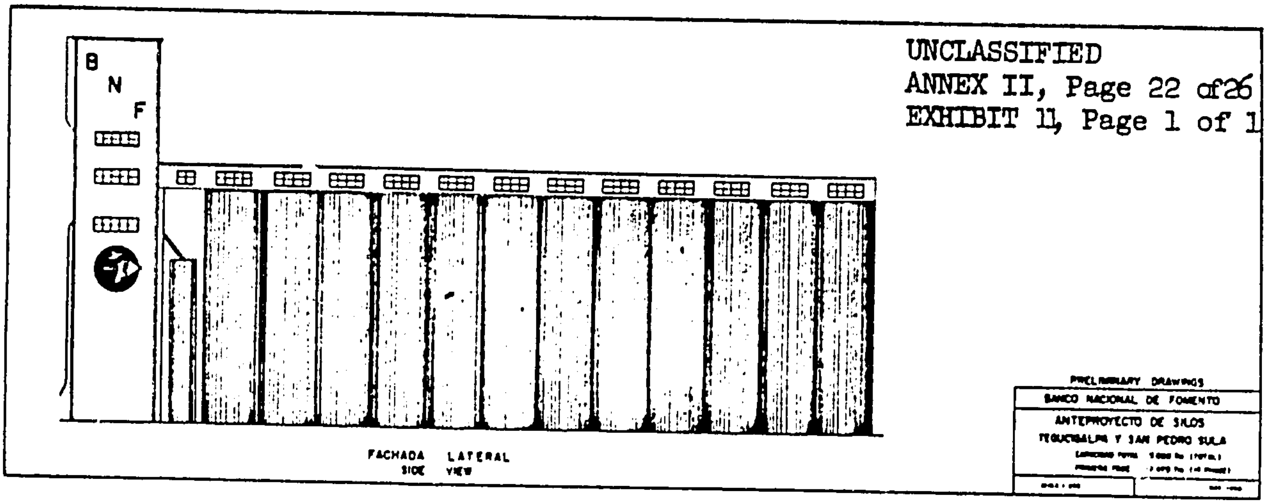
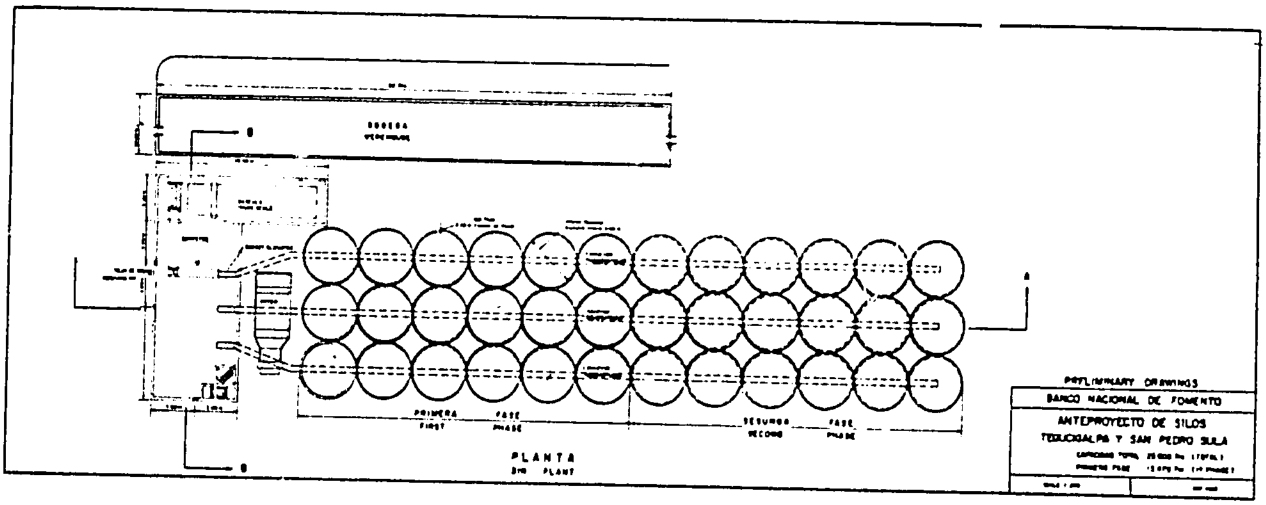


BANCO NACIONAL DE FOMENTO

ANTEPROYECTO DE SILOS
PRELIMINARY DRAWINGS

MAY, 1968


B
N
F
FACHADA LATERAL
SIDE VIEW
PRELIMINARY DRAWINGS
BANCO NACIONAL DE FOMENTO
ANTEPROYECTO DE SILOS
TEGUCIGALPA Y SAN PEDRO SULA


PRIMERA FASE
FIRST PHASE
SEGUNDA FASE
SECOND PHASE
PLANTA
PLANT
PRELIMINARY DRAWINGS
BANCO NACIONAL DE FOMENTO
ANTEPROYECTO DE SILOS
TEGUCIGALPA Y SAN PEDRO SULA

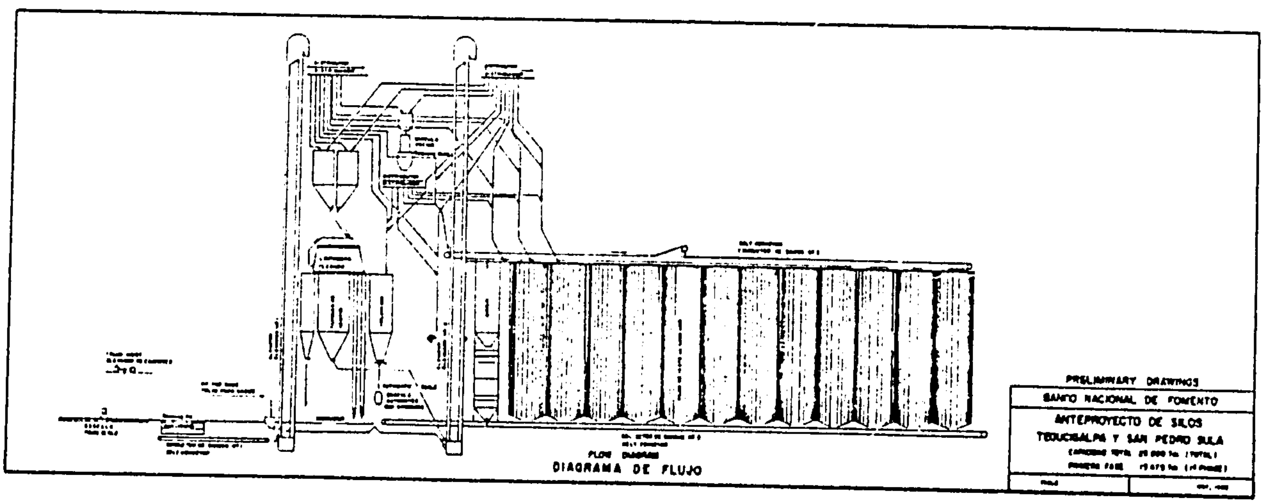

FLOW DIAGRAM
DIAGRAMA DE FLUJO
PRELIMINARY DRAWINGS
BANCO NACIONAL DE FOMENTO
ANTEPROYECTO DE SILOS
TEGUCIGALPA Y SAN PEDRO SULA

TABLE No. 1

Cost Breakdown in Local and Foreign Currencies for Two Plants

in $1000

Item		COSTS Local	Foreign	Totals
Construction		1505.0	-o-	1505.0
Equipment		20.0	938.8	943.8
Supervision		61.2	183.6	244.8
Contingencies		122.4	122.5	244.9
	Totals	1708.6	1229.9	2938.5
			Amount in Loan	3000

TABLE No. 2

First Phase Cost Estimate for One Plant

Construction = (See Table No. 3)		$ 752,500
Equipment FOB U.S.A. (See Table No. 4)		298,000
+ 13 Customs Freight and Transportation		39,800
+ 30% Installation		89,400
+ 15% Profit		44,700
	Sub-Total Equipment	471,900
	Sub-Total Construction and Equipment	1,224,400
Supervision 10%		122,440
Contingencies 10%		122,440
	Total	$ 1,469,280
	Cost of Two Plants	$ 2,938,560

TABLE No. 3

Detailed Estimated Construction Costs for One Plant

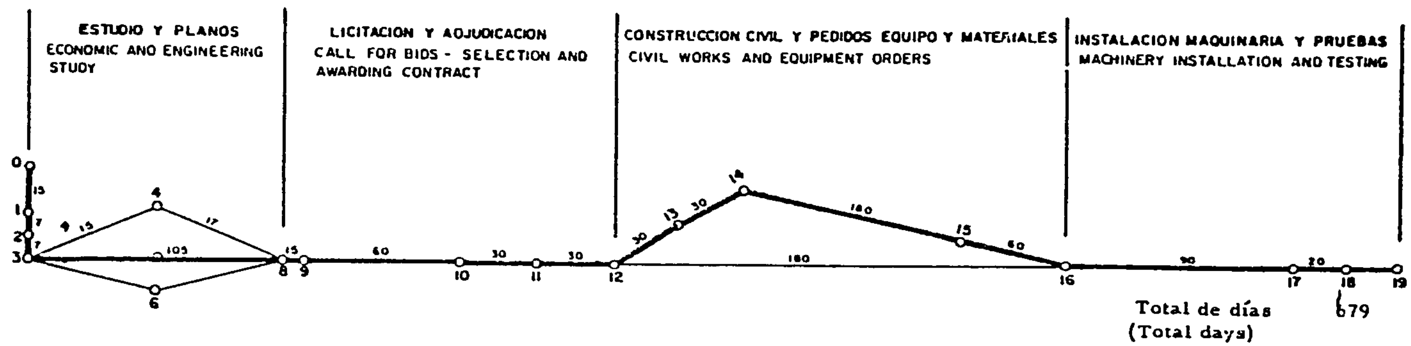
CONSTRUCTION: First Phase

1.	(18) Concrete Silos for 12,500 Metric Tons $32,00/MT	$	400,000
2.	Warehouse: 1800 m2 - $30.00/M2	"	54,000
3.	Headhouse Lump Sum	"	200,000
4.	Clearing and Grading - Excavation Lump Sum	"	32,000
5.	Paved Areas 5000 - $7.00/M2	"	35,000
6.	Sewage and Storm Drainage Lump Sum	"	11,000
7.	Potable Water Lump Sum	"	3,000
8.	Green Area 2500 M2 - $3.00M2	"	7,500
9.	Fences Lump Sum	"	5,000
10.	Office and Laboratory Lump Sum	"	5,000
	Total	$	752,500

TABLE No. 4

List of Machinery and Equipment to be Bought in USA For One Plant

MACHINERY AND EQUIPMENT (First Phase)	PRICES FOB USA
1. Bascula para camiones de 50 toneladas (1) (Truck scale)	$ 10,000
2. Elevadores de 150 toneladas métricas/Hora (2) (Bucket-elevators)	38,000
3. Elevador para secadora 30 ton/H (2) (Dryer elevator)	13,600
4. Secadora de flujo contimua de 15 ton/H (2) (Continuous flow dryer)	52,000
5. Limpiadora granos 40/ton/H (2) (Cleaner)	12,800
6. Elevador para operador (1) (Man lift)	3,000
7. Báscula de recibo y entrega 150 ton/H (2) (Receiving scale)	11,000
8. Cosedora sacos (1) (Bagging machine)	7,500
9. Equipo fumigación (1) (Fumigating equipment)	3,000
10. Equipo extracción de polvo (2) (Dust collector)	6,000
11. Tablero automático control (1) (Automatic control)	5,000
12. Equipo laboratorio - Suma Global (Laboratory equipment) - Lump Sum	3,000
13. Instalación eléctrica SG (Electric installation)	20,000
14. Iluminación exterior SG (Exterior lighting)	2,500
15. Equipo contra incendio SG (Fire equipment)	3,000
16. Equipo de intercomunicación SG (Intercommunication equipment)	1,000
17. Tubos y accesorios SG (Pipes and accesories)	7,500
18. Sistema termopares SG (Thermo-couple system)	8,000
19. Equipo aereación SG (Aeration equipment)	30,000
20. Distribuidores SG (Distributors)	10,000
21. Sistema Pararayos SG (Lightning protection)	1,500
22. Transportadores (Belt conveyor) - 150 Ton/H (7)	47,000
23. Volcador de camiones (Truck hoist)	2,500
	$ 297,900 =
	$ 298,000



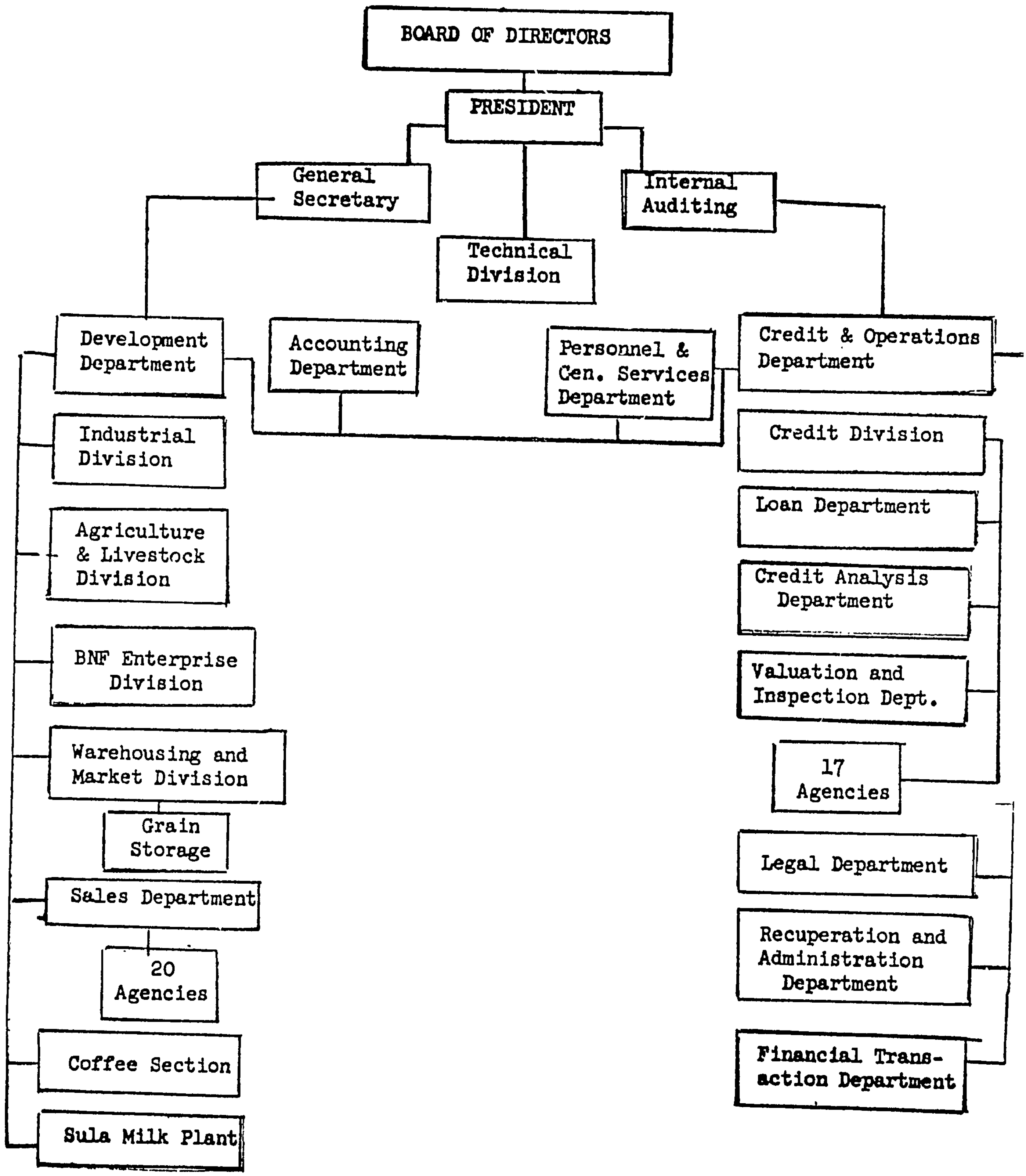
CAMINO CRITICO PROYECTO SILOS DE HONDURAS

CRITICAL PATH METHOD OF HONDURAS's SILOS

0-1	Análisis estudio factibilidad de Weitz	15 días (days)	Economic and Engineering Study
1-2	Presentación informe y cuestionario de los consultores al BNF	7 "	Report and Questions of the Consultants
2-3	Respuesta del BNF al cuestionario anterior	7 "	Answers of the B. N. F. and approval
3-8	Desarrollo Proyecto definitivo para las cinco plantas, incluyendo documentos licitación	105 "	Development of the Five Storage Plants, including bidding documents
3-4	Selección terrenos	7 "	Land Selection
4-8	Pruebas de suelos	15 "	Soil Surveying
3-6	Aprobación de los terrenos por el BNF	7 "	Land Selection Approval
6-8	Compra y escrituración terrenos	7 "	Purchase of Land
8-9	Publicación licitación	15 "	Call for Bids
9-10	Recibo de ofertas	60 "	Offers Receipt
10-11	Análisis de ofertas	30 "	Offers Analysis
11-12	Consesión y firma contrato	30 "	Contract Awarding
12-13	Correspondencia y trámites pedidos maq.	30 "	Machinery Orders
14-15	Embarque y recibo equipo y materiales	180 "	Shipping of Equipment
15-16	Desembarque y puesta en obra equipo y mat.	60 "	Landing and receiving of Equipment
12-16	Construcción edificios y silos	180 "	Erection of Head-house and Silos
16-17	Instalación maquinaria	90 "	Machinery Installation
17-18	Pruebas	20 "	Testing
18-19	Ornato		Landscaping

B A N C O N A C I O N A L D E F O M E N T O

Organization Chart



BANCO NACIONAL DE FOMENTO
Tegucigalpa, Honduras

Cash Flow Statement
Actual - 1965-1967; Projected - 1968-1972
(Lempiras 000's)

		1965	1966	1967	1968	1969	1970	1971	1972
A.	INFLOW OF FUNDS	52,839.1	43,500.4	48,971.0	55,835.4	57,627.7	67,048.8	63,951.5	65,772.7
I	Cash & Banks	2,819.6	3,109.8	3,389.4	4,114.0	3,630.7	3,283.5	3,032.3	4,716.1
II	General Funds	38,925.1	28,913.5	29,514.0	35,095.3	46,900.0	57,835.0	56,770.0	56,715.0
	GOH Capitalization:								
	Credit & Operating Dept.	1,000.0	1,714.3	3,000.0	3,000.0	2,500.0	2,500.0	1,500.0	1,500.0
	Development Dept.	1,050.0	1,285.7	1,200.0	1,000.0	1,500.0	1,800.0	3,200.0	1,000.0
	AID Loan to GOH:								
	a) Credit	---	---	---	---	5,000.0	5,000.0	---	---
	b) Grain Storage Construction	---	---	---	---	3,000.0	3,000.0	---	---
	Loan Repayments	20,583.8	16,381.6	19,784.0	25,000.0	30,000.0	35,000.0	40,000.0	42,000.0
	Loan Interest	1,812.1	2,735.7	2,703.8	3,325.3	4,000.0	6,500.0	7,000.0	7,100.0
	Rediscounts - Central Bank	11,000.0	2,519.8	1,580.2	2,000.0	---	3,000.0	4,000.0	4,000.0
	Other Banks	3,431.1	4,153.0	1,170.0	680.0	800.0	925.0	950.0	975.0
	Other Income	48.1	46.5	76.0	90.0	100.0	110.0	120.0	140.0
	Capital Stock Sales	---	76.9	---	---	---	---	---	---
III	Development Projects	1,784.3	2,697.8	2,533.6	3,063.6	2,577.0	2,460.3	3,049.2	3,191.6
	Tobacco Warehousing & Sales	271.0	380.1	493.6	819.0	737.2	649.6	389.0	418.4
	Grain Warehousing & Sales	932.7	1,780.9	1,151.5	1,490.0	1,242.0	1,294.0	2,146.0	2,298.0
	Cattle Sales	275.5	254.7	531.1	168.4	145.6	100.0	100.0	100.0
	Industry Development	---	17.5	3.9	5.0	6.0	8.0	10.0	12.0
	Other Sales	213.8	209.7	87.6	61.2	56.2	56.2	56.2	56.2
	Miscellaneous	91.3	54.9	205.9	180.0	190.0	200.0	208.0	167.0
	Repayment of Loan to Sales Sec.	---	---	60.0	60.0	60.0	12.5	---	---
	Net Return - Milk Plant **	---	---	---	280.0	140.0	140.0	140.0	140.0

		1965	1966	1967	1968	1969	1970	1971	1972
IV	Coffee Export Taxes - Fees	1,127.8	1,019.5	966.0	1,100.0	1,000.0	1,070.0	1,100.0	1,150.0
V	Loans	8,182.3	7,759.8	12,568.0	12,462.5	3,520.0	2,400.0	---	---
	Foreign Banks - Less than 1 year - Int. 5-3/4% - 6-1/4%	2,000.0	4,000.0	10,140.0	3,000.0	---	---	---	---
	AID - Housing	68.6	120.8	396.4	3,414.2	---	---	---	---
	IDB - 42/TF	300.0	---	---	---	---	---	---	---
	20/SF (12,000)	3,596.9	3,302.3	---	---	---	---	---	---
	42/TF (5,000)	2,216.8	336.7	---	---	---	---	---	---
	115/SFHO 1 (8,600)	---	---	1,346.3	2,353.6	2,500.0	2,400.0	---	---
	SFHO 2 (5,400)	---	---	685.3	3,694.7	1,020.0	---	---	---
B.	OUTFLOW OF FUNDS	49,729.3	40,111.0	44,857.0	52,204.7	54,344.2	64,016.5	59,235.4	61,795.7
I	General Funds	40,844.2	27,495.9	32,218.2	36,232.7	38,553.0	50,649.1	48,269.7	50,560.8
	Loan Disbursements	27,803.5	25,790.8	28,616.7	31,203.5	35,519.2	45,507.3	41,945.2	45,175.8
	Rediscounts - Central Bank	10,500.0	---	500.0	2,500.0	---	3,342.8	5,000.0	4,000.0
	Interest & Other - Central Bank	399.3	485.8	534.8	644.2	528.8	481.9	460.0	525.0
	Other Banks - Prin. & Int.	1,003.3	506.2	922.7	1,200.0	1,423.6	---	---	---
	Other Outgo	---	---	---	---	---	---	---	---
	Bond Retirement & Interest	495.7	424.2	489.9	182.0	171.4	167.1	144.5	---
	Investments - Cr. Oper.	112.8	107.1	462.0	295.3	670.0	870.0	400.0	500.0
	Dev. Proj.	529.6	181.8	692.1	207.7	240.0	280.0	320.0	360.0
II	Development Projects	4,505.1	4,411.7	3,729.6	5,479.9	8,279.2	8,301.2	5,545.4	5,720.7
	Tobacco Warehousing & Sales	623.7	436.0	603.2	806.5	663.2	466.6	464.0	473.4
	Grain Purchases	873.1	1,688.9	1,089.1	1,170.0	800.0	1,100.0	1,800.0	1,900.0
	Grain Warehousing & Sales	368.6	440.3	295.3	380.2	385.2	389.0	394.2	400.0
	Cattle Purchases/Sales Expense	1,309.3	43.3	96.2	1[illegible]4.5	325.7	123.6	119.7	118.8
	Coffee Sales Expense	400.2	718.3	638.6	1,012.1	969.8	969.3	1,001.8	1,018.4

		1965	1966	1967	1968	1969	1970	1971	1972
II	Develop. Projects (continued)								
	Grain Storage Construction *	---	---	---	---	3,000.0	3,000.0	---	---
	Agriculture	166.1	66.4	29.2	56.9	57.8	60.0	61.3	62.5
	Industry Development	260.0	258.7	229.0	499.1	784.6	838.5	342.0	347.2
	Miscellaneous	42.3	285.6	166.3	255.0	160.0	165.0	170.0	175.0
	Operating Expenses	461.8	474.2	582.7	671.3	682.9	689.2	700.4	715.4
	Coffee - Price Stabilization, Diversification	---	---	---	504.3	450.0	480.0	492.0	510.0
III	Credit Dept. & Operations	4,380.0	8,203.4	8,909.2	10,492.1	7,512.0	5,066.2	5,420.3	5,514.2
	Operating Expenses	1,854.7	2,136.2	2,285.0	2,647.6	2,698.5	2,725.8	2,795.5	2,849.0
	Loan Repayments:								
	Foreign Banks - Prin. & Int.	1,955.2	5,055.0	5,256.0	6,340.0	3,112.5	---	---	---
	IDB - Principal	200.0	400.0	712.5	737.5	762.5	1,399.2	1,636.7	1,686.7
	Interest	370.1	612.2	654.3	757.0	926.5	941.2	988.1	978.5
	AID - Interest	---	---	1.4	10.0	12.0	---	---	---
C.	CASH & BANKS - CARRYOVER	3,109.8	3,389.4	4,114.0	3,630.7	3,283.5	3,032.3	4,716.1	3,977.0

SOURCE: BNF Financial Statement of December 31, 1967 and Projections 1968-1972.

* Does not include GOH contribution for land and miscellaneous related expenditures.

** Projection based on retaining Sula Milk Plant operations within BNF. Sale of plant would make additional funds available, depending on conditions of sale.

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BANCO NACIONAL DE FOMENTO

Consolidated Balance Sheet (Actual 1965 - 1967 Estimated 1968 - 1972)

(In Thousands of Lempiras)

	1965	1966	1967	1968	1969	1970	1971	1972
I - ASSETS	55,586.8	63,707.8	75,946.2	82,100.4	91,992.2	101,149.1	104,691.1	106,094.8
1.0 Liquid Assets	3,457.8	3,267.	3,824.	3,340.7	2,998.5	2,749.6	4,433.4	3,694.3
1.1 Cash and Bank Deposits	1,564.1	1,969.8	2,299.7	1,803.4	1,461.2	812.3	1,696.1	957.
1.2 Central Bank of Honduras	1,793.7	1,297.2	1,344.3	1,336.3	1,314.3	1,692.3	2,470.3	2,443.3
1.3 GOH Bonds	100.		180.	201.	223.	245.	267.	289.
2.0 Loan Portfolio	36,249.6	41,894.8	51,230.7	57,602.5	66.532.3	74,702.6	76,284.3	73,996.6
2.1 BNF own resources loans	21,576.6	26,943.8	33,557.3	35,500.3	36,100.3	37,507.6	38,407.6	40,407.6
2.2 BNF loans from IDB funds	11,007.6	12,338.3	14,615.4	15,461.7	15,380.9	15,780.9	19,330.9	21.330.9
2.3 BNF loans from AID Coop. H. loan	68.6	189.4	585.8	4,000.	4,000.			
2.4 BNF loans-AID Capitalization loan 1/	-.-	-.-			5,000.	13,700.	11,145.2	10,321.
2.5 Reserve for doubtful collections	(896.9)	(2,538.5)	(2,563.6)	(2,809.8)	(3,105.2)	(3,459.7)	(3,859.7)	(4,359.7)
2.6 Other investments (less reserves)	4,493.7	5,011.8	5,035.8	5,450.3	9,156.3	11,173.8	11.210.3	12,247.
3.0 Fixed Assets	4,848.8	4,993.8	5,049.	5,102.8	5,497.7	6,074.9	6,171.6	6,358.1
3.1 Buildings (less reserves)	2,916.7	3,046.	3,114.7	3,026.4	2,938.1	2,843.1	2,748.1	2,653.1
3.2 Property on sale (less reserves)	1,120.5	1,212.3	1,202.6	1,102.6	992.6	872.6	742.6	602.6
3.3 Other	811.6	735.5	731.7	973.8	1,567.	2,359.2	2,680.9	3,102.4
4.0 Lines of Credit (contra entry of termed margins)	4,033.2	4,184.1	6,507.8	6,000.	5,500.	6,000.	6,500.	6,000.

1/ The loan will be repaid by GOH and is included here for information only.

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		1965	1966	1967	1968	1969	1970	1971	1972
5.0	Other Assets	6,997.4	9,368.1	9,334.7	10,054.4	11,463.7	11,622.	11,301.8	11,045.6
5.1	Inventory	2,422.9	2,326.3	1,232.4	1,124.	829.2	974.2	1,019.2	1,064.2
5.2	Deferred charges	1,017.4	1,205.	934.4	934.4	934.4	934.4	934.4	934.4
5.3	Interests receivable (less reserves)	1,984.4	2,256.2	3,179.3	3,589.	4,989.	4,609.	3,819.	3,019.
5.4	Sundry	1,572.7	3,580.6	3,988.6	4,407.	4,711.1	5,104.4	5,529.2	6,028.
II -	LIABILITIES AND CAPITAL	55,586.8	63,707.8	75,946.2	82,100.4	91,992.2	101,149.1	104,691.1	106,094.8
6.0	Short Term Liabilities	6,807.2	6,996.2	6,793.2	6,993.2	7,293.2	7,593.2	7,893.2	8,293.2
6.1	Deposits	4,529.9	4,515.	5,490.1	5,690.1	5,990.1	6,290.1	6,590.1	6,990.1
6.2	Other	2,277.3	2,481.2	1,303.1	1,303.1	1,303.1	1,303.1	1,303.1	1,303.1
7.0	Long Term Liabilities	6,293.7	10,280.3	12,140.8	10,904.9	9,390.2	10,382.1	11,383.1	11,294.1
7.1	Deposits	2,260.5	6,096.2	5,633.	4,904.9	3,890.2	4,382.1	4,833.1	5,294.1
7.2	Term Margins (contra entry of lines of credit)	4,033.2	4,184.1	6,507.3	6,000.	5,500.	6,000.	6,500.	6,000.
8.0	Obligations to Banks and Others	26,537.5	30,159.5	37,472.9	42,225.7	41,647.7	37,960.8	34,937.5	33,096.1
8.1	Central Bank	9,850.8	11,445.5	12,348.7	11,663.7	11,473.7	10,935.9	9,735.9	9,530.9
8.2	Other National Banks	500.	-.-	-.-	-.-	-.-	-.-		
8.3	Mortgages and Bonds	1,369.6	1,024.6	579.3	432.1	286.6	136.7	0.4	0.4
8.4	I.D.B.	13,248.5	16,500.	17,819.1	23,129.9	25,887.4	26,388.2	25,251.5	23,564.8
8.5	Foreign Banks	1,500.	1,000.	6,140.	3,000.				
8.6	AID Cooperative Housing Loan	68.6	189.4	585.8	4,000.	4,000.			
9.0	Other Liabilities	361.7	116.6	316.8	362.3	407.8	453.3	498.8	544.3

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ANNEX III,
EXHIBIT

	1965	1966	1967	1968	1969	1970	1971	1972
10.0 GOH Administered Projects-Grain Storage				420.0	3,520.0	5,000.0	5,000.0	5,000.0
11.0 Sundry Reserves	341.1	438.7	458.1	558.1	658.1	758.1	858.1	958.1
12.0 Capital	15,245.6	15,716.5	18,764.4	20,636.2	29,075.2	39,001.6	44,070.1	46,909.0

Capital	1967	1968	1969	1970	1971	1972
Balance January 1	15,294.3	18,764.4	20,636.2	29,075.2	39,001.6	44,070.1
Plus: GOH Contribution	4,200.	4,000.	9,000.	9,300.	4,700.	2,500.
Plus: Profit or Loss of the fiscal period 1/	(729.9)	(2,128.2)	(561.)	626.4	368.5	338.9
Balance as of December 31	18,764.4	20,636.2	29,075.2	39,001.6	44,070.1	46,909.

( ) brackets mean minus

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BANCO NACIONAL DE FOMENTO

Consolidated Profit and Loss Statement - Actual 1965-1967 - Projected 1968-1972
(In Thousands of Lempiras)

CREDIT & OPERATIONS DIVISION	1965	1966	1967	1968	1969	1970	1971	1972
1.0 INCOME	2,661.6	3,245.1	3,943.2	4,520.0	6,400.0	7,235.0	7,370.0	7,515.0
Interest on Loans	2,385.8	2,988.6	3,624.1	4,150.0	6,000.0	6,800.0	6,900.0	7,000.0
IDB & BNF Own Fund	2,385.8	2,983.9	3,615.7	4,104.4	5,673.1	6,107.0	6,000.0	6,100.0
BNF loans from AID Cooperative Housing Loan		4.7	8.4	45.6	83.9			
BNF loans from AID Capitalization Loan					243.0	693.0	900.0	900.0
Commer. Banking Op.	227.7	210.1	266.3	280.0	300.0	325.0	350.0	375.0
Other Incomes	48.1	46.4	52.8	90.0	100.0	110.0	120.0	140.0
2.0 EXPENSES	3,026.8	3,851.3	4,198.2	5,531.8	5,769.0	5,802.7	5,998.3	6,264.0
2.1 Direct Costs	1,722.8	2,358.3	3,342.8	3,825.9	3,759.3	3,606.7	3,692.4	3,793.4
Personnel	709.1	862.6	1,268.7	1,511.5	1,534.2	1,549.5	1,596.0	1,627.9
Operation	257.2	364.0	483.8	536.0	560.0	574.5	593.6	610.5
Advanced Int. to Central Bank	189.6	290.1	361.8	459.2	333.8	286.9	260.0	320.0
Int. on IDB Loans	332.8	537.5	654.3	757.0	926.5	941.2	988.1	978.5
Interest on AID Housing Loan		1.2	2.1	10.0	12.0			
Interest on Savings Deposits, on loans foreign banks, etc.	234.1	302.9	572.1	552.2	392.8	254.6	254.7	256.5

		1965	1966	1967	1968	1969	1970	1971	1972
	2.2 Indirect Costs	1,304.0	1,493.0	855.4	1,705.9	2,009.7	2,196.0	2,305.9	2,470.6
	Administrative	479.4	488.3	137.8	156.2	159.3	160.9	164.1	167.4
	Shared serv.	469.1	540.2	570.4	643.9	655.0	660.6	671.8	683.2
	Deprec., amort. and reserves	355.5	464.5	147.2	905.8	1,195.4	1,374.5	1,470.0	1,620.0
	3.0 NET LOSS	(365.2)	(606.2)	(255.0)	(1,011.8)	631.0	1,432.3	1,371.7	1,251.0
II	DEVELOPMENT DIVISION								
	1.0 INCOME	561.5	189.7	74.5	(301.6)	(400.5)	(9.1)	(196.0)	(91.2)
	Interest on Loans	35.9	83.7	103.1	110.0	120.0	130.0	140.0	150.0
	BNF ènterprises Sales Sect., Sula Milk Plant*	503.0	517.0	374.0	400.0	410.0	420.0	430.0	440.0
	Dev. Programs & Projects	20.6	(414.5)	(407.3)	(821.6)	(940.5)	(569.1)	(776.0)	(691.2)
	Other Income	2.0	3.5	4.7	10.0	10.0	10.0	10.0	10.0
	2.0 EXPENSES	568.2	552.7	549.4	814.8	791.5	796.8	807.2	820.9
	Managerial & Administrative	168.8	197.4	116.6	332.4	302.0	306.0	309.4	315.3
	Shared services	327.4	287.7	380.3	429.4	436.5	437.8	444.8	452.6
	Reserves	72.0	67.6	52.5	53.0	53.0	53.0	53.0	53.0
	3.0 NET LOSS	(6.7)	(363.0)	(474.9)	(1,116.4)	(1,192.0)	(805.9)	(1,003.2)	(912.1)
III	TOTAL BANK CONSOLIDATED PROFIT (LOSS)	(371.9)	(969.2)	(729.9)	(2,128.2)	(561.0)	626.4	568.5	338.9

*Projection based on retaining Sula Milk Plant operations within BNF. Sale of Plant, although eliminating a source of income from operations, would provide a flow of income from profit on sale of assets, depending on the conditions of the sale.

SOURCE: BNF Financial Statement, Nov. 31, 1967, and Projections 1968-1972.

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FACACH PROJECTED CASH FLOW-STATEMENT

(In Hundred of Dollars)

	1968	1969	1970	1971	1972	1973
I. CASH & BANKS	44,132	57,315	70,900	97,488	19,557	(70,467)
II. INCOME	231,933	663,686	962,478	1,231,529	1,453,229	2,010,373
1. GOH Loan (from 2-step)	82,000	223,790	101,535	--	--	--
2. AID Grant for Operations	122,000	51,500	31,500	15,000	--	--
3. Proposed AID Loan:	--	329,296	565,468	652,748	570,891	877,792
Production	--	139,375	243,906	299,656	257,844	397,219
Inventory	--	65,906	111,352	120,182	107,472	164,958
Installations, etc.	--	124,015	210,210	232,910	205,575	315,615
4. Recuperation of Loan	--	--	139,375	383,281	682,938	940,781
5. Interest Income	10,000	30,600	83,700	130,600	138,400	130,800
6. Members' Dues	10,000	14,900	22,900	28,400	35,000	35,000
7. Insurance Department Income	2,300	3,600	5,000	5,500	6,000	6,000
8. Supply Sales Income	1,500	2,000	3,000	4,000	5,000	5,000
9. Member Share Increase	3,167	8,000	10,000	12,000	15,000	15,000
10. Increase in Alliance Fund	966	--	--	--	--	--
III. EXPENSES	218,750	650,101	935,890	1,309,460	1,543,253	2,096,798
A. Administrative & Extension:	132,040	84,250	101,200	108,300	110,050	113,850
1. Salaries & Social Security	39,300	50,750	61,100	65,600	69,550	69,750
2. Rent	4,500	2,400	2,400	3,000	3,000	3,000
3. Per Diem & Transport	16,650	17,500	21,000	22,000	22,000	22,000
4. Educational Expenses	2,000	3,000	4,000	4,000	4,000	4,000
5. Vehicle Repairs	3,000	4,000	5,000	5,500	3,000	4,000

	1968	1969	1970	1971	1972	1973
6. Technical Session - Peace Corps & Cooperative Managers	1,500	2,000	2,500	2,500	2,500	2,500
7. Employees' Fringe Benefits	650	1,000	1,200	1,200	1,200	1,200
8. CUNA Dues	1,350	1,800	2,000	2,250	2,400	2,600
9. Training Program	60,000	--	--	--	--	--
10. Miscellaneous	3,090	1,800	2,000	2,250	2,400	4,800
B. Operations:	86,710	565,851	834,690	1,201,160	1,433,203	1,982,948
1. Interest on Loan	2,710	9,265	24,812	37,630	39,375	36,875
2. Loans to Credit Cooperatives	82,000	223,790	101,535	--	--	--
3. Loans to Agricultural Coops:	--	329,296	704,843	1,036,030	1,253,828	1,818,573
Production Credit	--	139,375	383,281	682,938	940,781	1,338,000
Grain Inventory	--	65,906	111,352	120,182	107,472	164,958
Installations		124,015	210,210	232,910	205,575	315,615
4. Loan Amortization	--	--	--	125,000	125,000	125,000
5. Office Equipment	2,000	1,000	1,000	--	--	--
6. Vehicles		2,500	2,500	2,500	15,000	2,500
IV. CASH & BANK - CARRYOVER	57,315	70,900	97,488	19,557	(70,467)	(156,892)

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FACACH - ACTUAL & PROJECTED BALANCE SHEET

Actual-1966-1967 - Projected-1968-1973

(In Hundred of Dollars)

	1966	1967	1968	1969	1970	1971	1972	1973
ASSETS:	16,065	186,182	407,548	970,469	1,659.060	2,227,878	2,715.244	3,500,611
Current Assets	11,824	162,571	271,104	838,025	1,531,616	2,106,434	2,587.300	3,378,667
Cash in Bank	1,929	44,132	57,315	70,900	97,488	19,557	(70,467)	(156,892)
Petty Cash	50	50	50	50	50	50	50	50
Loans Outstanding	8,125	88,434	170,434	723,520	1,390,523	2,043,272	2,614,162	3,491,954
Accounts Receivable	1,720	1,244	1,750	2,000	2,000	2,000	2,000	2,000
Marketable Securities & Investments		25,750	25,750	25,750	25,750	25,750	25,750	25,750
Inventory (Equipment & Accounting Supplies)		2,961	15,805	15,805	15,805	15,805	15,805	15,805
Fixed Assets	4,241	23,611	136,444	132,444	127,444	121,444	127,944	121,944
Furniture, Fixtures and Equipment	4,241	26,235	28,235	29,235	30,235	30,235	30,235	30,235
Less: Reserve for Depreciation		(2,624)	(5,447)	(8,371)	(11,395)	(14,419)	(17,443)	(20,467)
Vehicles			17,882	20,382	22,882	25,382	20,000	22,500
Less: Reserve for Depreciation			(4,226)	(8,802)	(14,278)	(19,754)	(4,848)	(10,324)
Land and Building			100,000	100,000	100,000	100,000	100,000	100,000
Liabilities and Net Worth	16,065	186,182	407,548	970,469	1,659.060	2,227,878	2,715,244	3,500,611
Current Liabilities	227	2,155	2,500	2,500	2,500	2,500	2,500	2,500
Withdrawal Savings		262	2,500	2,500	2,500	2,500	2,500	2,500
Accounts Payable		188						
Interest Payable		318						
Insurance and Bonidng Premiums Payable	227	98						
Dues Income Received in Advance		900						
Deferred Expenses		89						

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Fixed Liabilities		110,548	280,048	833,134	1,500.137	2,027.885	2,473,776	3,226,568
Long Term Notes Payable		110,548	280,048	833,134	1,500.137	2,027.885	2,473,776	3,226,568
Net Worth	15,838	73,479	125,000	134,835	156,423	197,473	238,968	271,5[illegible]
Members Shores - $25 par value	2,443	11,834	22,660	31,910	43,910	58,660	77,160	96,4[illegible]
Capital Loan Funds:								
Alliance For Progress - Community Loan Fund	5,765	24,034	25,000	25,000	25,000	25,000	25,000	25,000
Supplies and Equipment Fund	4,100	3,574						
General Loans Fund	2,500							
Donations ♦		31,208	74,090	74,090	74,090	74,090	74,090	74,090
Educational Reserve	816	2,192						
Legal Reserve	214	637	3,250	3,835	13,423	39,743	62,713	76,043

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FACACH - Statement of Income & Expenses

Actual: 1966-1967 - Projected: 1968-1973
(In Hundred of Dollars)

	1966	1967	1968	1969	1970	1971	1972	1973
Income	36,657	71,073	145,800	102,600	140,100	183,500	184,400	176,800
Member's	2,260	5,551	10,000	14,900	22,900	28,400	35,000	35,000
Supply Sales	632	1,240	1,500	2,000	3,000	4,000	5,000	5,000
Interest	78	1,268	10,000	30,600	83,700	130,600	138,400	130,800
A.I.D. Grant	33,560	62,991	122,000	51,500	31,500	5,500		
Insurance (Net Income)			2,300	3,600	5,000	15,000	6,000	6,000
Other Income	327	23						
Expenses	35,786	68,956	142,550	102,015	136,512	157,180	161,425	163,475
Salaries	16,117	34,449	38,000	49,000	59,100	63,500	67,300	67,500
Travel Expenses	8,506	13,579	16,650	17,500	21,000	22,000	22,000	22,000
Rent & Utilities	1,229	2,966	4,500	2,400	2,400	3,000	3,000	3,000
Postage & Telephone	1,243	1,345						
Vehicle Repairs	2,788	2,594	3,000	4,000	5,000	5,500	3,000	4,000
Equipment Repairs	45	134						
Rural Self-help Housing Assistance		400						
Educational Material	2,367	5,018	2,000	3,000	4,000	4,000	4,000	4,000
Social Security (Employer's Contribution)		813	1,300	1,750	2,000	2,100	2,250	2,250
Interest Loans		1,530	2,710	9,265	24,812	37,630	39,375	36,875
Depreciation		2,623	7,050	7,500	8,500	8,500	8,500	8,500
Technical Sessions Peace Corps and Cooperative Managers			1,500	2,000	2,500	2,500	2,500	2,500
Interest-Shores			750	1,756	2,000	2,750	3,500	4,250
Cuna Fees			1,350	1,800	2,000	2,250	2,400	2,600
Employee Fringe Benefits			650	1,000	1,200	1,200	1,200	1,200
Training Program Material			60,000					
Miscellaneos Expenses	3,499	3,505	3,090	1,044	2,000	2,250	2,400	4,800
Surplus	1,071	2,117	3,250	585	9,588	26,320	22,975	13,325

UNCLASSIFIED

ANNUAL INPUT - RETURN COMPARISON FOR AGRICULTURAL COOPERATIVE MEMBERS

(In Dollars)

	1969	1970	1971	1972	1973
A. INPUTS					
1. Direct Costs:					
Rent of Land	24,900	62,250	87,150	108,300	172,800
Labor & Land Preparation	131,245	334,537	490,105	621,637	172,800
Transportation	33,835	91,287	155,312	204,112	363,770
Off-the-Farm Inputs	139,375	383,362	683,137	921,247	1,338,000
Warehouse Installations (Administration, Operations & Maintenance)	5,695	16,212	27,247	38,324	54,450
Sub-Total	335,050	887,648	1,442,951	1,893,620	2,365,330
2. Indirect Costs:					
Cooperative Administration	700	1,740	2,100	2,393	3,000
Interest	20,075	64,361	121,596	186,906	268,378
Contingencies (10% of Direct Costs)	33,505	88,766	144,275	189,362	272,763
Sub-Total	54,280	154,876	267,971	378,661	544,641
TOTAL	389,330	1,042,524	1,710,922	2,272,281	3,409,971
B. TOTAL RETURNS	581,494	1,564,130	2,628,496	3,579,017	5,038,050
C. NET BENEFITS	192,164	521,606	917,574	1,306,736	1,628,0[illegible]

UNCLASSIFIED

ESTIMATED PRODUCTION VOLUME AND INCOME

STORED PRODUCTION IN CWT. / INCOME FROM SALE OF STORED PRODUCTION

YEAR	CORN	BEANS	RICE	SORGHUM	TOTAL	CORN	BEANS	RICE	SORGHUM	TOTAL
1969	22,230	1,238	900	435	24,803	77,429	10,053	9,378	1,209	98,069
1970	59,963	3,375	2,344	1,163	66,845	208,371	27,405	24,424	3,233	263,433
1971	102,375	5,513	3,544	1,995	113,427	355,753	44,766	36,928	5,546	442,993
1972	139,523	7,594	4,725	2,700	154,542	484,842	61,663	49,235	7,506	603,246
1973	196,560	10,800	6,525	3,780	217,665	683,046	87,696	67,991	10,508	849,241
Sale Price per Cwt. (In Dollars)						$3.475	$8.12	$10.42	$2.78	

NON-STORED PRODUCTION IN CWT. / INCOME FROM SALE OF NON-STORED PRODUCTION

YEAR	CORN	BEANS	RICE	SORGHUM	TOTAL	CORN	BEANS	RICE	SORGHUM	TOTAL
1969	125,970	7,012	5,100	2,465	140,547	377,910	49,925	49,674	5,916	483,425
1970	339,787	19,125	13,281	6,587	378,780	1,019,361	136,170	129,357	15,809	1,300,697
1971	580,125	31,237	20,081	11,305	642,748	1,740,375	222,407	195,589	27,132	2,185,503
1972	790,627	43,031	26,775	15,300	875,733	2,371,881	306,381	260,789	36,720	2,975,771
1973	1,113,840	61,200	36,975	21,420	1,233,435	3,341,520	435,744	360,137	51,408	4,188,809
Sale Price per Cwt. (In Dollars)						$3.00	$7.12	$9.74	$2.40	

COMBINED PRODUCTION IN CWT. / COMBINED INCOME FROM SALE OF PRODUCTION

YEAR	CORN	BEANS	RICE	SORGHUM	TOTAL	CORN	BEANS	RICE	SORGHUM	TOTAL
1969	148,200	8,250	6,000	2,900	165,350	455,339	59,978	59,052	7,125	581,494
1970	399,750	22,500	15,625	7,750	445,625	1,227,732	163,575	153,781	19,042	1,564,130
1971	682,500	36,750	23,625	13,300	756,175	2,096,128	267,173	232,517	32,678	2,628,496
1972	930,150	50,625	31,500	18,000	1,030,275	2,856,723	368,044	310,024	44,226	3,579,017
1973	1,310,400	72,000	43,500	25,200	1,451,100	4,024,566	523,440	428,128	61,916	5,038,050

SUMMARY OF PROPOSED TECHNICAL ASSISTANCE AND TRAINING

AID Grant Funds — **Est. Cost**

1. **General Livestock Advisor** — $ 60,000

   One full time advisor for two years to:
   (a) provide in-service training to about 60 BNF loan supervisors and 20-30 DESARRURAL agricultural extension agents on the development and use of farm plans and loan supervision;
   (b) assist BNF in the preparation of a loan procedure manual; and
   (c) advise the director of the Credit Department on farm lending.

2. **Agricultural Cooperative Credit Advisor** — $ 60,000

   One full time technician for two years to:
   (a) Advise FACACH and agricultural cooperatives on cooperative credit policy;
   (b) assist FACACH in the preparation of a cooperative credit procedural manual; and
   (c) provide in-service training to 8-12 FACACH credit supervisors and 10-15 cooperative managers on farm loan supervision.

3. **Short term Specialists** — $ 54,000

   Approximately 18 man-months of short term assistance in the following areas:

   (a) livestock geneticists for the BNF and DESARRURAL livestock center in Comayagua.
   (b) improved pasture and forage production specialist.
   (c) livestock disease control specialist.
   (d) grain storage specialists for agricultural cooperatives.
   (e) soil fertility specialist for fertilizer demonstrations.
   (f) farm management specialist.
   (g) small agro-industries advisor

4. Participant Training — $ 110,000

A total of 10 Honduran technicians from BNF and DESARRURAL will be sent abroad for academic training leading to agricultural degrees. In addition, approximately 10 technicians from the same institutions will be sent to various AID-sponsored short courses in agricultural credit, farm management and agricultural extension.

5. Contract with ICDA — $ 502,000

ICDA will work exclusively with the agricultural cooperatives providing assistance in organization and administration, improved farm practices, and project planning and supervision. The goal of this activity is to develop a viable federation of agricultural cooperatives, which would be affiliated with FACACH. In addition to training activities and general costs of operations, the contract will fund one full-time U.S. agricultural cooperative advisor, at least two U.S. short-term agricultural specialists, and about 10 fulltime Honduran field supervisors.

AID Loan — $ 100,000

The AID loan will fund the costs of two fulltime specialists in grain storage for a 18-24 month period. One specialist will assist the BNF in grain storage operations, including maintenance personnel training and administrative procedures. The other will assist the BNF in establishing and carrying out a sound marketing system, including the development of criteria for establishing the purchase and sales prices for the basic grains.

IDB Loan — $ 72,000

The IDB loan provides up to $96,000 for technical assistance to the BNF in (a) development bank management; (b) agricultural credit operations; and (c) financial management and accounting systems development. The latter position has been filled for some time, but the BNF still must make arrangements with the IDB for the other advisors.

TOTAL $ 958,000

MINUTES
L.A. CAPITAL ASSISTANCE EXECUTIVE COMMITTEE MEETING
March 20, 1967

HONDURAS - Banco Nacional de Fomento - IRR (LA-CAEC/P-67/60)
(with Memo to CAEC - LA/CD Staff Comments)

The CAEC gave conditional approval to an intensive review of the subject loan proposal, with the understanding that additional information will be forthcoming before a Capital Assistance Paper is prepared. It should be noted that the Committee expressed feelings of uncertainty with regard to the loan proposal, due largely to the past performance of the Banco Nacional de Fomento (BNF), and specified that approval of the intensive review process is not to be considered as a commitment by AID/W to make any subsequent loan.

The following specific issues were raised and should be discussed during the review:

1. Since the primary purpose of the loan is institutional in nature, i.e. improving the banks management and operations, the USAID should develop a specific list of reforms to be accomplished as quia pro quibis for the loan. The CAEC understands that among others the goals include development of a financial plan for investment of total bank assets (to wit, a revision of portfolio content), the abandonment of certain functions by the BNF, organizational changes affecting management and operations, and increased GOH budgetary contribution. In developing the specific reform recommendations it is expected that A.I.D. and IDB activities would be closely coordinated.

2. The Mission should determine immediately what short-term technical assistance is needed to help delineate specific reforms, so that the desired personnel (in particular, agricultural credit specialists) can be programmed.

3. In addition, the Mission should program such continuing technical assistance as is necessary to upgrade the operations of the BNF in order that it will be capable of properly implementing the loan if ultimately approved.

4. The concessionary lending terms requested in the IRR were determined to be reasonable in light of the institutional changes to be accomplished.

AGRICULTURAL CREDIT AND STORAGE

CERTIFICATION PURSUANT TO SECTION 611 (e) OF THE

FOREIGN ASSISTANCE ACT OF 1961, AS AMENDED

I, Robert J. Minges, the principal officer of the Agency for International Development in Honduras, having taken into account among other things, the maintenance and utilization of projects in Honduras previously financed or assisted by the United States, do hereby certify that in my judgement the Government of Honduras has both the financial capability and the human resources capability to effectively maintain and utilize the capital assistance project of the Agricultural Credit and Storage Loan.

This judgement is based upon the facts that:

1. The primary loan executing entity, the Banco Nacional de Fomento, has:
(a) demonstrated its ability to carry out agricultural and industrial credit programs using its own financial resources and resources provided by an international lending agency;
(b) taken and is continuing to take administrative improvement actions, including firm steps to collect its delinquent sub-loans;
(c) obtained pertinent and useful experience in implementing a price stabilization program, including the operation and maintenance of grain storage facilities; and
(d) made arrangements or will make arrangements for technical assistance designed to improve the efficiency and effectiveness of its operations.

2. The secondary loan executing entity is the private cooperative federation, FACACH. Other than for the funds to be made available under this loan, the financial and human resource capacity required from the Government of Honduras to effectively maintain and utilize this portion of the project are minimal and well within the Government's demonstrated capacity. The demands upon FACACH and the cooperative system for providing the required financial and human resources to effectively maintain and utilize their portion of the project have been considered and the proposed arrangements for meeting these demands are reasonable and satisfactory.

RJ Minges

Robert J. Minges MAY 31 1968

A.I.D. 1240-2 (11-67)

CHECKLIST OF STATUTORY CRITERIA

(Alliance for Progress)

In the right-hand margin, summarize for each item the information or conclusion requested. As necessary, reference the section(s) of the Capital Assistance Paper, or other clearly identified and available document, in which the matter is further discussed. This form may be made a part of the Capital Assistance Paper.

The following abbreviations are used:

FAA - Foreign Assistance Act of 1961, as amended by the Foreign Assistance Act of 1967.

App.- Foreign Assistance and Related Agencies Appropriations Act, *1968*.

COUNTRY PERFORMANCE

Progress Towards Country Goals

1. *FAA §.208; §.251(b)(1); §.251(b)(5); §.251(b)(6). Extent to which country is:*

   a. Making appropriate efforts to increase food production and improve means for food storage and distribution.

   b. Creating a favorable climate for foreign and domestic private enterprise and investment.

   c. Increasing the public's role in the developmental process.

1.
   a. The purpose of this loan is to assist the country to carry out a program for increasing food production and improving storage and distribution of basic food grains.

   b. The GOH is creating a favorable climate for foreign and domestic private enterprise and investment through its stable monetary and fiscal policies, lack of foreign exchange restrictions, and participation in the A.I.D. investment guaranty program.

   c. The GOH's active encouragement of cooperative organizations, as demonstrated in this loan, is indication of its interest in increasing the public's role in the development process.

d. Allocating expenditures to development rather than to unnecessary military purposes or intervention in other free countries' affairs.

d. The GOH does not appear to be making unnecessary military expenditures to the detriment of its development program or to be intervening in other free countries' affairs.

e. Willing to contribute funds to the project or program.

e. The GOH is willing to make a reasonable contribution to the program.

f. Making economic, social, and political reforms such as tax collection improvements and changes in land tenure arrangement, and making progress toward respect for the rule of law, freedom of expression and of the press, and recognizing the importance of individual freedom, initiative, and private enterprise.

f. The GOH is making economic, social and political reforms; there exists freedom of expression and of the press; plans to improve tax collection and land tenure patterns are being initiated.

g. Adhering to the principles of the Act of Bogota and Charter of Punta del Este.

g. The GOH is satisfactorily adhering to such principles.

h. Responding to the vital economic, political, and social concerns of its people, and demonstrating a clear determination to take effective self-help measures.

h. The GOH's interest in this project demonstrates its responsiveness to such matters. Part Two Section III-B indicates the GOH's determination to take self help measures.

2. *<u>FAA §.251(b)</u>. Information and conclusion on country's efforts to repatriate capital invested in other countries by its own citizens.*

2. The GOH has consistently followed policies that encourage the repatriation of capital invested in other countries by its own citizens.

Relations With U. S. and Other Nations

3. *FAA §.620(c). If assistance to a government, existence of indebtedness to a U. S. citizen for goods or services furnished or ordered where such citizen has exhausted available legal remedies, debt is not denied or contested by such government or indebtedness arises under an unconditional government guaranty.*

3. **There is no evidence of such GOH indebtedness.**

4. *FAA §.620(d). If assistance for any productive enterprise which will compete in the U. S. with U. S. enterprise, existence of agreement by the recipient country to prevent export to the U. S. of more than 20% of the enterprise's annual production during the life of the loan.*

4. **This loan does not fund assistance to a productive enterprise.**

5. *FAA §.620(e)(1). If assistance to a government, extent to which it (including government agencies or subdivisions) has taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U. S. citizens or entities beneficially owned by them without taking steps to discharge its obligations.*

5. **There is no evidence of such action.**

6. *FAA §.620(j). Information whether the country permits, or fails to take adequate measures to prevent, the damage or destruction, by mob action, of U. S. property.*

6. **Honduras has not permitted and takes adequate measures to prevent damage or destruction of U.S. property by mob action.**

7. *FAA §.620(l). Consideration which has been given to denying assistance to a government which after December 31, 1966, has failed to institute the investment guaranty program for the specific risks of inconvertibility and expropriation or confiscation.*	7. **Honduras has signed and instituted such an agreement.**
8. *FAA §.620(o). If country has seized, or imposed any penalty or sanction against, any U. S. fishing vessel on account of its fishing activities in international waters, consideration which has been given to denying assistance.*	8. **Honduras has not recently seized or imposed sanction on any U.S. fishing vessel on account of its activities in international waters.**
9. *FAA §.620(q). Existence of default under any FAA loan to the country.*	9. **Honduras is not in default under any FAA loan to the country.**
10. *FAA §.620(t). Prohibition on aid if country has severed diplomatic relations with U. S., unless agreements have been negotiated after resumption of relations.*	10. **Honduras has consistently maintained diplomatic relations with the U.S.**
11. *FAA §.620(u). Status of the country on delinquent U. N. obligations.*	11. **It does not appear that Honduras is delinquent on its U.N. obligations.**
12. *FAA §.209. Information about multilateral assistance being furnished to the country.*	12. **To the extent possible, AID is coordinating its assistance with the multilateral assistance being furnished to the country.**

13. *FAA §.620(a); App. § 107(a) and (b). Compliance with prohibitions against assistance to Cuba and any country (a) which furnishes assistance to Cuba or failed to take appropriate steps to prevent ships or aircraft under its registry from carrying equipment, materials, or supplies from or to Cuba; or (b) which sells, furnishes, or permits any ships under its registry to carry items of primary strategic significance, or items of economic assistance, to Cuba.*

13. **Honduras has complied with the prohibitions.**

14. *FAA §.620(b). If assistance to a government, existence of determination it is not controlled by the international Communist movement.*

14. The Secretary of State has determined that Honduras is not so controlled.

15. *FAA §.620(i). Information on representation of the country at any international conference when that representation includes the planning of activities involving insurrection or subversion against the U. S. or countries receiving U. S. assistance.*

15. AID has no information that Honduras has been represented at any such conference.

16. *FAA §.620(n); App. 107(b) and 116. Compliance with prohibition against assistance to countries which traffic or permit trafficking with North Viet-Nam.*

16. Honduras does not traffic or knowingly permit traffic with North Viet-Nam.

Military Expenditures

17. *FAA §.620(i). Existence of determination that the country is engaging in or preparing for agressive military efforts.*

17. **No such determination exists.**

18. *FAA §.620(s). Information and conclusion whether country is devoting unnecessary percentage of budget for military purposes and using foreign exchange for military equipment.*

18. Honduras does not appear to be devoting unnecessary percentage of its budget for military purposes or using foreign exchange for military equipment.

19. *App. §.119. Information on reduction in assistance by amounts spent by country for the purchase of sophisticated military equipment.*

19. Honduras has not purchased any such equipment.

CONDITIONS OF THE LOAN

General Soundness

20. *FAA §.201(d). Information and conclusion on legality (under laws of country and U. S.) and reasonableness of lending and relending terms of the loan.*

20. The terms of the proposed loan are legal under both the laws of the U.S. and Honduras; the lending and relending terms are reasonable for Honduras at this time.

21. *FAA §.251(b)(2); §.251(e). Information and conclusion on activity's economic and technical soundness, including information on availability of an application together with assurances to indicate that funds will be used in an economically and technically sound manner.*

21. Activity is economically and technically sound; an application has been submitted and the Mission is satisfied that the funds will be used in an enormously and technically sound manner.

22. *FAA §.251(b). Information and conclusion on capacity of the country to repay the loan, including reasonableness of repayment prospects.*

22. It appears reasonably certain that the Country's dollar reserves will continue to be maintained at sufficient level to enable the country to meet the reasonable repayment requirements of the loan.

23. *FAA §.611(a)(1). Information and conclusion on availability of engineering, financial, and other plans necessary to carry out the assistance and of a reasonably firm estimate of the cost to the U. S. of the assistance.*

23. A reasonably firm estimate of the cost to the U.S. of the proposed assistance has been made. Part Three of the Paper contains the required information and conclusions.

24. *FAA §.611(a)(2). If legislative action is required within recipient country, basis for reasonable anticipation such action will be completed in time to permit orderly accomplishment of purposes of loan.*

24. No such legislation is required.

25. *FAA §.611(e). Compliance with requirement that Mission Director certify, with respect to projects estimated to cost over $1 million, as to the country's capability effectively to maintain and utilize the project.*

25. This required certification is contained in Annex V.

26. *FAA §.251(b). Information and conclusion on availability of financing from other free-world sources, including private sources within the United States.*

26. As discussed in Part Two Section II-C,5 and elsewhere in the paper there are no other sources of financing for this project.

Loan's Relationship to Achievement of Country and Regional Goals

27. *FAA §.207; §.251(a). Extent to which assistance reflects appropriate emphasis on:*

a. Encouraging development of democratic economic, political, and social institutions.

27.

a. The project's emphasis on this matter is discussed in Part Two, Section 1-C,2.

b. Self-help in meeting the country's food needs.

b. One of the primary purposes of the project is to assist the GOH to carry out its program to meet its food needs.

c. Improving availability of trained manpower in the country.

c. Through the proposed technical assistance and training programs under the project, to a limited extent, the availability of trained manpower will be improved.

d. Programs designed to meet the country's health needs.

d. By increased agricultural production for domestic consumption, this project will result in more and better quality food for the population, thereby improving the general level of health.

e. Other important areas of economic, political, and social development, including industry; free labor unions, cooperatives, and voluntary agencies; transportation and communication; planning and public administration; urban development; and modernization of existing laws.

e. This project has a significant impact on the cooperative movement in Honduras.

28. *FAA §.251(b)(3). Information and conclusion on activity's relationship to and consistency with other development activities, and its contribution to realizable long-range objectives.*

28. The project is an integral and important part of overall development activities in Honduras and is basic to meeting long range agricultural objectives.

29. *FAA §.251(b)(7). Information and conclusion on whether or not the activity to be financed will contribute to the achievement of self-sustaining growth.*

29. Through increasing the agricultural production of the country, improving capacity of the autonomous Natural Development Bank and encouraging a viable cooperative movement, the project will contribute to the achievement of self-sustaining growth.

30. *FAA §.281(a). Extent to which the loan will contribute to the objective of assuring maximum participation in the task of economic development on the part of the people of the country, through the encouragement of democratic private and local governmental institutions.*

30. **The loan's contribution to this matter is discussed in Part Two, Section III, C.2.**

31. *FAA §.281(b). Extent to which program recognizes the particular needs, desires, and capacities of the people of the country; utilizes the country's intellectual resources to encourage institutional development; and supports civic education and training in governmental skills.*

31. **The program is designed to meet the particular needs, desires and capacities of the people of the country, and to encourage institutional development.**

32. *FAA §.601(a). Information and conclusions whether loan will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.*

32. **The loan will directly encourage the efforts of the country to develop and use cooperatives, and to improve the technical efficiency of agriculture.**

33. *FAA §.619. Compliance with requirement that assistance to newly independent countries be furnished through multilateral organizations or plans to maximum extent appropriate.*

33. **Honduras is not a newly independent country.**

34. *FAA §.251(h): Information and conclusion on whether the activity is consistent with the findings and recommendations of the Inter-American Committee for the Alliance for Progress in its review of national development activities.*	34. The project is consistent with the CIAP recommendations; See Section III-C, of Part Two.
35. *FAA §.251(g). Information and conclusion on use of loan to assist in promoting the cooperative movement in Latin America.*	35. This loan has a direc. favorable impact on the promotion of the cooperative movement in Latin America.
36. *FAA §.209; §.251(b)(8). Information and conclusion whether assistance will encourage regional development programs, and contribute to the economic and political integration of Latin America.*	36. The loan will assist the development of a regional grain storage program, ther contributing to the economi and political integration of Central America.

Loan's Effect on U. S. and A.I.D. Program

37. *FAA §.251(b)(4); §.102. Information and conclusion on possible effects on U. S. economy, with special reference to areas of substantial labor surplus, and extent to which U. S. commodities and assistance are furnished in a manner consistent with improving the U. S. balance of payments position.*	37. This project has no significant direct effects on the U.S. Economy. Assistance will be furnished in a manner consistent as possible with improving t U.S. balance of payments.
38. *FAA §.601(b). Information and conclusion on how the loan will encourage U. S. private trade and investment abroad and how it will encourage private U. S. participation in foreign assistance programs (including use of private trade channels and the services of U. S. private enterprise).*	38. The loan will finance the procurement of some goods and services from U.S. private sources, thereby encouraging private U.S. participating.

39. *FAA §.601(d). If a capital project, compliance with the Congressional policy that engineering and professional services of U. S. firms and their affiliates are to be used in connection with capital projects to the maximum extent consistent with the national interest.*	39. This will be complied with.
40. *FAA §.602. Information and conclusion whether loan will permit U. S. small business to participate equitably in the furnishing of goods and services financed by it.*	40. To the extent possible, small business notification in accordance with AID procedure will be complied with.
41. *FAA §.620(h). Compliance with regulations and procedures adopted to ensure against use of assistance in a manner which, contrary to the best interests of the U. S., promotes or assists the foreign aid projects or activities of the Communist-Bloc countries.*	41. No assistance under the loan will promote any project or activity of a communist-bloc country.
42. *FAA §.621. Information and conclusion on how the loan in providing technical assistance will utilize to the fullest extent practicable goods and professional and other services from private enterprise on a contract basis. If the facilities of other Federal agencies will be utilized, information and conclusion on whether they are particularly suitable, are not competitive with private enterprise, and can be made available without undue interference with domestic programs.*	42. Technical assistance provided under the loan to the fullest extent practicable will utilize goods and professional and other services from private enterprise on a contract basis. It is not anticipated that loan funds will finance the use of other Federal Agencies.

43. *FAA §.252(a). Total amount of money under loan which is going directly to private enterprise, is going to intermediate credit institutions or other borrowers for use by private enterprise, is being used to finance imports from private sources, or is otherwise being used to finance procurements from private sources.*

43. **The entire loan will be so used.**

Loan's Compliance with Specific Requirements

44. *FAA §.608(a). Information on measures to be taken to utilize U. S. Government excess personal property in lieu of the procurement of new items.*

44. **The Loan Agreement will contain such a standard clause.**

45. *FAA §.604(a); App. §.108. Compliance with restriction of commodity procurement to U. S. except as otherwise determined by the President and subject to statutory reporting requirements.*

45. **Commodities may be procured in the U.S. or from any member country of the Central American Common Market; statutory reporting requirements will be met.**

46. *FAA §.604(b). Compliance with bulk commodity procurement restriction to prices no higher than the market price prevailing in the U. S. at time of purchase.*

46. **This will be complied with.**

47. *FAA §.604(d). Compliance with requirement that marine insurance be placed in the U. S. on commodities financed by the loan if the host country discriminates against U. S. companies.*

47. **Honduras does not descriminate against U.S. companies.**

48. *FAA §.604(e). Compliance with requirement that funds not be used for procurement of any agricultural commodity or product thereof outside the U. S. when the domestic price of such commodity is less than parity.*	48. **No such procurement is contemplated under the loan.**
49. *FAA §.611(b); App. §.101. If water or water-related land resource construction project or program, information and conclusion on benefit-cost computation.*	49. **Not applicable.**
50. *FAA §.611(c). Compliance with requirement that contracts for construction be let on competitive basis to maximum extent practicable.*	50. To the maximum extent practicable, contracts for construction services will be let on a competitive basis.
51. *FAA §.620(f); App. §.109. Compliance with prohibitions against assistance to any Communist country.*	51. Honduras is not a Communist country.
52. *FAA §.620(g). Compliance with prohibition against use of assistance to compensate owners for expropriated or nationalized property.*	52. The Loan Agreement will preclude the use of such funds.

53. *FAA §.612(b); §.636(h). Steps that have been taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and that foreign currencies owned by the U. S. are utilized to meet the cost of contractual and other services.*

53. There are no foreign currencies owned by the U.S. available. Honduras is making a reasonable amount of local currencies to the Project.

54. *App. §.102. Compliance with requirement that payments in excess of $25,000 for architectural and engineering services on any one project be reported to the Congress.*

54. This will be complied with.

55. *App. §.104. Compliance with bar against funds to pay pensions, etc., for military personnel.*

55. The Loan Agreement will preclude such use of loan funds.

56. *App. §.106. If country attempts to create distinctions because of their race or religion amoung Americans in granting personal or commercial access or other rights otherwise available to U. S. citizens generally, application which will be made in negotiations of contrary principles as expressed by the Congress.*

56. Honduras does not attempt to create such distinctions between American citizens.

57. *App. §.111. Compliance with requirements for security clearance of personnel.*

57. This will be complied with.

58. *App. §.112. Compliance with requirement for approval of contractors and contract terms for capital projects.*

58. All contractors and the terms of all the contracts will be approved by AID.

59. *<u>App. §.114</u>. Compliance with bar against use of funds to pay U.N. assessments, etc.*	59. The Loan Agreement will preclude such use of loan funds.
60. *<u>App. §.115</u>. Compliance with regulations on employment of U. S. and local personnel for funds obligated after April 30, 1964 (Regulation 7).*	60. This will be complied with.
61. *<u>FAA §.636(i)</u>. Prohibition on financing non-U. S.-manufactured motor vehicles.*	61. No non-US vehicles will be procured.
62. *<u>App. §.401</u>. Compliance with bar against use of funds for publicity or propaganda purposes within U. S. not authorized by the Congress.*	62. No loan funds will be so used.
63. *<u>FAA §.620(k)</u>. If construction of productive enterprise where aggregate value of assistance to be furnished by U. S. will exceed $100 million, identification of statutory authority.*	63. The project is not over $100 million.

LOAN AUTHORIZATION

Provided from: Alliance for Progress Loan Funds (DRAFT)

HONDURAS: AGRICULTURAL CREDIT AND STORAGE

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said Act, to the Government of the Republic of Honduras ("Borrower") of not to exceed nine million five hundred thousand United States dollars ($9,500,000) to assist in financing the United States dollar and local currency costs of construction, equipment, materials, agro-chemicals, and services for the following purposes, all in furtherance of a program of improved agricultural credit and storage in Honduras: (a) up to five million United States dollars ($5,000,000) for production credit for food and food grains, livestock and agro-industry; (b) up to three million U.S. dollars ($3,000,000) for construction of two central grain storage facilities and for related technical assistance; and (c) up to one million five hundred thousand United States dollars ($1,500,000) for construction of agricultural cooperative storage facilities, agricultural cooperative production credit, and related technical assistance. The loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment

   The Borrower shall repay the loan to the Agency for International Development ("A.I.D.") in United States dollars within forty (40) years from the first disbursement under the loan, including a grace period of not to exceed ten (10) years. The Borrower shall pay interest to A.I.D. in United States dollars on the disbursed balance of the loan of two (2) percent per annum during the grace period and two and one-half ($2\frac{1}{2}$) percent per annum thereafter.

2. Other Terms and Conditions

   (a) Prior to the execution of the Loan Agreement, the National Development Bank ("BNF") shall submit evidence in form and substance satisfactory to A.I.D. of arrangements for the sale of the "Sula" Milk Plant.

(b) Prior to the first disbursement under the loan for the construction of BNF grain storage facilities, the BNF shall submit in form and substance satisfactory to A.I.D. a plan setting forth arrangements to be made by BNF to ensure the effectiveness of the minimum guaranteed price for corn.

(c) Prior to the first disbursement under the loan in support of the BNF credit project, BNF shall submit in form and substance satisfactory to A.I.D.:

(i) A detailed plan for increased technical assistance to producers of corn, rice, beans and sorghum.

(ii) A detailed plan for the reduction by December 31, 1969 of BNF loan delinquencies to a level of no more than ten (10) percent of BNF's total loan portfolio.

(iii) A list of agro-industries proposed as eligible for financing with A.I.D. loan funds.

(d) Prior to the first disbursement under the loan in support of the Cooperative Project the Federation of Associated Savings and Credit Cooperatives ("FACACH") shall submit in form and substance satisfactory to A.I.D.:

(i) Final designs and specifications for the construction of two central warehouses and the standard Stage I and Stage II grain storage facilities.

(ii) A schedule for the construction for all physical facilities in support of the Cooperative Project.

(e) Borrower shall covenant that, unless A.I.D. shall otherwise agree in writing:

(i) The total amount of credit ext nded by BNF for the production of coffee, cotton and tobacco in each of the years 1969, 1970, and 1971 shall not exceed the 1967 level of such credits for each crop.

(ii) BNF shall by December 31, 1969 reduce the level of loan delinquencies to a level of no more than ten (10) percent of BNF's total loan portfolio.

(iii) The proportionate share of Borrower's agricultural budget (excluding foreign loans) of the total 1969 budget shall be increased by at least ten (10) percent over the proportionate share of such agricultural budget of the total 1967 budget, and the proportionate share of such agricultural budgets for 1970 and 1971 will similarly be increased by at least ten (10) percent over the proportionate share in each preceding year.

(f) Equipment, materials and services (except shipping and marine insurance) financed under the loan shall be procured from the United States or Member Countries of the Central American Common Market. Shipping financed under the loan shall be procured from the United States, and marine insurance financed under the loan shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.

(g) United States dollars utilized under the loan to finance local currency shall be made available to Borrower or its designees through Special Letter of Credit procedures and shall be used only for procurement in the United States.

(h) The Loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

____
Deputy U.S. Coordinator

____
Date

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

UNITED STATES COORDINATOR
ALLIANCE FOR PROGRESS

A.I.D. Loan No. 522-L-018
(Ref: AID-DLC/P-744)

LOAN AUTHORIZATION (Amendment No. 4)

Provided from: Alliance for Progress Loan Funds
HONDURAS: Agricultural Credit and Storage

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby amend the Loan Authorization for A.I.D. Loan No. 522-L-018, dated June 28, 1968, as previously amended on January 31, 1969, March 17, 1970 and May 11, 1970.

1. Section 2(f) is amended to read as follows:

"Except for marine insurance and ocean shipping, goods and services financed under the loan shall have their scurce and origin in the United States or any independent country of the Western Hemisphere south of the United States except Cuba. Marine insurance financed under the loan shall have its source and origin in the United States or any independent country of the Western Hemisphere south of the United States except Cuba, provided, however, that such insurance may be financed under the loan only if it is obtained on a competitive basis and any laims thereunder are payable in convertible currencies. Ocean shipping financed under the loan shall be procured from the United States or any independent country of the Western Hemisphere south of the United States except Cuba and member country of the Central American Common Market.

2. Section 2(g) is amended to read as follows:

"United States dollars utilized under the loan to finance local currency costs shall be made available pursuant to procedures satisfactory to A.I.D."

Except as indicated above the Loan Authorization as previously amended is continued in full force and effect.

Acting Deputy U.S. Coordinator
Alliance for Progress

5/21/70
Date

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

UNITED STATES COORDINATOR

ALLIANCE FOR PROGRESS

A.I.D. Loan No. 522-L-018
(Ref: AID-DLC/P-744)

LOAN AUTHORIZATION (AMENDMENT NO. 3)
Provided From: Alliance for Progress Loan Funds
Honduras: Agricultural Credit and Storage

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegation of authority issued thereunder, I hereby authorize the amendment of the Loan Authorization for A.I.D. Loan No. 522-L-018, dated June 28, 1968 and previously amended on January 31, 1969 and March 17, 1970, to the Government of the Republic of Honduras.

The introductory paragraph subdivision (b) shall be amended to read as follows:

> "(b) ... up to one million five hundred thousand United States dollars ($1,500,000.00) for construction of agricultural cooperative storage facilities, for agricultural cooperative grain inventory financing, agricultural cooperative production credit and for related technical assistance."

Except as amended herein, the provisions of said Loan Authorization remain unchanged and in full effect and force.

Acting Deputy U.S. Coordinator
Alliance for Progress

5/11/70

ACTION MEMORANDUM FOR THE DEPUTY U.S. COORDINATOR

FROM: LA/DR - Frank Kimball

SUBJECT: Honduras - Proposed Amendment to A.I.D. Agricultural Credit and Storage Loan, 522-L-018

Problem: The authorization of the subject loan in the amount of $9.5 million provides for (a) $8.0 million to the Banco Nacional de Fomento (BNF) for credit ($5.0 million) and grain storage construction and equipment ($3.0 million) and (b) $1.5 million to FACACH (a cooperative federation) for cooperative storage facilities, grain inventory financing and production credit, and for related technical assistance. USAID/Honduras has recommended that the Authorization be amended and that USAID/Honduras be delegated the authority to amend the loan agreement to allow up to $1.4 million to be transferred from the credit portion to the grain storage portion of the BNF activity.

Discussion:

1. The need to transfer funds within this activity arises from an increase approaching $1.4 million over original estimates of the cost of the grain storage portion of this activity. Preliminary cost data were prepared in May 1968 by an engineering consultant firm which estimated a cost of $3.0 million for the grain storage portion (including construction of two major silos and silo equipment). A delay of more than a year was occasioned, in part, by A.I.D.'s strategy to withhold the signing of the loan agreement pending Honduras' ratification of the San Jose Protocol. Conflict-related developments delayed the bidding process still further. During the interim, prices of imported reinforcing steel and grain handling equipment increased substantially, and the cost of local skilled and semi-skilled labor increased with the exodus of Salvadorans following the El Salvador/Honduras conflict. The conflict might also have discouraged competition and caused firms which did decide to bid to increase built-in contingency amounts.

2. Subtracting $1.4 million will not seriously affect the credit portion of the BNF activity for two reasons. First, the IDB has recently authorized a transfer of $700,000 to agricultural credit uses from the unexpended balance of an industrial credit loan to the BNF. USAID/Honduras estimated that the use of this additional amount together with remaining A.I.D. funds will provide availabilities adequate for the BNF to pursue the credit program as planned for two years. Secondly, the GOH has agreed to provide the BNF in 1972 with additional credit funds at least equal to the amount to be transferred.

3. The net effect of the proposed amendment concerning this activity, therefore, would be that the GOH would ultimately make up

for the shortfall resulting from increased costs of the grain storage component. As concerns the credit portion, greater amounts of credit than originally planned will be available for the BNF credit program, given the described $700,000 transfer of IDB funds and the GOH's provision of additional credits to the BNF in at least the amount to be transferred.

Recommendation: That you approve changes in the authorization of the subject loan to permit the transfer of up to $1.4 million from the credit portion to the grain storage portion of the BNF activity.

A proposed authorization amendment is attached.

APPROVED: [signature]

DISAPPROVED: ______

DATE: 3/17/77

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

UNITED STATES COORDINATOR
ALLIANCE FOR PROGRESS

A.I.D. Loan No. 522-L-018
(Ref.: AID-DLC/P-744)

LOAN AUTHORIZATION (AMENDMENT NO. 2)
Provided from: Alliance for Progress Loan Funds
Honduras: Agricultural Credit and Storage

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the amendment of the Loan Authorization for A.I.D. Loan No. 522-L-018, dated June 28, 1968 and previously amended on January 31, 1969, to the Government of the Republic of Honduras.

The introductory paragraph beginning with subdivision (a) shall be amended to read, as follows:

> "(a). . . up to eight million United States dollars ($8,000,000.00) for credit to producers of food and feed grains and livestock; for credit and investment in agro-industries; and for the construction of, and equipment and material for, two central grain storage facilities and for related technical assistance; and (b) up to one million five hundred thousand United States dollars ($1,500,000.00) for construction of agricultural cooperative grain inventory financing, agricultural cooperative production credit, and for related technical assistance. The loan shall be subject to the following terms and conditions:"

Except as amended herein, the provisions of said Loan Authorization remain unchanged and in full effect and force.

Deputy U.S. Coordinator
Alliance for Progress

17 MAR 1970

Date

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

UNITED STATES COORDINATOR
ALLIANCE FOR PROGRESS

A.I.D. Loan No. 522-L-018
(Ref.: AID-DLC/P-744)

LOAN AUTHORIZATION (AMENDED)

Provided from: Alliance for Progress Loan Funds
HONDURAS: Agricultural Credit and Storage

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said Act, to the Government of the Republic of Honduras ("Borrower") of not to exceed nine million five hundred thousand United States dollars ($9,500,000) to assist in financing the United States dollar and local currency costs of storage facility construction, improved farm production, and for related technical assistance. The loan shall be in furtherance of the Borrower's program of improved agricultural credit and storage, and shall support the Borrower's Cooperative, Credit and Storage Projects, as follows: (a) up to five million United States dollars ($5,000,000) for credit for food and feed grains, livestock and agro-industry; (b) up to three million United States dollars ($3,000,000) for construction of and equipment and materials for two central grain storage facilities, and for related technical assistance; and (c) up to one million five hundred thousand United States dollars ($1,500,000) for construction of agricultural cooperative storage facilities, for agricultural cooperative grain inventory financing, agricultural cooperative production credit, and for related technical assistance. The loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment. The Borrower shall repay the loan to the Agency for International Development ("A.I.D.") in United States dollars within forty (40) years from the first disbursement under the loan, including a grace period of not to exceed (10) years. The Borrower shall pay interest to A.I.D. in United States dollars on the disbursed balance of the loan of two (2) percent per annum during the grace period and two and one-half (2 1/2) percent per annum thereafter.

2. Other Terms and Conditions:

(a) Prior to the execution of the Loan Agreement, the National

Development Bank ("BNF") shall submit evidence in form and substance satisfactory to A.I.D. of plan for the sale of the "Sula" Milk Plant.

(b) Prior to the first disbursement under the loan in support of the Storage Project for the construction of BNF grain storage facilities, the BNF shall submit in form and substance satisfactory to A.I.D. a plan setting forth arrangements to be made by BNF to ensure the effectiveness of the minimum guaranteed price for corn.

(c) Prior to the first disbursement under the loan in support of the BNF Credit Project, BNF shall submit in form and substance satisfactory to A.I.D.:

(i) A detailed plan for increased technical assistance to producers of corn, rice, beans and sorghum.

(i) A detailed plan for the reduction by December 31, 1969, of BNF loan delinquencies to a level of no more than ten (10) percent of BNF's total loan portfolio.

(iii) A list of agro-industries proposed as eligible for financing with A.I.D. loan funds.

(d) Prior to the first disbursement under the loan in support of the Cooperative Project, the Federation of Associated Savings and Credit Cooperatives ("FACACH") shall submit in form and substance satisfactory to A.I.D.:

(i) Final designs and specifications for the construction of two central warehouses and the standard Stage I and Stage II grain storage facilities.

(ii) A schedule for the construction for all physical facilities in support of the Cooperative Project.

(e) Borrower shall covenant that, unless A.I.D. shall otherwise agree in writing:

(i) The total amount of credit extended by BNF for the production of coffee, cotton and tobacco in each of the years 1969, 1970, and 1971 shall not exceed the 1967 level of such credits for each crop.

(ii) BNF shall by December 31, 1969, reduce the level of loan delinquencies to a level of no more than ten (10) percent of BNF's total loan portfolio.

(iii) Borrower will seek to obtain a budget for the Ministry of Natural Resources for 1970 and 1971 which(excluding foreign loans), shall be equal in real terms to the amount allocated to the Ministry of Natural Resources in Borrower's 1969 Budget. Moreover, notwithstanding the foregoing, Borrower will attempt to allocate at least the same relative share of its total budget to the budget for the Ministry of Natural Resources in 1970 and 1971 as it allocated to the Ministry of Natural Resources in 1967.

(f) Equipment, materials and services (except shipping and marine insurance) financed under the loan shall be procured from the United States or Member Countries of the Central American Common Market. Shipping financed under the loan shall be procured from the United States, and marine insurance financed under the loan shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.

(g) United States dollars utilized under the loan to finance local currency shall be made available to Borrower or its designee through Special Letter of Credit procedures and shall be used only for procurement in the United States.

(h) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Acting, Deputy U.S. Coordinator
Alliance for Progress

3 1 JAN 1969

Date

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D. C. 20523

UNITED STATES COORDINATOR
ALLIANCE FOR PROGRESS

A.I.D. Loan No. 522-L-018
(Ref.: AID-DLC/P-744)

LOAN AUTHORIZATION

Provided from: Alliance for Progress Loan Funds
HONDURAS: Agricultural Credit and Storage

Pursuant to the authority vested in the Deputy U.S. Coordinator, Alliance for Progress, by the Foreign Assistance Act of 1961, as amended, and the delegations of authority issued thereunder, I hereby authorize the establishment of a loan pursuant to Part I, Chapter 2, Title VI, Alliance for Progress, of said Act, to the Government of the Republic of Honduras ("Borrower") of not to exceed nine million five hundred thousand United States dollars ($9,500,000) to assist in financing the United States dollar and local currency costs of storage facility construction, improved farm production, and for related technical assistance. The loan shall be in furtherance of the Borrower's program of improved agricultural credit and storage, and shall support the Borrower's Cooperative, Credit, and Storage Projects, as follows: (a) up to five million United States dollars ($5,000,000) for credit for food and feed grains, livestock and agro-industry; (b) up to three million United States dollars ($3,000,000) for construction of and equipment and materials for two central grain storage facilities, and for related technical assistance; and (c) up to one million five hundred thousand United States dollars ($1,500,000) for construction of agricultural cooperative storage facilities, for agricultural cooperative grain inventory financing, agricultural cooperative production credit, and for related technical assistance. The loan shall be subject to the following terms and conditions:

1. Interest and Terms of Repayment. The Borrower shall repay the loan to the Agency for International Development ("A.I.D.") in United States dollars within forty (40) years from the first disbursement under the loan, including a grace period of not to exceed ten (10) years. The Borrower shall pay interest to A.I.D. in United States dollars on the disbursed balance of the loan of two (2) percent per annum during the grace period and two and one-half ($2\frac{1}{2}$) percent per annum thereafter.

2. Other Terms and Conditions:

   (a) Prior to the execution of the Loan Agreement, the National Development Bank ("BNF") shall submit evidence in form and substance satisfactory to A.I.D. of arrangements for the sale of the "Sula" Milk Plant.

(b) Prior to the first disbursement under the loan in support of the Storage Project for the construction of BNF grain storage facilities, the BNF shall submit in form and substance satisfactory to A.I.D. a plan setting forth arrangements to be made by BNF to ensure the effectiveness of the minimum guaranteed price for corn.

(c) Prior to the first disbursement under the loan in support of the BNF Credit Project, BNF shall submit in form and substance satisfactory to A.I.D.:

(i) A detailed plan for increased technical assistance to producers of corn, rice, beans and sorghum.

(ii) A detailed plan for the reduction by December 31, 1969, of BNF loan delinquencies to a level of no more than ten (10) percent of BNF's total loan portfolio.

(iii) A list of agro-industries proposed as eligible for financing with A.I.D. loan funds.

(d) Prior to the first disbursement under the loan in support of the Cooperative Project, the Federation of Associated Savings and Credit Cooperatives ("FACACH") shall submit in form and substance satisfactory to A.I.D.:

(i) Final designs and specifications for the construction of two central warehouses and the standard Stage I and Stage II grain storage facilities.

(ii) A schedule for the construction for all physical facilities in support of the Cooperative Project.

(e) Borrower shall covenant that, unless A.I.D. shall otherwise agree in writing:

(i) The total amount of credit extended by BNF for the production of coffee, cotton and tobacco in each of the years 1969, 1970, and 1971 shall not exceed the 1967 level of such credits for each crop.

(ii) BNF shall by December 31, 1969, reduce the level of loan delinquencies to a level of no more than ten (10) percent of BNF's total loan portfolio.

(iii) The Borrower's agricultural budget (excluding foreign loans) for 1969 shall be increased in real terms by at least ten percent over its 1967 level; and the agricultural budgets for 1970 and 1971 shall similarly be increased in real terms by at least ten percent over the level in each preceding year. Notwithstanding the above, the relative shares of the agricultural budgets for 1969, 1970 and 1971 in the total budget shall be at least equal to the relative share of the agricultural budget in 1967.

(f) Equipment, materials and services (except shipping and marine insurance, financed under the loan shall be procured from the United States or Member Countries of the Central American Common Market. Shipping financed under the loan shall be procured from the United States, and marine insurance financed under the loan shall be placed in the United States with a company authorized to do marine insurance business in any state of the United States.

(g) United States dollars utilized under the loan to finance local currency shall be made available to Borrower or its designee through Special Letter of Credit procedures and shall be used only for procurement in the United States.

(h) The loan shall be subject to such other terms and conditions as A.I.D. may deem advisable.

Deputy U.S. Coordinator
Alliance for Progress

JUN 28 1968

Date

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

UNCLASSIFIED

AID-DLC/P-744/2
June 21, 1968

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Honduras: Agricultural Credit and Storage

Attached for your information is a memorandum relating to the subject paper.

Rachel C. Rogers
Assistant Secretary
Development Loan Committee

Attachment: a/s

UNCLASSIFIED

UNCLASSIFIED
AID-DLC/P-744/2
June 21, 1968

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: HONDURAS--Agricultural Credit and Storage

The original version of this loan proposal was based on a level of local currency financing of $5.565 million, of which an estimated $2.83 million would have been under the agriculture credit program. This high local currency component would have enabled the public, autonomous National Development Bank (BNF) to make sub-loans to small and medium-size farmers for the local purchase of farm inputs from private dealers and retailers. A large portion of this local procurement would have been for off-the-shelf items of U.S. origin. The use of these private channels would have been consistent with the understanding between the Mission and the BNF that the distribution and sales network presently maintained by the BNF throughout Honduras should be reduced, especially in areas where there is adequate private competition.

In order to maximize the favorable impact of this loan on the U.S. balance of payments, the Mission examined all realistic possibilities of increasing the foreign exchange component of this project. As discussed on page 26 of the Capital Assistance Paper, the Mission concluded that the only feasible way of increasing the foreign exchange component of the loan is to use a government channel of direct U.S. procurement and centralized distribution of fertilizers, insecticides, and certain farm supplies and equipment. Ordinarily, these same items would have been furnished by the private sector. The use of a government channel will increase direct U.S. procurement by about $1.3 million. However, this reliance upon government-owned and operated retail stores conflicts with the Mission's goal of increasing the role of private enterprise under the loan. Nevertheless, in view of the need to maximize direct procurement from the United States, the dollar/local currency breakdown contained in the Capital Assistance Paper has been adjusted to reflect centralized procurement by the BNF.